

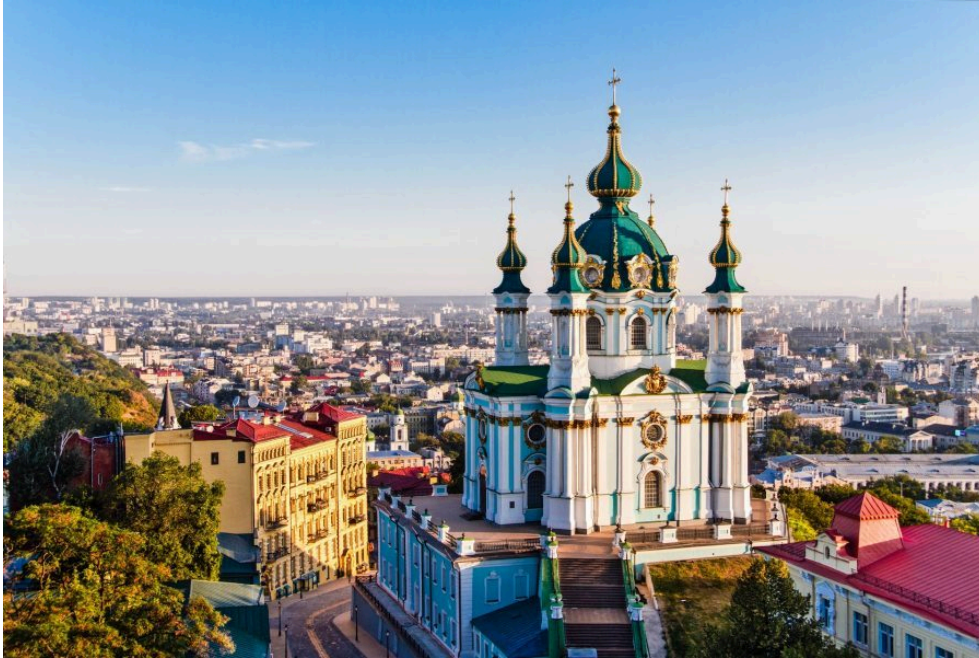
# Ukraine Watch: Has inflation finally bottomed out?

Inflation brought another surprise to the market with just 0.2% mom and an unchanged annualized CPI at 3.2% yoy in April. But core inflation denoted a more visible acceleration (4.4% yoy), showing some potential for pro-inflationary factors. We maintain our inflation forecast.

*Has inflation finally bottomed out?* **1**

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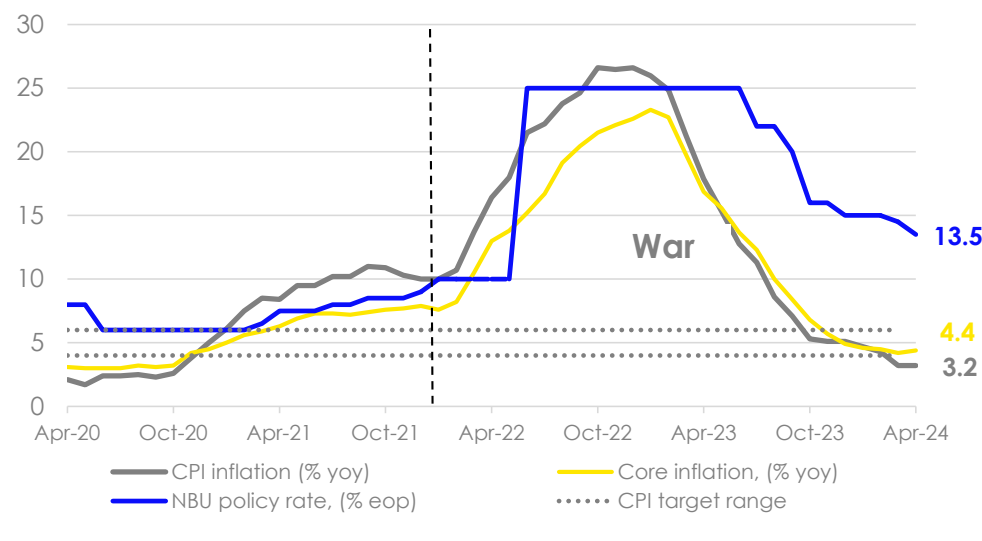
*Analyst* **6**



## Has inflation finally bottomed out?

The dynamic of consumer prices brought **another surprise** to the market in April, with consensus forecasts expecting 0.7% mom and 3.7% yoy. However, the actual figures appeared much more benign, with a 0.2% mom increase and a steady yoy figure, at 3.2%.

