



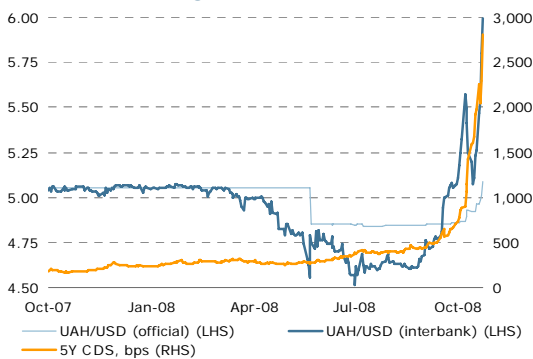
UAH/USD exchange rate

Interbank rate hits 6.00

October 24, 2008

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UAH/USD exchange rates



Source: Bloomberg

Key macroeconomic indicators

	2007	2008E	2009F
Business cycle			
Real GDP, % yoy	7.6	5.3	4.3
Nominal GDP, USD bln	141.2	197.0	231.2
Industrial output, % yoy	10.2	3.0	5.9
CPI (eop), % yoy	16.6	21.0	15.0
PPI (eop), % yoy	23.3	40.0	18.0
External sector			
FDI net, USD bln	9.2	10.4	10.0
C/A balance, % GDP	-4.2	-5.8	-9.1
Trade balance, % GDP	-5.6	-6.5	-9.5
	0.0	0.0	0.0
Debt indicators			
External debt, % of GDP	59.9	56.4	60.3
NBU reserves, USD bln	32.5	30.9	20.4
Exchange rate			
Interbank UAH/USD (avg)	5.03	U/R	U/R

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

Prices for core commodities, as of October 23

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.5	0%	38%
Crude oil (URALS), USD/bbl	61.2	-34%	-24%
Winter wheat, USD/mt, FOB**	217.0	-15%	-13%
Steel square billet, USD/mt, FOB**	345.0	-41%	-31%

**Black Sea ports

Source: Gas of Ukraine, Bloomberg, Metal Courier

- Yesterday the UAH/USD rate hit the psychological USD 6.00 mark interbank before closing at USD 5.99, driven by growing anxiety over deterioration in the balance of payments
- The NBU has unsuccessfully spent more than USD 2 bln month-to-date to support the hryvnya. The NBU is now negotiating terms of an up to USD 14 bln IMF loan, part of which may be directed to back the UAH
- Due to the high uncertainty in supply/demand forces, we put our 2008 and 2009 UAH/USD forecasts under review
- The general consensus among economists on falling hryvnya is rather positive for the overall economy in the mid-term

UAH/USD reaches 6.00

Yesterday the hryvnya hit another historical high of 6.00 dollars interbank, underpinned by the anxiety of both foreign investors, fearing that Ukraine may default on its sovereign debt (see CDS chart on the left), and local individuals, who are converting their savings into hard currency (i.e. US dollars).

The fundamental cause of the hryvnya's fall is deterioration in the balance of payments, mainly caused by the collapse in global steel prices and outflow of portfolio investors from of Ukraine. We are bearish on the hryvnya in the mid-term and do not expect to see the UAH/USD rate return to 5.00 anytime soon. It appears the National Bank of Ukraine is of a like-mind: it raised the official rate to 5.15 today and was selling US dollars interbank for 5.25 yesterday.

Expected IMF deal could lend support to local currency

In an unsuccessful effort to support the UAH, the NBU has spent more than USD 2 bln since the beginning of the month, which exceeded our expectations. We downgrade our yearend forecast of NBU reserves to USD 30.9 bln.

Ukraine is currently negotiating with the IMF terms of a USD 3 to 14 bln loan agreement. The key issue for the exchange rate is whether IMF funds will be used to support the UAH. According to the NBU Head Volodymyr Stelmakh, the IMF will require Ukraine to abandon its dual exchange rate system of official and interbank rates, which have tangibly differed for over more than the last half year.

We suppose that in 2008-2009, the UAH/USD rate could turn up anywhere in the 5.00 to 7.00 range or be even higher. We put our UAH/USD forecasts under review until we see supply/demand forces bring more focus to the rate's direction.

Consensus of weakening UAH is positive

We attended a quarterly conference on macroeconomic forecasting yesterday organized by the Ministry of Economy. Among the participants, which included investment and commercial banks, government officials, and international organizations, the general agreement was that the weakening hryvnya benefits the overall economy in the form of smoothing C/A deterioration. We agree, but also see implications of growing volatility in the exchange rate, which is affecting inflation and investors' perception of currency risk.

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