

Economic Insight

Ukrainian FX in freefall versus peers

Upon close analysis of available data from the BIS and ICU on all international FX movements since the mid-1990s to determine any similarities in the UAH's recent sharp nosedive (in terms of nominal and real trade-weighted indices), we discovered the following:

Peers that experienced nominal year-on-year declines of 50-60%.

The Ukrainian hryvnia's recent FX rate freefall is similar to FX crises in the 1990s that occurred in Turkey (January 1995), Venezuela (September 96), Romania (March 1997) and Mexico (November 1995). See Chart 1-Chart 37 on pp.2-13.

History has shown more severe freefalls of 70-90%. In 1997 Bulgaria's currency declined 96% in year-on-year terms if measured by its nominal trade-weighted index. Brazil's currency dropped 84% in 1995, and Indonesia's currency collapsed 80% in 1998. Russia suffered a 75% year-on-year decline at the peak of its economic crisis in 1998, which dragged down Belarus's currency by 75% in 1999. Finally, during its crisis in 2002, Argentina's currency plummeted 72% in year-on-year terms.

Peers that experienced milder declines of 30-45%. Kazakhstan in 2000, and South Korea and Thailand both plunged into crisis in the late 1990s.

Nations with prudent macro stories. Most nations that have their own currencies (unaffiliated with currency union memberships) have adeptly engineered their macroeconomic policies to avoid changes in nominal trade-weighted values of their currencies in excess of 30% (by appreciation or depreciation). Canada and Chile are two prime examples. In terms of real trade-weighted values, the prudent boundary is closer to 20%.

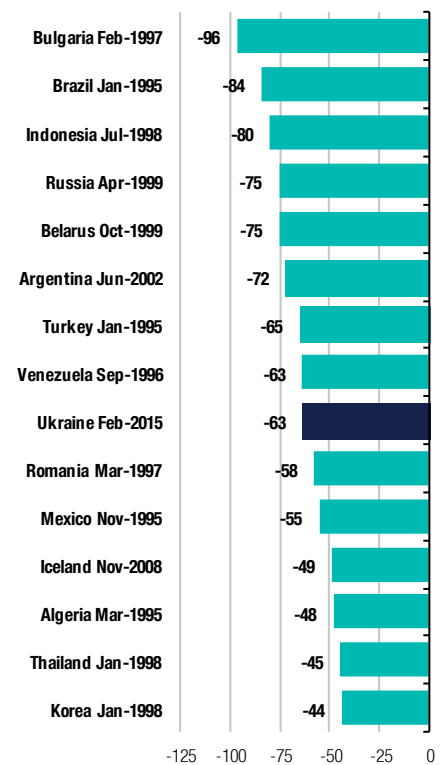
In the aftermath of the crisis. Chart 4 and Chart 5 on p.5 illustrate that, following the peak of the crisis, there is normally a period of stabilization of the nominal trade-weighted rate occasionally recoveries. However, there are exceptions. Turkey's currency declined further, albeit at a much slower pace, following the peak of its crisis. Macro stabilizations differ by country and circumstance.

Ukrainian hryvnia's outlook. History shows that FX markets will try to test new FX rate lows unless policymakers implement wide-ranging fiscal and monetary actions at the currency's trough. In Ukraine, several coalition political parties have sought the advice of private sector patriarch economists to determine the action plan in the wake of hryvnia freefall. Yesterday's decision to move the date of parliamentary review of the IMF-required laws from March 3 to March 2 is such a sign. While we expect additional wide-ranging measures to follow soon, if immediate changes are delayed, in particular for the implementation of natural gas and utility tariff increases and for the resolution of the banking crisis, the hryvnia could test new lows.

FRIDAY, 27 FEBRUARY 2015

Top 15 worst FX crises in 1995-2015

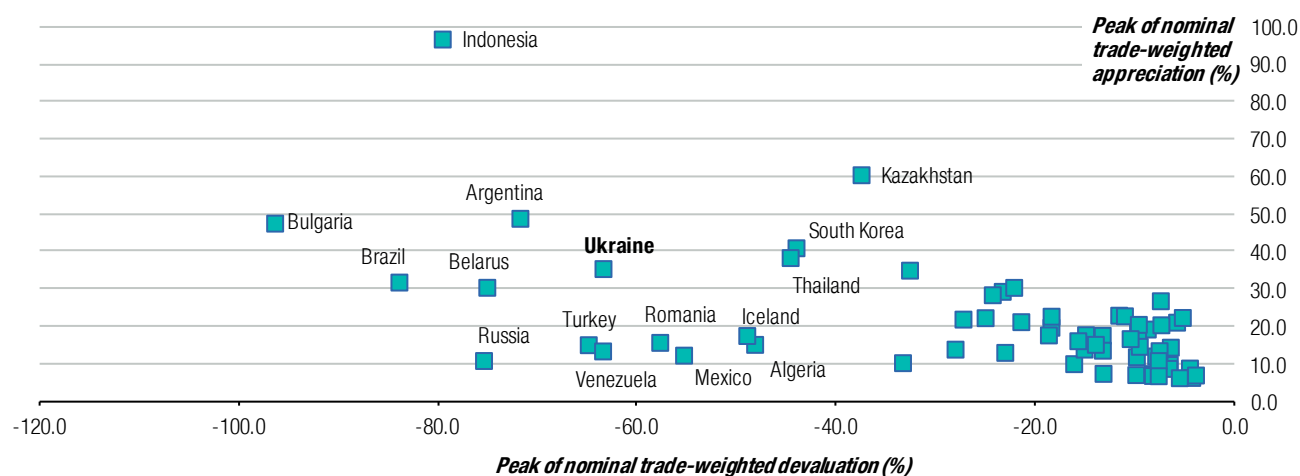
On-year percentage change in nominal trade-weighted rate (%)



Source: BIS, ICU.

Chart 1. Extremes of national currencies (devaluations and appreciations) in terms of nominal trade-weighted rates.

Based upon historical data since January 1995



Source: ICU, BIS.

