

Trends

Ukraine's sovereign Eurobonds got hammered last week due to external factors, declining in value for the second week in a row after their impressive performance in July. Information that the country's GDP grew by 4.6% YoY in 2Q19 and exceeded expectations did not outweigh the general gloom on international markets amid a round of global growth worries. Ukraine's economic growth in April-June was the fastest since 3Q16 when there was a strong recovery after the Donbass war of 2014-2015. Nevertheless, consumer and business sentiments in Ukraine are currently on the rise, giving grounds for an upbeat forecast for 2020 GDP growth.

The longest outstanding Ukrainian Eurobonds with maturity in 2032 slumped by 4.9% to 94.7/95.7 (8.1%/8.0%) and the medium-term Ukraine-24s fell 2.5% to 106.6/107.6 (7.3%/7.1%). The recently-placed EUR-denominated bonds with maturity in 2026 slid 2.9% to 102.9/103.9 (6.2%/6.0%). The generally more volatile VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 2.2% to 80.5/81.5 cents on the dollar.

In corporate Eurobonds, Kernel-22s surprisingly gained 2.7% to close at 104.9/105.9 (6.6%/6.2%), but DTEK-24s lost 4.5% to 98.1/99.1 (10.0%/9.6%) amid expectations that the company will report poor financial results for 1H19 as tariffs for electricity produced by thermal generation companies were low in the period. The Eurobonds of steel group Metinvest with maturity in 2026 decreased by 0.6% to 102.1/103.1 (8.2%/8.0%).

In quasi-sovereign banking issues, quotes for UkrEximBank-22s edged down by 0.7% to 100.6/101.6 (9.4%/8.6%) and OschadBank-23s declined by 0.5%, ending at 99.4/104.0 (9.9%/9.3%).

The yield on the government's 1-year UAH-denominated treasuries consolidated at bid/ask of 17.70%/16.50%. The Finance Ministry continued to decrease the proposed interest rates at its primary domestic bond auctions. MinFin sold 1-year UAH-denominated bonds at 16.18% last week, which was 10 bps lower than a week earlier, and there was also a placement of 2-year UAH-denominated bonds at 16.52%.

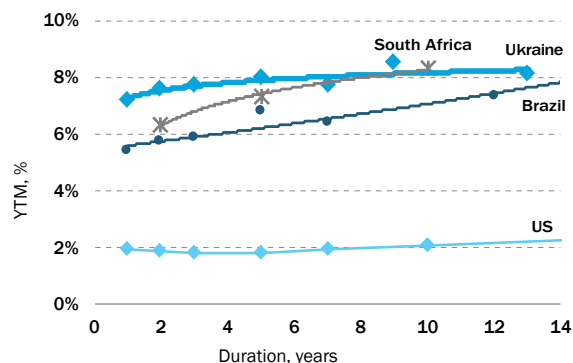
On the currency front, the hryvnia was less volatile than in previous weeks, trading in the range of 25.15-25.26 UAH/USD. The currency pair ultimately ended the week almost unchanged at 25.17 UAH/USD.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at sales@eavex.com.ua.

Highlights

- > Deputy Minister Arrested for Half-Million-Dollar Bribe
- > Ukraine's GDP Growth Accelerates to 4.6% YoY in 2Q19
- > Ukraine's Headline Inflation Remains Above Target at 9.1%

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

| | Last | 1W ch | YTD |
|--------------|-------|----------|-----------|
| NBU Key Rate | 17.0% | 0.0 p.p. | -1.0 p.p. |
| Ukraine-2024 | 7.2% | 0.6 p.p. | -3.3 p.p. |
| Ukraine-2028 | 8.5% | 1.0 p.p. | -2.3 p.p. |

CURRENCY

| | Last, UAH | 1W chg. | YTD |
|---------|-----------|---------|--------|
| USD/UAH | 25.17 | 0.0% | -9.1% |
| EUR/UAH | 27.93 | -0.6% | -11.9% |

Source: Eavex Capital

Deputy Minister Arrested for Half-Million-Dollar Bribe

by Will Ritter
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NEWS

Deputy Minister for the Occupied Territories Yuriy Hrymchak was arrested last week in a law enforcement sting operation in which the official allegedly was caught accepting a bribe of USD 480,000 from an unnamed entrepreneur in exchange for influencing judicial and state decisions. The arrest was announced on the social media site of the Ukrainian Security Service (SBU). Hrymchak has denied the charges through his lawyer.

