

# EMEA Weekly

## IMF to unlock USD27bn for Ukraine

After several weeks of sessions in March 2014 in Ukraine's capital Kiev, the International Monetary Fund (IMF) has announced that it has achieved a staff level agreement on an economic reform programme, which will unlock USD27bn for Ukraine for the next two years. The IMF will provide USD14-18bn of that amount. First, the agreement must be approved by the IMF's management and executive board. The approval is planned for April.

The IMF requires reforms in the following areas: monetary, fiscal and exchange rate policies, financial and energy sectors, governance, transparency and the business climate. The key factors in monetary policy must be a flexible hryvnia and inflation targeting by the National Bank of Ukraine (NBU) over the next 12 months. The financial sector reforms call for banks to be well-capitalised, for the supervisory and regulatory framework of the NBU to be updated to international best practice standard and 'facilitating the resolution of non-performing loans in the banking sector'. Fiscal policy reforms are intended to trim down the fiscal deficit to 2.5% of GDP by 2016. In Q3 13, Ukraine's state budget balance saw a 3.4% deficit of GDP. A key factor of energy sector reforms will be moving to full cost recovery in retail gas and heating tariffs. The programme will also deal with Naftogaz, Ukraine's national oil and gas company, improving its transparency and efficiency. Ukraine must also adopt a new procurement law to improve competitiveness.

Before the agreement was achieved, the Ukrainian government had already indicated that gas tariffs will be raised by 50% from 1 May 2014 and utility tariffs hiked from 1 July 2014. The government has also announced that budget spending will be reduced by 15% in 2014. The hryvnia has been under significant pressure following street protests in the capital in late 2013 and has suffered a 35% devaluation against the US dollar year to date. The NBU tried to support the currency, spending several billions of US dollars from its FX reserves, but then let it fall more or less freely. As the current account deficit remains around 9% of GDP, there is tremendous pressure on the hryvnia. Thus, we expect further devaluation this year when another 35% fall against the US dollar is possible.

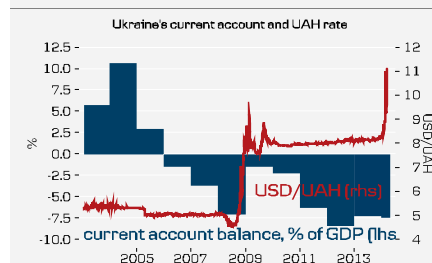
After the IMF announced the agreement, Ukraine's sovereign bonds gained and yields fell. The EU strongly supports the agreement, saying that its Ukraine aid will await the IMF Board decision in April. Thus, if positive, we may see more funds from the EU further supporting Ukraine's sovereign bonds. However, political risks weigh as presidential elections are due to be held on 25 May 2014.

Ukraine's sovereign outstanding debt in 2014 is around USD6.2bn, of which USD733m is due to be paid before May 2014. The country's finance ministry estimates 2014 debt payments will rise to USD10bn. In 2015, around USD9bn of sovereigns are due to be paid.

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### Ukraine's current account



Source: Macrobond

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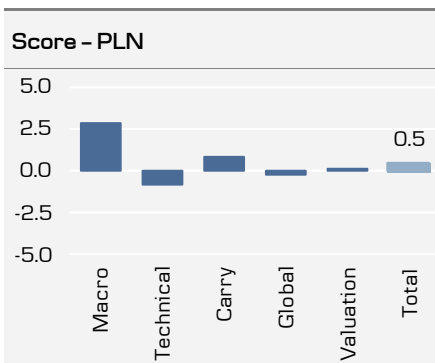
# Calendar