Table 1. Summary of historical extremes of national currencies (devaluations and appreciations) in terms of nominal trade-weighted rates. Based upon historical data since January 1995

Country	Peak of nominal devaluation		Peak of nominal appreciation	
	Change (%YoY)	Period	Change (%YoY)	Period
Algeria	-48.2	Mar-1995	15.2	Oct-2008
Argentina	-71.8	Jun-2002	48.9	Jan-1995
Australia	-23.3	Feb-2009	29.4	Nov-2009
Austria	-4.5	Jun-2010	8.9	Apr-1995
Belarus	-75.1	Oct-1999	30.4	Dec-2014
Belgium	-6.7	Aug-1997	9.8	Apr-1995
Brazil	-83.9	Jan-1995	31.8	Dec-2009
Bulgaria	-96.4	Feb-1997	47.6	Feb-1998
Canada	-18.4	Nov-2008	19.8	Mar-2010
Chile	-18.4	Dec-2008	22.7	Jan-1995
China	-8.7	Nov-2009	19.3	Nov-2008
Chinese Taipei	-9.9	Sep-1998	7.1	May-2000
Colombia	-24.3	Aug-1999	28.5	Jun-2007
Croatia	-7.9	Jan-2000	12.1	May-1995
Cyprus	-6.4	Oct-2000	14.4	Sep-1998
Czech Republic	-11.6	Jan-1998	23.0	Jul-2008
Denmark	-6.5	Jun-2010	9.8	Apr-1995
Estonia	-5.8	Jun-2010	21.1	Apr-1995
Euro area	-13.3	Oct-2000	17.6	May-2003
Finland	-7.4	Oct-2000	20.4	Mar-1995
France	-6.6	Oct-2000	8.8	Apr-1995
Germany	-7.5	Oct-2000	13.5	Mar-1995
Greece	-8.2	Oct-2000	7.4	Apr-1999
Hong Kong SAR	-9.7	Jun-2011	18.3	Jan-1998
Hungary	-23.1	Jul-1995	13.0	Jul-2007
Iceland	-49.0	Nov-2008	17.6	Oct-2005
India	-16.1	Oct-2008	10.0	Aug-2007
Indonesia	-79.6	Jul-1998	96.8	Jul-1999
Ireland	-9.8	Oct-2000	11.9	May-2003
Israel	-18.7	Jun-2002	17.7	Jul-2008
Italy	-14.9	Apr-1995	17.8	Apr-1996

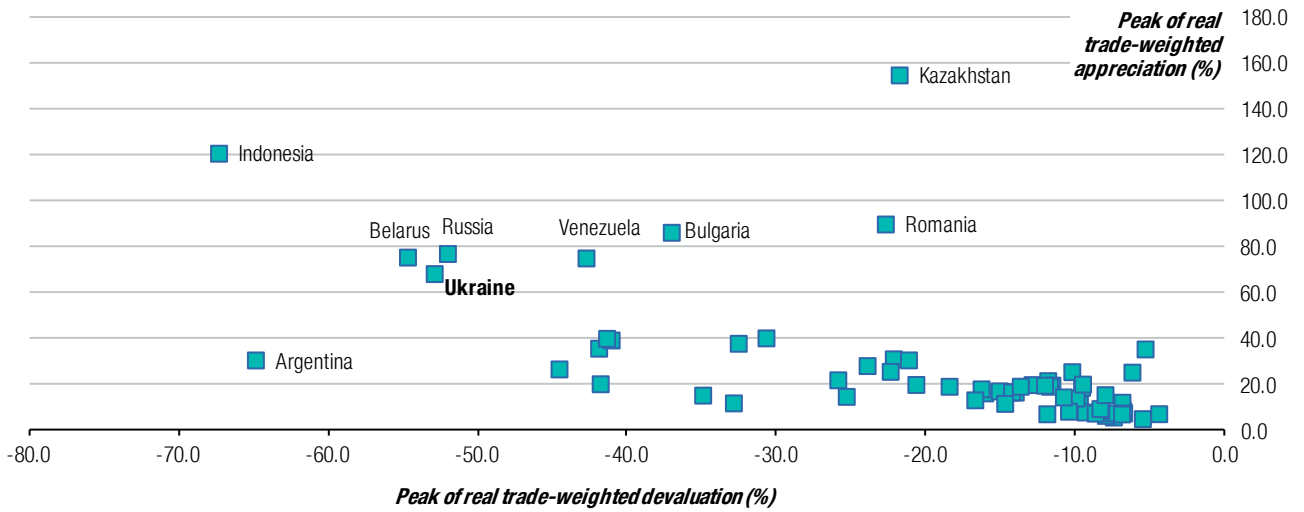
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Country	Peak of nominal devaluation		Peak of nominal appreciation	
	Change (%YoY)	Period	Change (%YoY)	Period
Japan	-22.2	May-2013	30.4	Dec-2008
Kazakhstan	-37.5	Jan-2000	60.5	Jan-1999
Korea	-44.0	Jan-1998	41.0	Jan-1999
Latvia	-7.4	May-2003	26.8	Apr-1995
Lithuania	-5.2	Jun-2010	22.4	Jun-1999
Luxembourg	-4.3	Oct-2000	6.3	Apr-1995
Malaysia	-33.3	Jan-1998	10.3	Sep-2010
Malta	-8.2	Jun-2010	6.9	Jun-2008
Mexico	-55.3	Nov-1995	12.3	Mar-2010
Netherlands	-7.6	Aug-1997	10.8	Apr-1995
New Zealand	-27.3	Feb-2009	21.9	Feb-2010
Norway	-13.2	Dec-2008	13.6	Jan-2003
Peru	-15.1	Jan-1999	13.9	Jan-1995
Philippines	-28.0	Jan-1998	13.9	Dec-2007
Poland	-25.0	Jun-2009	22.3	Jun-2001
Portugal	-3.9	Oct-2000	7.0	Mar-1995
Romania	-57.7	Mar-1997	15.7	Aug-2005
Russia	-75.4	Apr-1999	10.9	Feb-2010
Saudi Arabia	-9.5	Feb-2003	14.7	Jan-1998
Singapore	-7.6	Mar-1999	6.8	Jun-1996
Slovakia	-13.9	May-1999	15.2	Jul-2007
Slovenia	-13.2	Apr-1996	7.4	Apr-1995
South Africa	-32.6	Dec-2001	35.0	Sep-2003
Spain	-5.5	Aug-1997	6.3	May-2003
Sweden	-15.7	Mar-2009	16.2	Apr-1996
Switzerland	-11.0	Aug-2012	22.8	Aug-2011
Thailand	-44.6	Jan-1998	38.4	Jan-1999
Turkey	-64.9	Jan-1995	15.1	Jun-2007
Ukraine	-63.4	Feb-2015	35.5	Sep-2010
United Arab Emirates	-9.6	May-2003	20.5	Jan-1998
United Kingdom	-21.4	Dec-2008	21.3	Jul-1997
United States	-10.5	Mar-2008	16.7	Mar-2009
Venezuela	-63.5	Sep-1996	13.4	Mar-2009

Sources: ICU, BIS.

Chart 2. Extremes of national currencies (devaluations and appreciations) in terms of real trade-weighted rates.