### Inflation and key policy rate



Source: Ukrstat, NBU, RBI/Raiffeisen Research

More in line with market expectations was the halting of the declining pattern, albeit not combined with the acceleration that analysts' were expecting. However, core inflation revealed a more pronounced uptick than headline inflation. Particularly, the rather

**Oleksandr PECHERYTSYN**  
*Analyst*  
oleksandr.pecherytsyn@raiffeisen.ua

**Serhii KOLODII**  
*Analyst*  
serhii.kolodii@raiffeisen.ua

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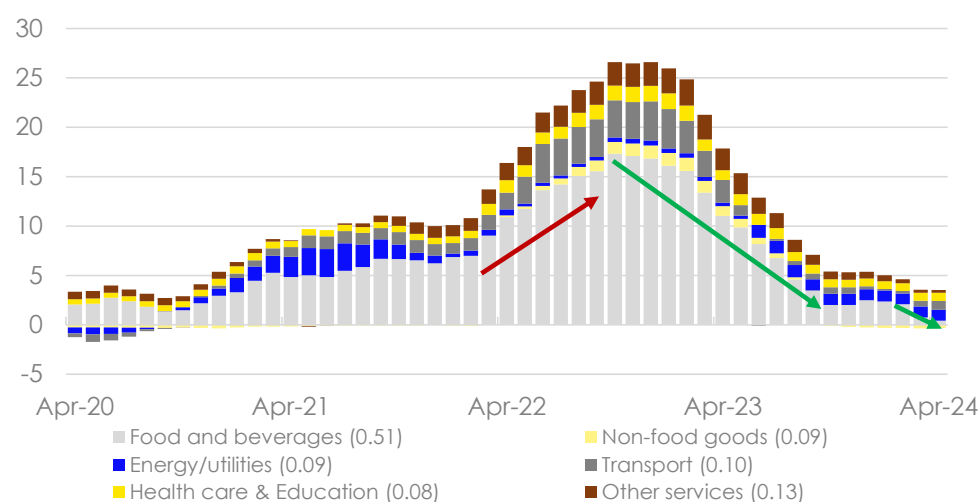
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modest mom hike in core inflation (0.7%) has finally resulted in a growing dynamic in its yoy reading to 4.4% in April (from 4.2% a month before). This could be an **early indicator of strengthening pro-inflationary forces** at a fundamental level.

The price dynamics of food products (representing 41% of the consumer basket) were again the main factor behind the main inflation surprise, with **food prices declining by 0.4%** over the month and representing a dynamic **opposite to usual seasonal trends**. Moreover, food products demonstrated a deflation in yoy terms (-0.8%) in April. A negative monthly development in food prices in April was last observed in 2013. The price of eggs again demonstrated a solid drop over the last month (-19.2%), which contributed 0.2pp to the decline in headline CPI. Moreover, egg prices are 42% cheaper than a year ago, which is highly unusual for this market. It was also quite **unexpected to see a 3.6% mom decline in prices for "other goods and services"**, which may indicate a **limited recovery in demand** from households, probably, because of strong defence risks since the start of this year.

Contrary to evident trends in declining prices, we also noticed a **hike in prices for clothing** (by 0.5% mom), **footwear** (1.3%), **healthcare** (14%) and **transport services** (2.1%). In particular, the price of fuel (up by 3.7% mom) partially reflects the trend in global oil prices at the beginning of April. However, the dynamic of global prices in recent weeks allows us to see a more favourable environment for this category in May.

### Contribution to CPI (in pp)



Source: Ukrstat, RBI/Raiffeisen Research

Even though the inflation rate in April was better than we expected, we see an increasing probability that **it will be closer to our forecasts** in May. In particular, recent statements of state officials raise the likelihood of an upward correction in gas and electricity prices in May-June. **The government may also raise excise taxes** on fuel and some other excisable goods, thus accelerating the upturn in prices for them. Even though the actual inflation figure for April shifts the balance of risks to our 7.5% year-end forecast slightly towards lower inflationary pressure, heightened security risks could offset this upside rather quickly. On the other hand, the surprising inflation in April **may raise the probability of an additional 50bp cut** in the policy rate at the next NBU monetary committee meeting on 13 June.

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Thomas Sternbach Legal and Compliance Raiffeisen Bank International AG Am Stadtpark 9, 1030 Wien Tel: +43-1-71707-1541 Fax: +43-1-71707-761541 thomas.sternbach@rbinternational.com

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**FABIAN BLASCH**

📍 Austria  ,  
 ✉ [fabian.blasch@rbinternational.com](mailto:fabian.blasch@rbinternational.com)

**AMADEA HIESS**

📍 Austria  ,  
 ✉ [amadea.hiess@rbinternational.com](mailto:amadea.hiess@rbinternational.com)

**MARKUS TSCHAEPECK**

📍 Austria  ,  
 ✉ [markus.tschaepeck@rbinternational.com](mailto:markus.tschaepeck@rbinternational.com)


**VALBONA GJEKA**

📍 Albania  ,  
 ✉ [valbona.gjeka@raiffeisen.al](mailto:valbona.gjeka@raiffeisen.al)


**OLGA ZHEGULO**

📍 Belarus  ,  
 ✉ [olga.zhegulo@priorbank.by](mailto:olga.zhegulo@priorbank.by)

**MIRZA ZORNIC**

📍 Bosnia Herzegovina  ,  
 ✉ [mirza.zornic@raiffeisengroup.ba](mailto:mirza.zornic@raiffeisengroup.ba)

**HELENA HORSKA**

📍 Czech Republic  ,  
 ✉ [Helena.Horska@rb.cz](mailto:Helena.Horska@rb.cz)