COMMENTARY

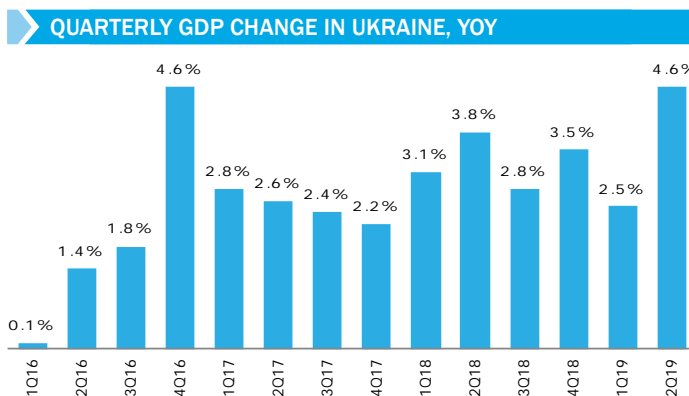
Although this operation to catch Hrymchak is being billed as a cooperative effort of the SBU, the General Prosecutor's Office, and the National Anti-Corruption Bureau (NABU), we primarily see the fingerprints of the SBU here, as it is only the SBU that has thus far come under the control of President Zelenskiy's administration. Zelenskiy seems to be trying to send a message to Poroshenko's allies and appointees that they are going to be pursued in cases of egregious bribe-taking during their tenure in power. Still, we doubt that Zelenskiy will be able to successfully mount a prosecution campaign against Poroshenko himself, as such a move would be poorly received by the Western diplomatic community, and Poroshenko retains a committed (if rather small) base of domestic political support. Hrymchak is a veteran of Ukrainian politics who has been an ally of Poroshenko and former President Yuschenko as well as of current (outgoing) General Prosecutor Yuriy Lutsenko. We definitely welcome the prosecution of this type of significant corruption among top government officials if it can be convincingly and transparently proven in court. However, we note that previous high-profile government corruption cases have gone nowhere despite highly publicized initial arrests; the situation with former tax collection chief Roman Nasirov immediately comes to mind.

Ukraine's GDP Growth Accelerates to 4.6% YoY in 2Q19

by Dmitry Churin
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NEWS

The Ukrainian economy's growth accelerated to 4.6% YoY in 2Q19 from 2.5% YoY registered in 1Q19, according to the preliminary estimate from the State Statistics Committee released last week. The data also showed that the country's seasonally-adjusted GDP rose by 1.6% on a quarterly basis in the period.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The new GDP data is definitely a surprise to the upside and could be partially credited to optimism among businesses about the economic policies of new President Zelenskiy (it became clear that Zelenskiy would defeat incumbent Petro Poroshenko in mid-April at the beginning of the quarter). Nonetheless, we emphasize that the positive trends of rising consumer spending and rising real wages in the country have been in place for a couple of years already. UkrStat reported that the average wage in Ukraine rose by 18% YoY in June in hryvnia terms, and consumer sentiments have improved this year amid almost 10% YtD appreciation in the national currency against the dollar. Growth in private consumption was also reflected in a 10.3% YoY increase in retail sales in 1H19. On the flip side, the real sector of economy did not show much improvement, with the overall industrial production index edging up by just 0.5% YoY in 1H19.

For now we are sticking with our base case scenario that Ukraine's GDP will rise by 3.0% in 2019, but we are raising our growth estimate for 2020 to 4.2%.

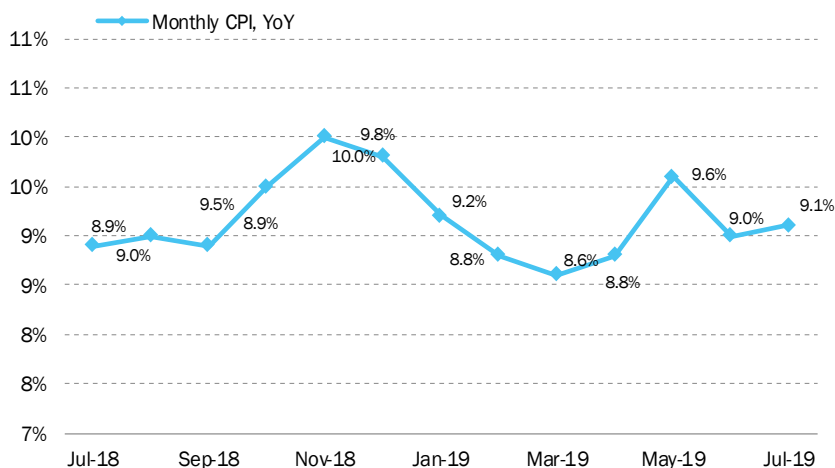
Ukraine's Headline Inflation Remains Above Target at 9.1%