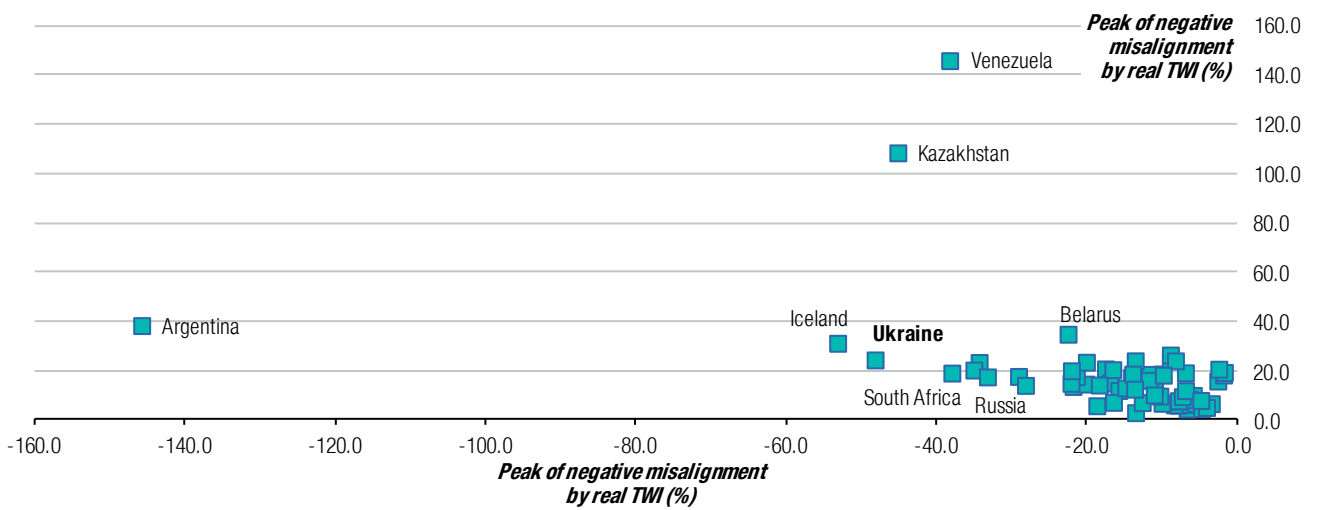
Based upon historical data since January 1995



Source: ICU, BIS.

Chart 3. Extremes of national currencies (devaluations and appreciations) in terms of real trade-weighted rates.

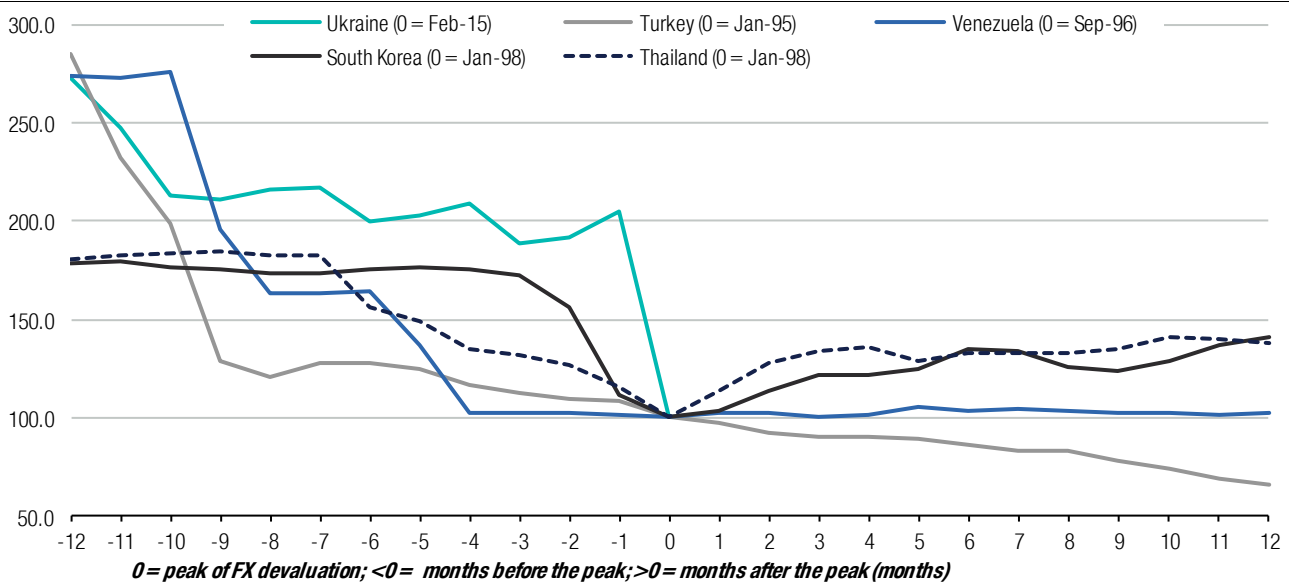
Based upon historical data since January 1995



Source: ICU, BIS.

Chart 4. Ukraine versus selected countries that faced acute FX crisis: Turkey, Thailand, South Korea, Venezuela

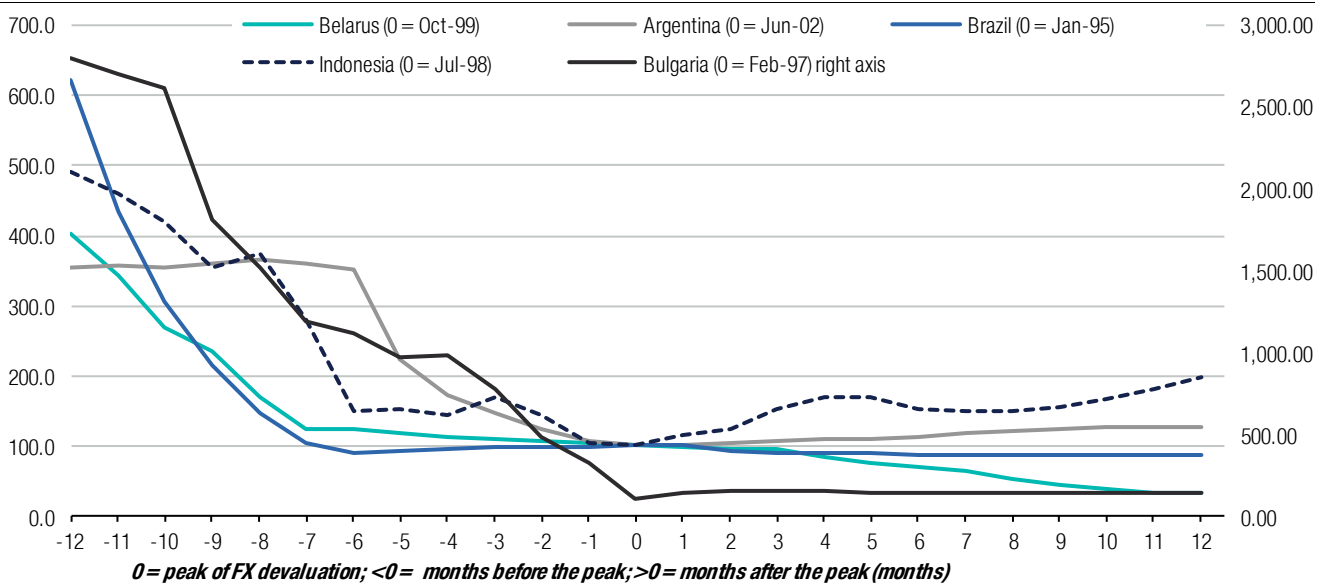
12 months before and 12 months after the peak of devaluation in terms of nominal trade-weighted rates. Based upon historical data since January 1995



Source: ICU, BIS.

