

UAH/USD exchange rate

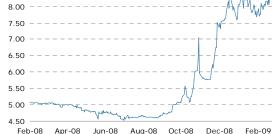
Consensus: further depreciation in short-term

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Source: Bloomberg

Key macroeconomic indicators

•	2007	2008	2009E	
Business cycle				
Real GDP, chg yoy	7.6	2.1	-7.0	
Nominal GDP, USD bln *	141.2	178.4	118.1	
Industrial output, chg yoy	10.2	-3.1	-11.5	
CPI (eop), chg yoy	16.6	22.3	15.0	
PPI (eop), chg yoy	23.3	23.0	18.0	
External sector				
NBU reserves (eop), USD bln	32.5	31.5	23.3	
FDI net, USD bln	9.2	9.9	7.5	
C/A balance, % GDP	-4.2	-6.7	-1.1	
Trade balance, % GDP	-5.6	-7.7	-1.9	
External debt, % of GDP *	58.6	60.7	78.9	
Exchange rate				
Interbank UAH/USD (avg)	5.03	5.27	8.50	
Interbank UAH/USD (eop)	5.05	8.05	8.30	
* Data for 2008 is estimated by Concorde Capital				

Source: State Statistics Committee, National Bank of Ukraine, Bloomberg, Concorde Capital estimates

Prices for core commodities, as of February 23

	Current cng	טוז ו	cng yoy
Gas imports, USD/tcm	360.00	0%	101%
Crude oil (URALS), USD/bbl	40.53	-4%	-57%
Milling wheat 3rd gr, USD/mt, FOB**	153.00	24%	-46%
Steel square billet, USD/mt, FOB**	365.00	0%	-47%
**Black Sea ports			

Source: Gas of Ukraine, Bloomberg

- The UAH/USD rate surged from 7.92 last Monday to 8.96, as of today
- Last week two regulations were adopted to support the hryvnya; the NBU continues to intervene on the currency market on a daily basis
- We, as other market participants, expect further weakening of the hryvnya amid inconsistent regulation and political uncertainty

UAH/USD up 13% over last week

The UAH/USD rate surged 13% over the last week to 8.96 as of 5PM today: the current economic situation is having an outright adverse affect on the hryvnya. Industrial production fell 34.1% yoy in January. The IMF is delaying disbursement of the second tranche of its USD 16.5 bln standby facility. Ukraine is practically bereft of fiscal, banking and monetary policymakers: Minister of Finance Viktor Pynzenyk resigned on Feb. 13, while National Bank Head Volodymyr Stelmakh has been on a sick leave since the beginning of the year.

Authorities attempt to keep forex market under control

On Feb. 19, parliament approved, in the first reading, legislation obliging exporters to sell 50% of foreign currency revenue. Nevertheless, we believe large corporations that have offshore shelters will try to keep as much revenue abroad as possible, in anticipation of further UAH devaluation.

On Feb. 20, President Viktor Yushchenko signed into law a 13% hike in import duties on all goods except critical imports (natural gas, oil products, etc). The move is intended to curb imports and cool demand for foreign currency.

We expect both measures to have only a modest effect. Imports were already down 33.7% yoy in January, according to the Ministry of Economy, while demand for the dollar remains robust. The central bank is still intervening on the forex market on a daily basis. By our estimates, the NBU has spent about USD 2.8 bln (9% of its end-December reserves) to support the hryvnya since the beginning of the year.

We believe this pace is unsustainable and that the central bank will have to soften its grasp. Assuming the NBU complies with the IMF agreement on the reserves limit net of the IMF loan (USD 21.8 bln on March 31), the central bank will be able to sell only USD 1.3 bln interbank until the end of March. This corresponds to a 40% decline in the average daily intervention, given the average amount since the start of 2009.

Market participants expect further UAH weakening

At a Feb. 20 conference organized by the American Chamber of Commerce in Ukraine, the consensus among the top managers of the largest Ukrainian commercial banks was that the UAH/USD rate will continue to surge. The bankers point to inconsistent regulation and political turmoil, as the main reasons behind the hryvnya's deterioration.

We also subscribe to the view that the hryvnya will weaken further in the short-term, but so far retain our forecast for the average UAH/USD rate in 2009 at 8.50.



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