## EMEA Data and Events in Week 14

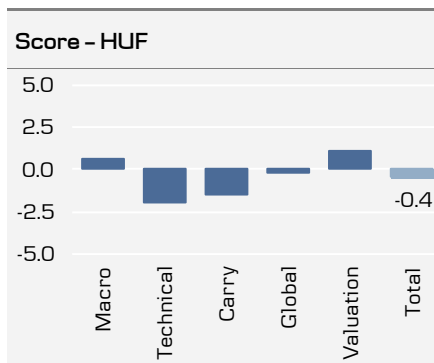
Monday, March 31, 2014				Period	Danske Bank	Consensus	Previous
ZAR	8:00	Private sector credit	y/y	Feb			8.16%
HUF	8:30	Current account	EUR m.	4th quarter		452	1064
HUF	9:00	Producer prices	y/y	Feb		0.6%	-0.1%
TRY	9:00	GDP	y/y	4th quarter	3.6%	3.9%	4.4%
CZK	10:00	Money supply M2	y/y	Feb			4.5%
PLN	14:00	Current account	Euro mil	4th quarter			-2072
Tuesday, April 1, 2014				Period	Danske Bank	Consensus	Previous
CZK	-	Budget balance	CZK bn.	Mar			50.1
RUB	7:00	PMI	Index	Mar			48.5
HUF	9:00	PMI	Index	Mar			54.3
TRY	9:00	PMI	Index	Mar			53.4
PLN	9:00	PMI	Index	Mar			55.9
CZK	9:30	PMI	Index	Mar			56.1
ZAR	11:00	PMI	Index	Mar			51.7
ZAR	11:00	Naamsa vehicle sales	y/y	Mar			-3.1%
Wednesday, April 2, 2014				Period	Danske Bank	Consensus	Previous
RUB	-	Current account, preliminary (2-4 April)	USD bn.	1st quarter			
RON	9:00	Retail sales	y/y	Feb			5.0%
Thursday, April 3, 2014				Period	Danske Bank	Consensus	Previous
TRY	9:00	CPI	y/y	Mar	8.20%	8.14%	7.89%
TRY	9:00	PPI	y/y	Mar			12.40%
HUF	9:00	Retail trade	y/y	Feb			6.2%
Friday, April 4, 2014				Period	Danske Bank	Consensus	Previous
RUB	-	CPI (4-7 April)	y/y	Mar			6.2%
CZK	9:00	Retail sales	y/y	Feb	10.0%		6.4%

Note: The editors do not guarantee the accuracy of the figures, hours or dates stated above  
 All release times are CET  
 Source: Danske Bank Markets

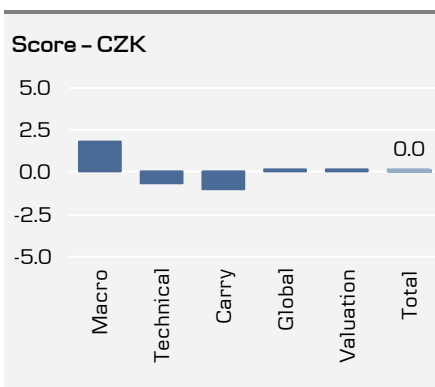
# EMEA FX scorecard overview



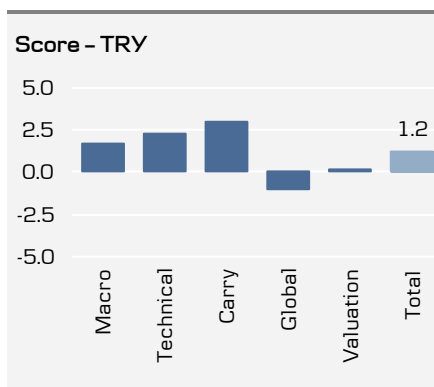
Source: Danske Bank Markets calculations



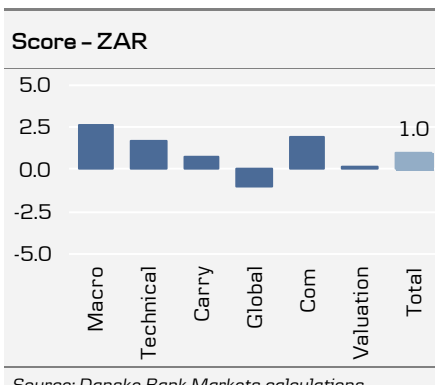
Source: Danske Bank Markets calculations



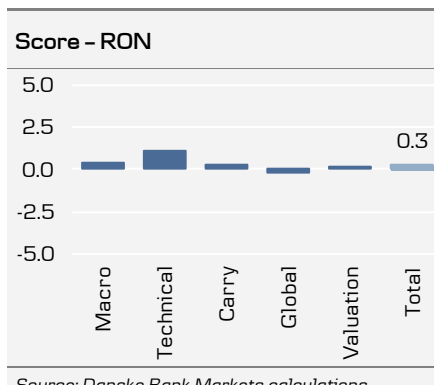
Source: Danske Bank Markets calculations



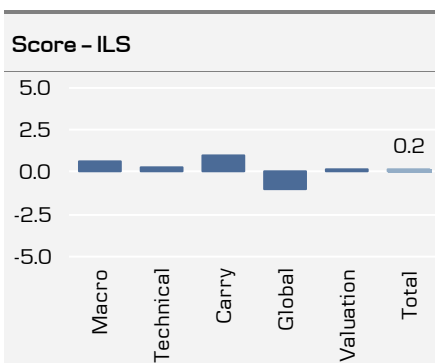
Source: Danske Bank Markets calculations