Chart 5. Ukraine versus selected countries that faced FX crisis: Belarus, Bulgaria, Russia, Argentina, Brazil, Indonesia

12 months before and 12 months after the peak of devaluation in terms of nominal trade-weighted rates. Based upon historical data since January 1995

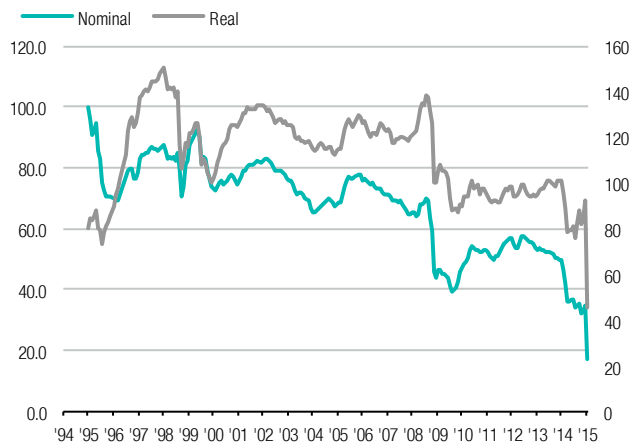


Source: ICU, BIS.

Ukrainian hryvnia (UAH)

Chart 6. Nominal and real trade-weighted indices (TWIs)

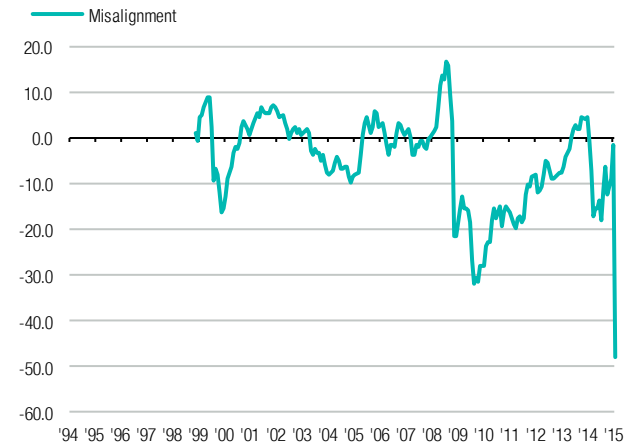
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 7. Currency misalignment by real TWI

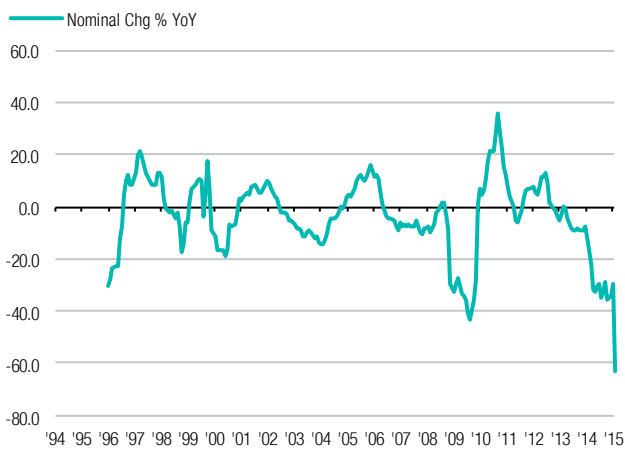
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 8. On-year change of nominal TWI

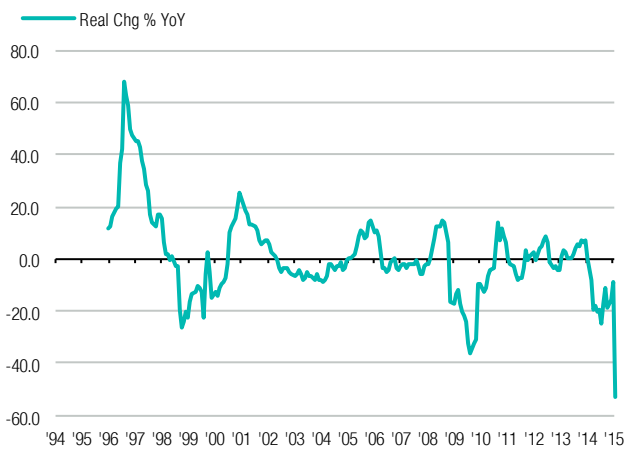
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 9. On-year change of real TWI

History from January 1994 through February 2015

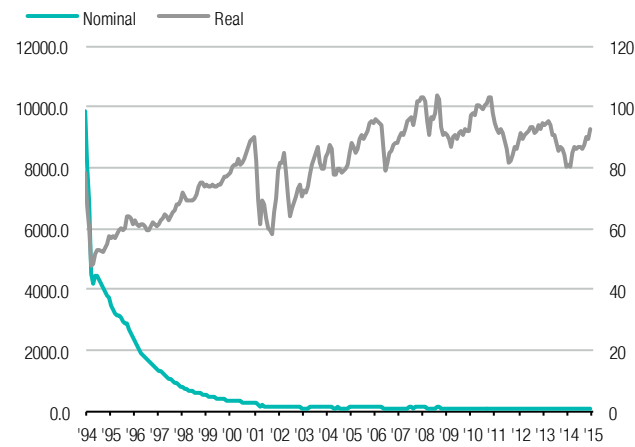


Source: BIS, ICU.