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month consumer inflation inched up to 9.1% YoY in July from 9.0% YoY in June, according to official data released earlier this month. UkrStat said that for the month of July alone, there was deflation of 0.6% MoM after deflation of 0.5% MoM in June and inflation of 0.7% MoM for May. For 7M19 (a slightly different measurement of full-year inflation than the 12-month rolling figure) the CPI index growth remained at 9.0% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The month-on-month deflation for July was an expected development, while the growth in the overall 12M consumer price index remains somewhat outside of the National Bank's target. The NBU lowered its key interest rate from 17.50% to 17.00% in July, saying it is ready to cut the rate further in case there are no threats to price stability. The next meeting of the NBU's monetary policy board is scheduled for Sept 5, and we expect the regulator to lower the rate by an additional 50 bps to 16.50% or possibly leave it unchanged. Prior to the inflation report, there had been a more dovish expectation that the rate could be cut by 100 bps to 16.00%. The NBU is still saying that it expects the 12M CPI inflation to decline to 6.3% by the year end, and also recently announced a goal to cut the key interest rate to 8% by 2022. The country's key interest rate was last at such a low level back in 2013 before the political turmoil of the EuroMaidan period.

In individual components of the consumer price basket, there was a seasonal drop in vegetables prices which led to a 0.7% MoM decline in the overall food price category. Another considerable factor for the deflation in July was lower energy prices. UkrStat reported that the natural gas price for households had fallen by 10.4% MoM and petroleum prices had decreased by 3.2% MoM in July.