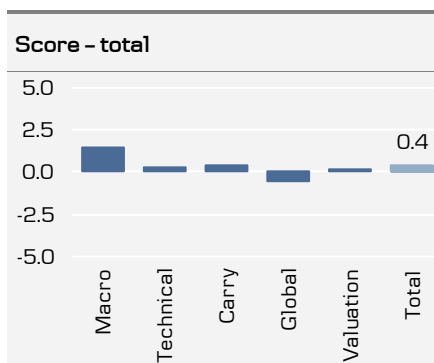
Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations

## EMEA FX scorecard outline

- All scores are computed on a scale from +5 to -5. A score is then derived by combining the different sub-scores.
- **Macro:** calculates the growth momentum in different monthly macro indicators.
- **Technical:** calculates the momentum in different volatility measures, short- and longer term moving averages and the level of the relative strength index.
- **Carry:** calculates the momentum in local three-month rates, carry-to-risk, spread versus EUR or USD three-month rates and spread versus peers.
- **Global:** consists of a global growth score based on leading global indicators, a liquidity score based on G3 real rates and a sentiment score based on performance in global equity markets and traditional funding currencies.
- **Valuation:** calculates whether currencies are over/undervalued compared with the long-term trend in the real effective exchange rate (REER). The trend is adjusted for external imbalances, i.e. an imbalance-adjusted REER. The scores are calibrated to reflect the short-term impact of the valuation on FX.

# Currency forecasts, EMEA

Currency forecasts, EMEA						
Mar 27, 2014		EUR	USD	SEK	NOK	DKK
USD	Actual	1.38	-	648	601	543
	+3m	1.42	-	620	577	525
	+6m	1.37	-	642	591	545
	+12m	1.32	-	652	606	565
PLN	Actual	4.19	3.04	213	198	179
	+3m	4.30	3.03	205	191	173
	+6m	4.30	3.14	205	188	173
	+12m	4.30	3.26	200	186	173
HUF	Actual	311	227	2.86	26.50	2.39
	+3m	317	223	2.78	2.59	2.35
	+6m	313	228	2.81	2.59	2.38
	+12m	307	233	2.80	2.61	2.43
CZK	Actual	27.4	19.9	32.5	30.2	27.2
	+3m	27.7	19.5	31.8	29.6	26.9
	+6m	28.0	20.4	31.4	28.9	26.6
	+12m	28.0	21.2	30.7	28.6	26.6
LTL	Actual	3.45	2.51	258	239	216
	+3m	3.45	2.43	255	238	216
	+6m	3.45	2.52	255	235	216
	+12m	3.45	2.61	249	232	216
RON	Actual	4.48	3.25	199	185	167
	+3m	4.55	3.20	193	180	164
	+6m	4.55	3.32	193	178	164
	+12m	4.55	3.45	189	176	164
BGN	Actual	1.96	1.42	456	423	382
	+3m	1.96	1.38	450	419	381
	+6m	1.96	1.43	450	414	381
	+12m	1.96	1.48	440	409	381
TRY	Actual	3.07	2.19	296	274	247
	+3m	3.27	2.30	269	251	228
	+6m	3.22	2.35	273	252	232
	+12m	3.10	2.35	277	258	241
RUB	Actual	48.87	35.6	18.2	16.8	15.2
	+3m	52.5	36.9	16.8	15.6	14.2
	+6m	54.0	39.4	16.3	15.0	13.8
	+12m	52.4	39.7	16.4	15.3	14.2
UAH	Actual	15.41	11.19	57.9	53.6	48.4
	+3m	21.30	15.00	41.3	38.5	35.0
	+6m	20.55	15.00	42.8	39.4	36.3
	+12m	19.80	15.00	43.4	40.4	37.7
ZAR	Actual	14.84	10.68	60.6	56.2	50.8
	+3m	14.91	10.50	59.0	55.0	50.0
	+6m	14.39	10.50	61.2	56.3	51.9
	+12m	14.39	10.90	59.8	55.6	51.8
ILS	Actual	4.82	3.50	185.1	171.6	155.0
	+3m	4.83	3.40	182.3	169.8	154.5
	+6m	4.73	3.45	186.2	171.4	157.8
	+12m	4.62	3.50	186.1	173.2	161.5

Source: Bloomberg, Danske Bank Markets

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All EM research is available on Bloomberg DMEM

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