Turkish lira (TRY)

Chart 10. Nominal and real trade-weighted indices (TWIs)

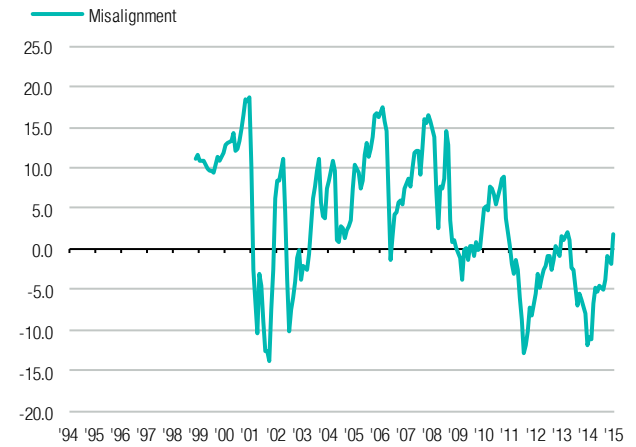
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 11. Currency misalignment by real TWI

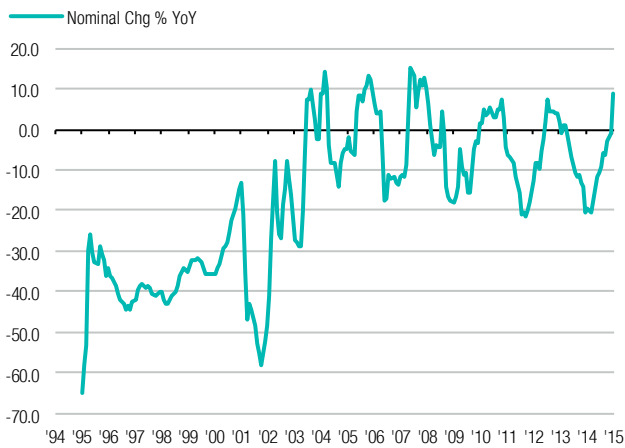
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 12. On-year change of nominal TWI

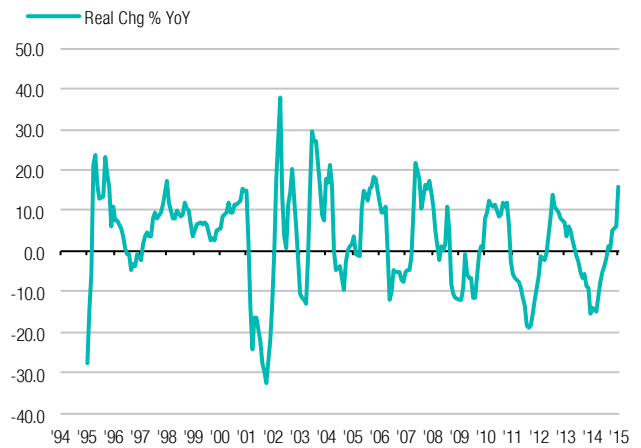
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 13. On-year change of real TWI

History from January 1994 through February 2015

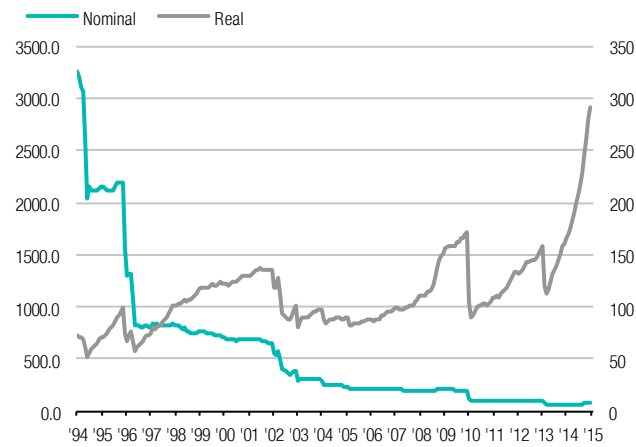


Source: BIS, ICU.

Venezuela bolivar (VEF)

Chart 14. Nominal and real trade-weighted indices (TWIs)

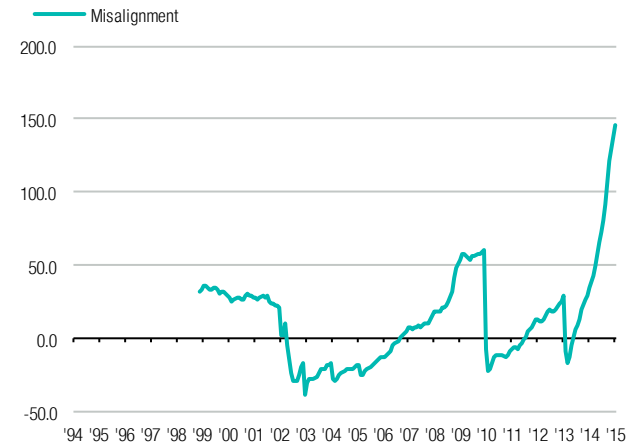
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 15. Currency misalignment by real TWI

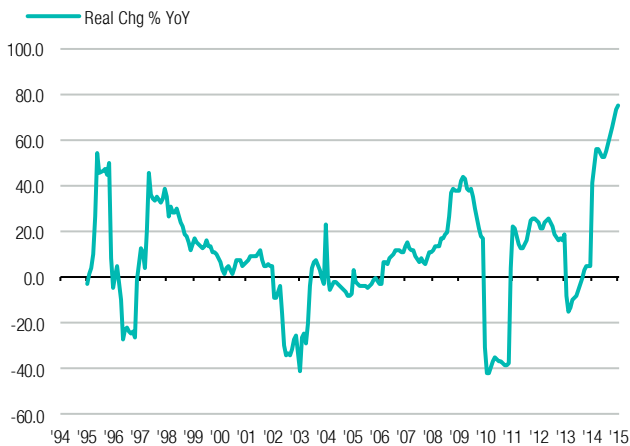
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 16. On-year change of nominal TWI

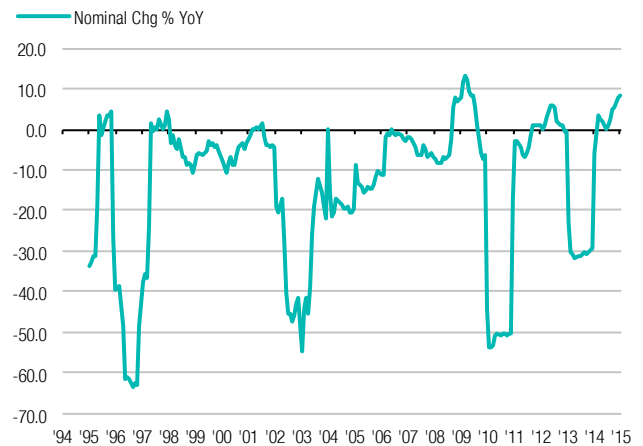
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 17. On-year change of real TWI

History from January 1994 through February 2015

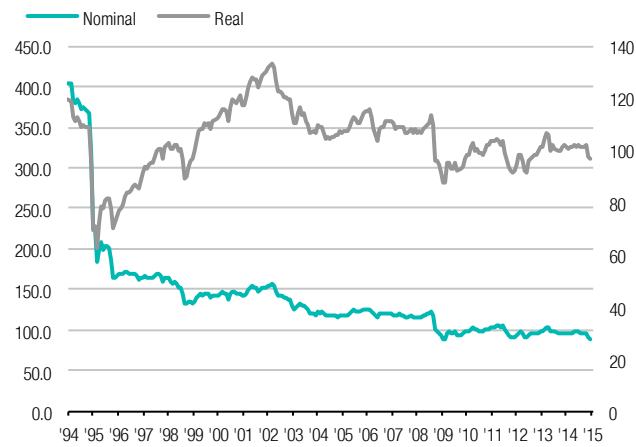


Source: BIS, ICU.