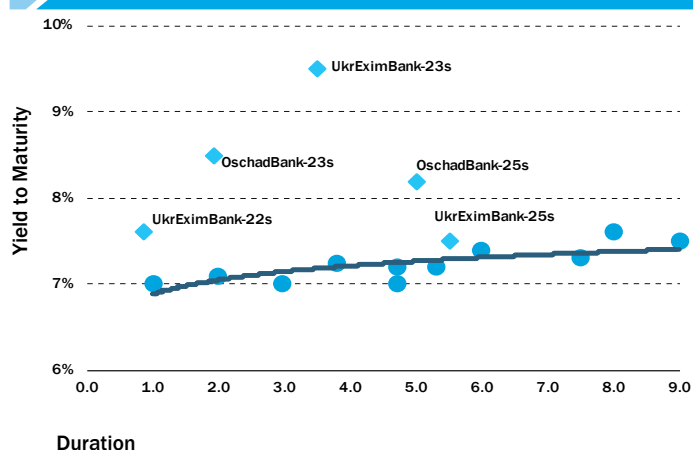
SELECTED UKRAINIAN EUROBONDS

| Issue | Price Bid | Price Ask | Price ch., W/W, % | YTM Bid, % | YTM Ask, % | Coupon | Maturity Date | Volume USD mn | Currency | Ratings ¹ |
|----------------------------|-----------|-----------|-------------------|------------|------------|--------|---------------|---------------|----------|----------------------|
| Sovereign Eurobonds | | | | | | | | | | |
| Ukraine, 2020 | 98.5 | 99.3 | -0.5% | 9.5% | 8.7% | 7.75% | 1 Sept 2020 | 1,365 | USD | Caa1/B-/B- |
| Ukraine, 2024 | 106.6 | 107.6 | -2.5% | 7.3% | 7.1% | 7.75% | 1 Sept 2024 | 1,339 | USD | Caa1/B-/B- |
| Ukraine, 2028 | 108.5 | 109.5 | -5.3% | 8.6% | 8.4% | 9.75% | 1 Nov 2028 | 1,600 | USD | Caa1/B-/B- |
| Ukraine, 2032 | 94.7 | 95.7 | -4.9% | 8.1% | 8.0% | 7.38% | 25 Sept 2032 | 3,000 | USD | Caa1//B- |
| Ukraine, GDP-linked | 80.5 | 81.5 | -2.2% | 1.0% | 1.0% | 0.00% | 31 May 2040 | 3,214 | USD | /B-/ |
| Corporate Eurobonds | | | | | | | | | | |
| Kernel, 2022 | 104.9 | 105.9 | 2.7% | 6.6% | 6.2% | 8.75% | 31 Jan 2022 | 500 | USD | /B/B+ |
| MHP, 2026 | 96.0 | 97.0 | -0.2% | 7.9% | 7.7% | 6.95% | 4 Apr 2026 | 550 | USD | B3/B/B |
| DTEK, 2024 | 98.1 | 99.1 | -4.5% | 10.0% | 9.7% | 10.75% | 12 Dec 2024 | 1,275 | USD | // |
| Metinvest, 2026 | 102.1 | 103.1 | -0.6% | 8.2% | 8.0% | 8.50% | 23 Apr 2026 | 648 | USD | B3//B |
| UZ Rail, 2021 | 99.5 | 100.3 | 0.0% | 10.8% | 9.6% | 9.88% | 15 Sept 2021 | 350 | USD | /CCC+/CCC |
| Bank Eurobonds | | | | | | | | | | |
| UkrEximBank, 2022 | 100.6 | 101.6 | -0.7% | 9.4% | 8.6% | 9.63% | 27 Apr 2022 | 750 | USD | Caa3//CCC |
| UkrEximBank, 2023 | 97.9 | 99.9 | -0.6% | 8.9% | 7.2% | 9.00% | 9 Feb 2023 | 125 | USD | Caa3//CCC |
| UkrEximBank, 2025 | 103.8 | 104.8 | -0.7% | 8.2% | 7.7% | 9.75% | 22 Jan 2025 | 500 | USD | Caa3//CCC |
| Oschadbank, 2023 | 99.4 | 100.4 | -0.5% | 9.9% | 9.3% | 9.38% | 10 Mar 2023 | 700 | USD | Caa3//CCC |
| Oschadbank, 2025 | 99.6 | 100.6 | -0.7% | 10.1% | 9.5% | 9.63% | 20 Mar 2025 | 500 | USD | Caa3//CCC |

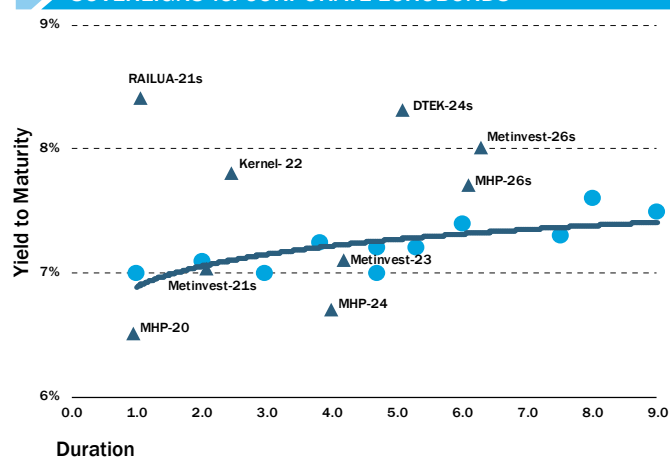
¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EUROBONDS



SOVEREIGNS vs. CORPORATE EUROBONDS



UKRAINIAN DOMESTIC BONDS

| Issue | Price (Bid) | Price (Ask) | YTM (Bid) | YTM (Ask) | Modified Duration | Coupon | Coupon Period | Maturity Date | Volume UAH mn |
|------------------------------|-------------|-------------|-----------|-----------|-------------------|--------|---------------|---------------|---------------|
| UAH denominated Bonds | | | | | | | | | |
| UA4000203632 | | | 17.50% | 16.00% | n/a | n/a | S/A | 04 Dec 2019 | n/a |
| UA4000198006 | | | 17.60% | 16.45% | n/a | n/a | S/A | 10 Jun 2020 | n/a |
| UA4000200174 | | | 17.70% | 16.35% | n/a | n/a | S/A | 20 Jan 2021 | n/a |
| UAH denominated Bonds | | | | | | | | | |
| UA4000201743 | | | 6.25% | 4.25% | n/a | 5.65% | S/A | 22 Jul 2021 | USD 83mn |

Source: TR Data, Eavex Research

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