**ZOLTÁN TÖRÖK**

📍 Hungary  ,  
 ✉ [torok.zoltan@raiffeisen.hu](mailto:torok.zoltan@raiffeisen.hu)

**ANDREEA-ELENA DRAGHIA**

📍 Romania  ,  
 ✉ [Andreea-Elena.DRAGHIA@raiffeisen.ro](mailto:Andreea-Elena.DRAGHIA@raiffeisen.ro)


**GREGORY CHEPKOV**

📍 Russia  ,  
 ✉ [grigory.chepkov@raiffeisen.ru](mailto:grigory.chepkov@raiffeisen.ru)

**TIBOR LORINCZ**

📍 Slovakia  ,  
 ✉ [tibor\\_lorincz@tatrabanka.sk](mailto:tibor_lorincz@tatrabanka.sk)

**GUNTER DEUBER**

📍 Austria  ,  
 ✉ [gunter.deuber@rbinternational.com](mailto:gunter.deuber@rbinternational.com)


**MATTHIAS REITH**

📍 Austria  ,  
 ✉ [matthias.reith@rbinternational.com](mailto:matthias.reith@rbinternational.com)


**FRANZ ZOBL**

📍 Austria  ,  
 ✉ [franz.zobl@rbinternational.com](mailto:franz.zobl@rbinternational.com)

**FJORENT RRUSHI**

📍 Albania  ,  
 ✉ [Fjorent.Rrushi@raiffeisen.al](mailto:Fjorent.Rrushi@raiffeisen.al)

**ASJA GRDJO**

📍 Bosnia Herzegovina  ,  
 ✉ [asja.grdjo@raiffeisengroup.ba](mailto:asja.grdjo@raiffeisengroup.ba)


**ELIZABETA SABOLEK-RESANOVIC**

📍 Croatia  ,  
 ✉ [elizabetha.sabolek-resanovic@rba.hr](mailto:elizabetha.sabolek-resanovic@rba.hr)

**LEVENTE BLAHÓ**

📍 Hungary  ,  
 ✉ [levente.blaho@raiffeisen.hu](mailto:levente.blaho@raiffeisen.hu)


**DOROTA STRAUCH**

📍 Poland  ,  
 ✉ [dorota.strauch@raiffeisen.pl](mailto:dorota.strauch@raiffeisen.pl)


**IONUT DUMITRU**

📍 Romania  ,  
 ✉ [Ionut.Dumitru@raiffeisen.ro](mailto:Ionut.Dumitru@raiffeisen.ro)

**STANISLAV MURASHOV**

📍 Russia  ,  
 ✉ [stanislav.murashov@raiffeisen.ru](mailto:stanislav.murashov@raiffeisen.ru)

**SERHII KOLODII**

📍 Ukraine  ,  
 ✉ [serhii.kolodii@raiffeisen.ua](mailto:serhii.kolodii@raiffeisen.ua)


**CASPER ENGELEN**

📍 Austria  ,  
 ✉ [casper.engelen@rbinternational.com](mailto:casper.engelen@rbinternational.com)


**GOTTFRIED STEINDL**

📍 Austria  ,  
 ✉ [gottfried.steindl@rbinternational.com](mailto:gottfried.steindl@rbinternational.com)


**BRISIDA BUZI**

📍 Albania  ,  
 ✉ [Brisida.BUZI@raiffeisen.al](mailto:Brisida.BUZI@raiffeisen.al)


**ARISTEA VLLAHU**

📍 Albania  ,  
 ✉ [Aristea.Vllahu@raiffeisen.al](mailto:Aristea.Vllahu@raiffeisen.al)

**IVONA ZAMETICA**

📍 Bosnia Herzegovina  ,  
 ✉ [ivona.zametica@raiffeisengroup.ba](mailto:ivona.zametica@raiffeisengroup.ba)

**ZRINKA ZIVKOVIC-MATIJEVIC**

📍 Croatia  ,  
 ✉ [zrinka.zivkovic-matijevic@rba.hr](mailto:zrinka.zivkovic-matijevic@rba.hr)

**GERGELY PÁLFFY**

📍 Hungary  ,  
 ✉ [gergely.palfy@raiffeisen.hu](mailto:gergely.palfy@raiffeisen.hu)

**NICOLAE COVRIG**

📍 Romania  ,  
 ✉ [Nicolae.Covrig@raiffeisen.ro](mailto:Nicolae.Covrig@raiffeisen.ro)

**ANASTASIA BAYKOVA**

📍 Russia  ,  
 ✉ [ABAIKOVA@raiffeisen.ru](mailto:ABAIKOVA@raiffeisen.ru)

**LJILJANA GRUBIC**

📍 Serbia  ,  
 ✉ [ljiljana.grubic@raiffeisenbank.rs](mailto:ljiljana.grubic@raiffeisenbank.rs)

**OLEKSANDR PECHERYTSYN**

📍 Ukraine  ,  
 ✉ [oleksandr.pecherytsyn@raiffeisen.ua](mailto:oleksandr.pecherytsyn@raiffeisen.ua)

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