Mexico peso (MXN)

Chart 18. Nominal and real trade-weighted indices (TWIs)

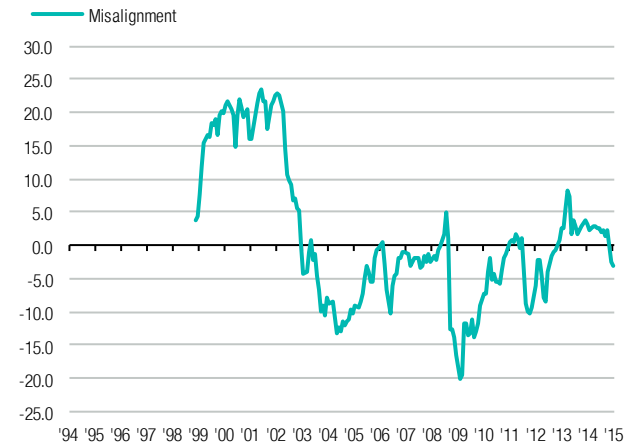
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 19. Currency misalignment by real TWI

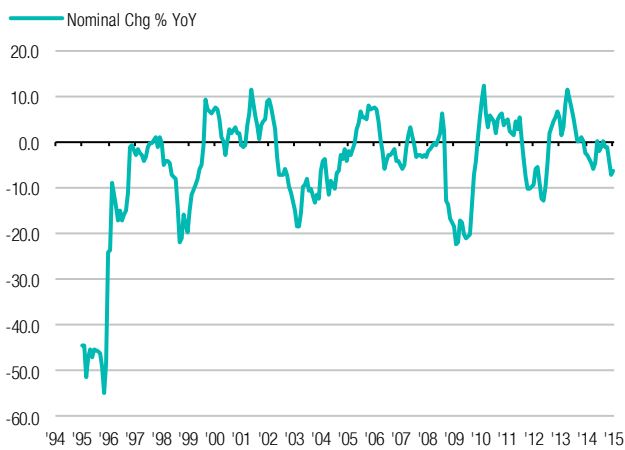
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 20. On-year change of nominal TWI

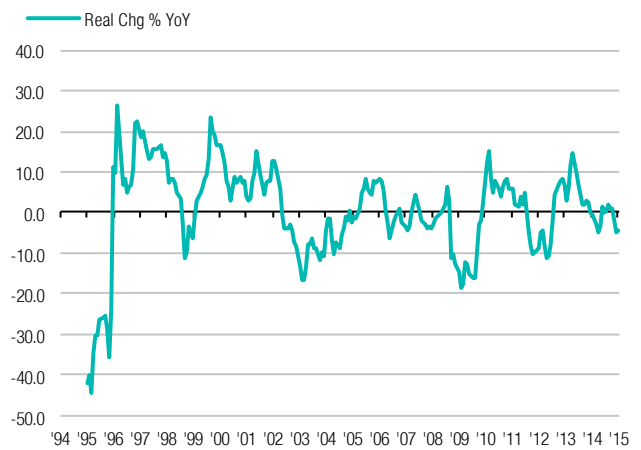
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 21. On-year change of real TWI

History from January 1994 through February 2015

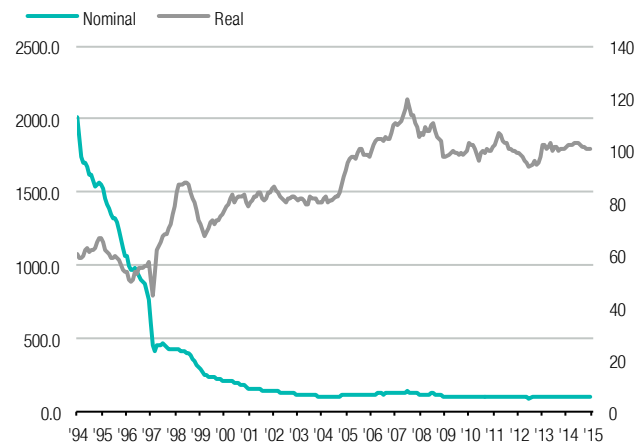


Source: BIS, ICU.

Romanian leu (RON)

Chart 22. Nominal and real trade-weighted indices (TWIs)

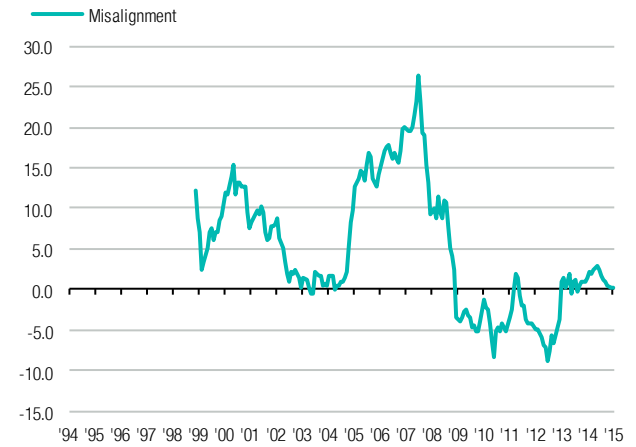
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 23. Currency misalignment by real TWI

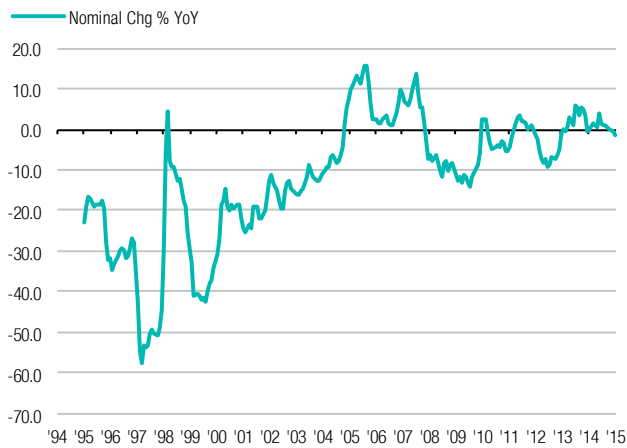
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 24. On-year change of nominal TWI

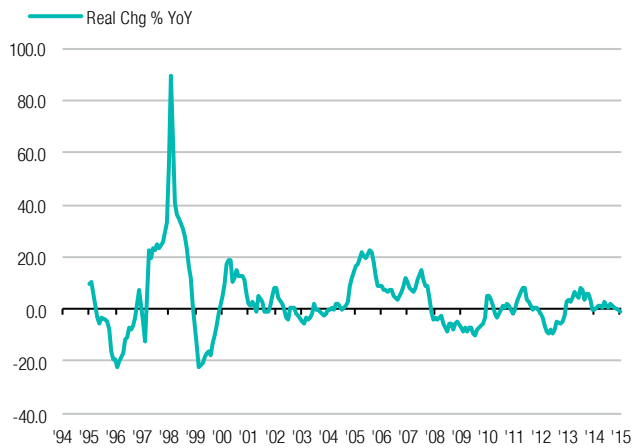
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 25. On-year change of real TWI

History from January 1994 through February 2015

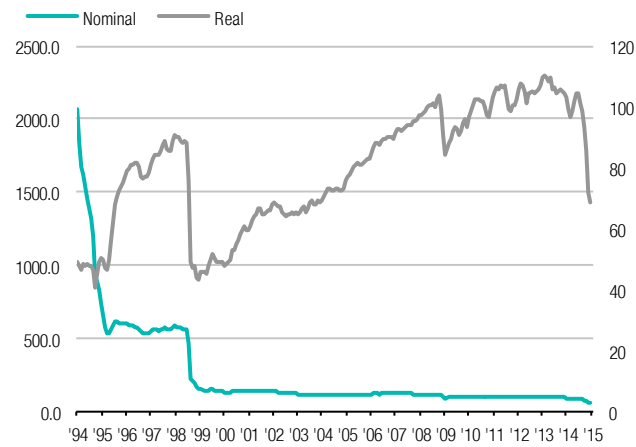


Source: BIS, ICU.

Russian ruble (RUB)

Chart 26. Nominal and real trade-weighted indices (TWIs)

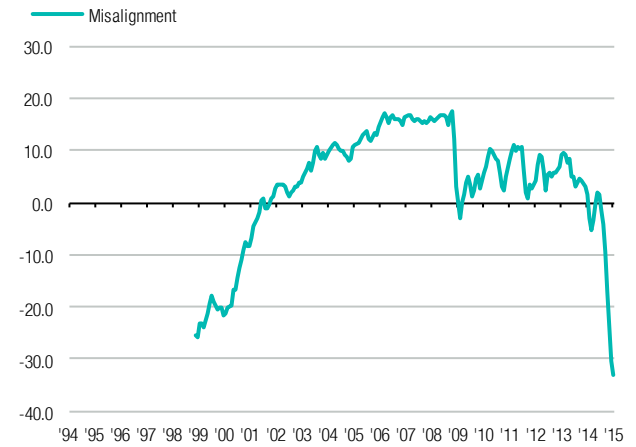
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 27. Currency misalignment by real TWI

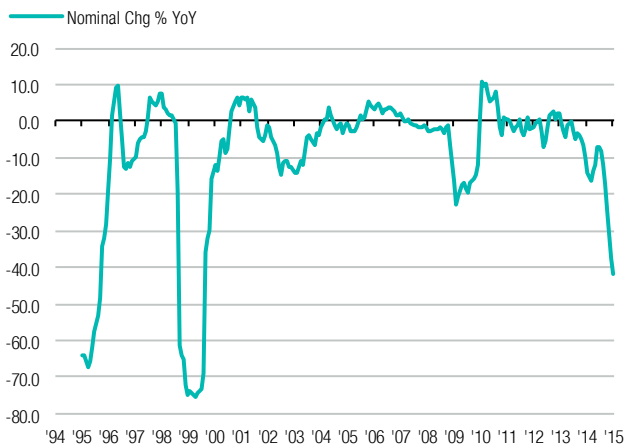
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 28. On-year change of nominal TWI

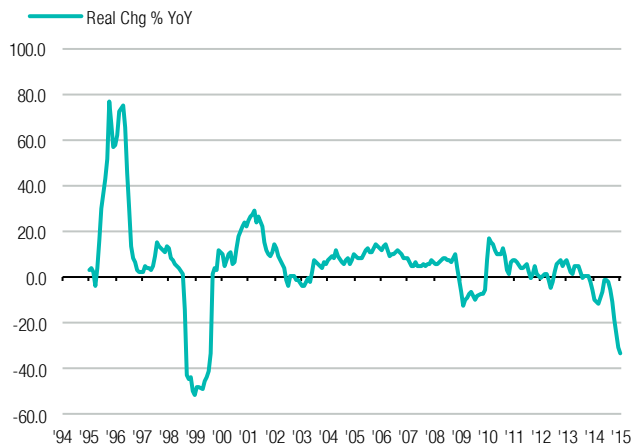
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 29. On-year change of real TWI

History from January 1994 through February 2015

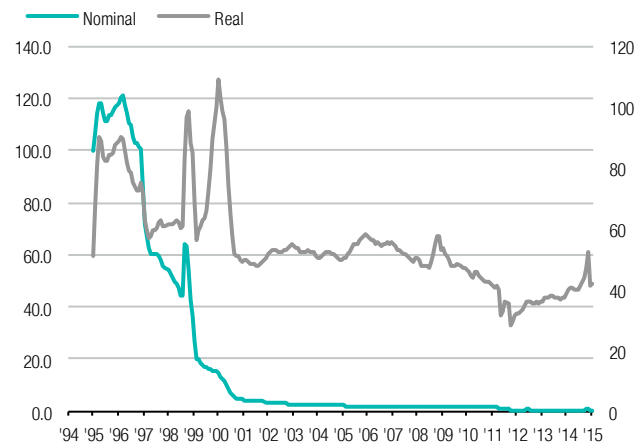


Source: BIS, ICU.

Belarus ruble (BYR)

Chart 30. Nominal and real trade-weighted indices (TWIs)

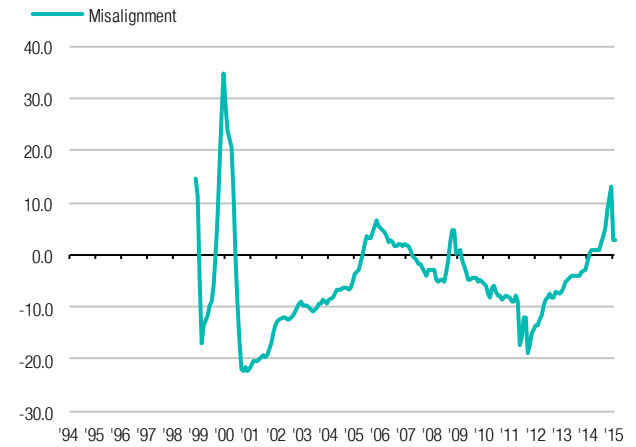
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 31. Currency misalignment by real TWI

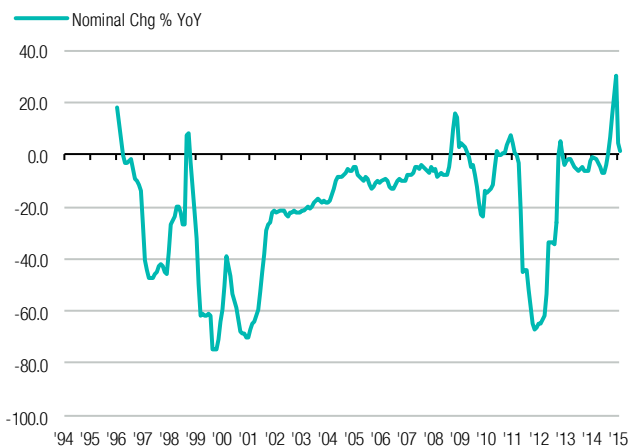
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 32. On-year change of nominal TWI

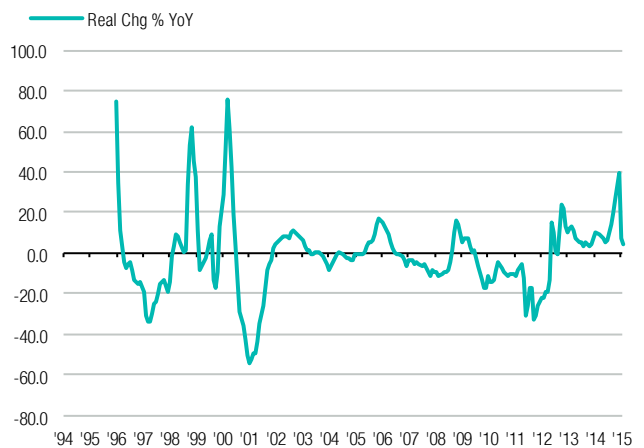
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 33. On-year change of real TWI

History from January 1994 through February 2015

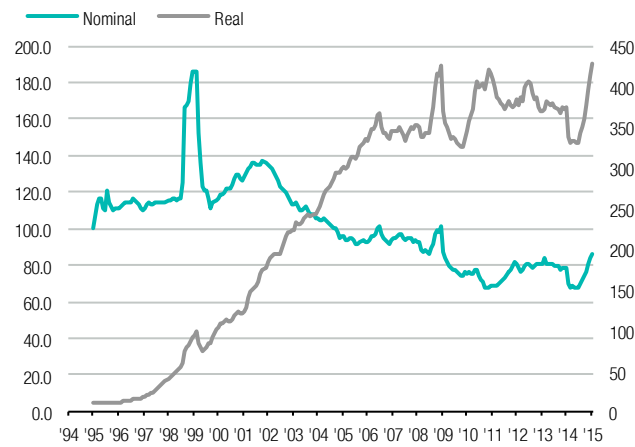


Source: BIS, ICU.

Kazakhstan tenge (KZT)

Chart 34. Nominal and real trade-weighted indices (TWIs)

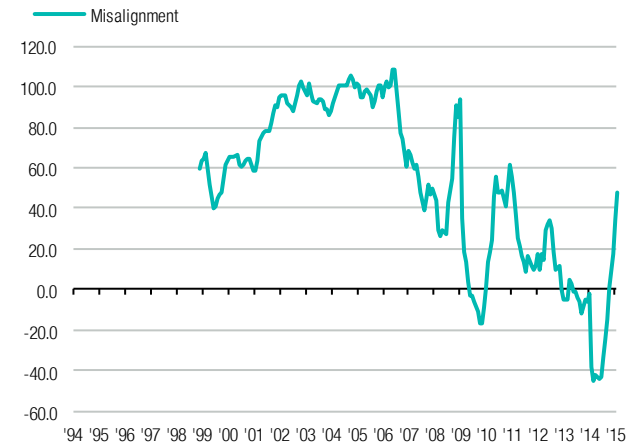
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 35. Currency misalignment by real TWI

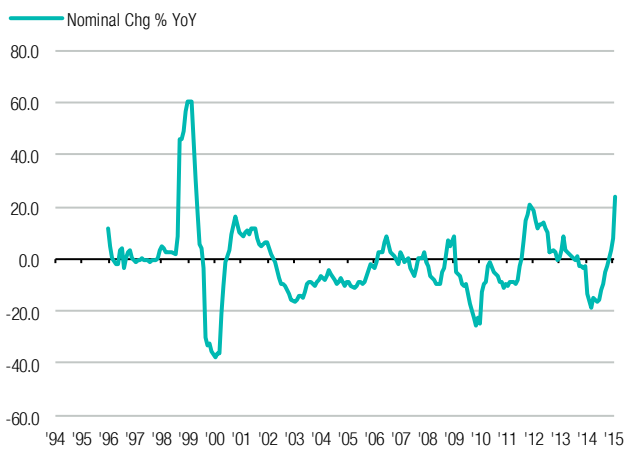
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 36. On-year change of nominal TWI

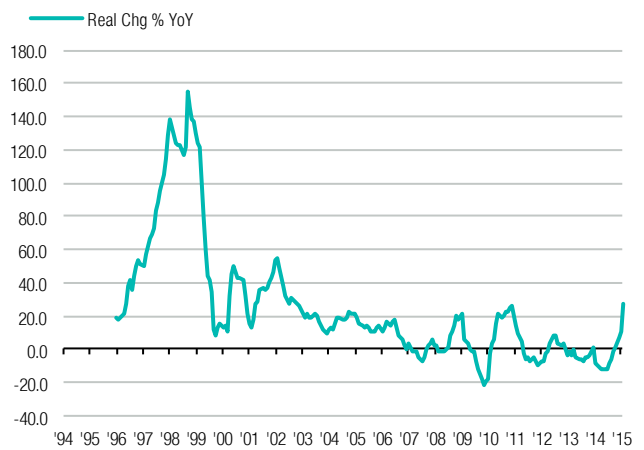
History from January 1994 through February 2015



Source: BIS, ICU.

Chart 37. On-year change of real TWI

History from January 1994 through February 2015



Source: BIS, ICU.

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Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

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Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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