

Trends

Quotes for Ukrainian sovereign Eurobonds extended their downward move last week after preliminary estimates showed that the country's GDP grew by 2.2% YoY in 1Q19, slowing from 3.5% YoY growth registered for 4Q18.

In the internal political developments, Parliament Speaker Andriy Parubiy announced a breakup of the coalition in a move meant to make it more difficult for incoming president Volodymir Zelenskiy to dismiss Parliament ahead of schedule; however, in his inauguration speech this morning, Zelenskiy announced that he intends to dismiss Parliament anyway.

In other news, US Congress has started the formal process of approving a draft 2020 defense budget foreseeing USD 250mn in assistance for Ukraine, the Ukrainian Embassy in the United States has said.

The longest outstanding sovereigns, Ukraine-32s, lost 1.2% last week to close at 86.5/87.5 (9.3%/9.2%), and medium-term Ukraine-24s declined by 0.7% to 93.5/94.5 (9.5%/9.3%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) dropped by 1.2% to 63.0/64.0 cents on the dollar.

Corporate Ukrainian Eurobonds were also broadly lower, with DTEK-24s falling 1.0% to 95.1/96.6 (10.7%/10.3%) and Kernel-22s dropping by 0.9% to 99.2/100.2 (9.3%/8.8%). Metinvest-26s edged down by 0.3% to 97.4/98.4 (9.2%/9.0%).

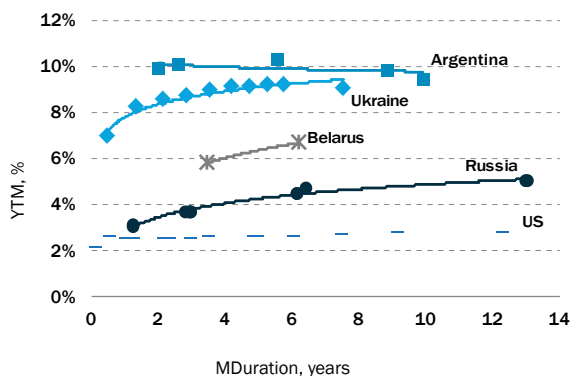
In quasi-sovereign banking issues, OschadBank-25s shed 0.5% to 98.3/99.3 (10.8%/10.2%)

The government's 1-year UAH-denominated treasuries remained at bid/ask of 19.50%/18.00%. The Finance Ministry sold 1-year local UAH-denominated bonds at 18.39% and 2-year debt papers at 17.81% on May 14. MinFin also placed USD-denominated 1-year bonds at 7.25%. Meanwhile, the main focus of fixed income traders was on a new placement of UAH-denominated bonds from the International Finance Corporation (IFC), a member of the World Bank Group. The IFC sold UAH 1.35bn in 1-year bonds at 15.75%.

On the interbank market, the hryvnia lost its steam for appreciation, weakening by 0.8% against the dollar to 26.40 UAH/USD. The Ukrainian currency still holds a gain of 4.6% against the dollar since the start of the year.

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

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	0.0 p.p.	-0.5 p.p.
Ukraine-2024	9.5%	0.1 p.p.	-1.0 p.p.
Ukraine-2032	9.3%	0.2 p.p.	-8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.40	0.8%	-4.6%
EUR/UAH	29.49	0.1%	-7.0%

Source: Eavex Capital

Highlights

- > Zelenskiy Dismisses Parliament Without Constitutional Basis
- > Ukraine's GDP Growth Estimated at 2.2% YoY in 1Q19

Zelenskiy Dismisses Parliament Without Constitutional Basis

by Will Ritter
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NEWS

Eastern Ukrainian actor and entertainment mogul Volodymir Zelenskiy became Ukraine's 6th elected president (and 7th overall) at a swearing-in ceremony at Parliament on Monday morning (May 20). In attendance were diplomatic delegations from around the world and Ukraine's 6 prior presidents, barring only Victor Yanukovich, who is living in exile in Russia after being charged with state treason. After the swearing-in, Zelenskiy gave a speech in which he named stopping the war in the Donbass as his top priority. At the end of the speech, Zelenskiy announced that he is going to dissolve Ukraine's Parliament 5 months ahead of the scheduled October election, without providing a reason. Zelenskiy also called for the resignations of Defense Minister Stepan Poltorak, Security Service chief Vasyl Grytsak, and General Prosecutor Yuriy Lutsenko. The president has constitutional responsibility for appointments to all three posts. Poltorak and Grytsak resigned today but will continue working until their replacements are named by Zelenskiy and confirmed by Parliament; Lutsenko has not yet resigned.

COMMENTARY

What disturbs us here is that Zelenskiy did not even try to present a constitutional basis for his early dismissal of Parliament. He could have made the legally dubious claim that no coalition in Parliament currently exists, but he did not even offer this justification. Under the Ukrainian Constitution, Zelenskiy clearly lacks the legal authority to take this step, which in our view sets a bad precedent in terms of what additional unconstitutional actions Zelenskiy might be tempted to take in the future. However, the ball is now in Parliament's court to fight the dismissal, and it appears that there is no real opposition among the main factions to stop the momentum of the newly elected president. Indeed, if the Poroshenko Bloc (the largest faction with around 130 MPs) had really wanted to prevent Zelenskiy from dismissing Parliament, they could have maneuvered to delay his inauguration date until early June. In this view, a pre-term national election is likely to take place on Jul 21, which is 14 weeks ahead of the scheduled Oct 27 date. Assuming that this is the case, the campaign effectively starts today, and we are looking at which high-profile figures Zelenskiy might move to poach from other parties in order to boost the performance of his own Servant of the People (SotP) grouping. We suspect that Zelenskiy is aiming to turn Servant of the People into a de-facto national unity party that could conceivably garner an absolute majority in Parliament by bringing Russophone voters in Eastern Ukraine together with more nationalist-oriented Central Ukrainian voters. In this scenario, Zelenskiy personally will need to continue to be all things to all people for the next 60 days, which explains the generalities and platitudes from his election campaign that he repeated today during his inauguration speech. Key specifics about the parliamentary vote will have to be decided quickly, including whether Parliament will continue to elect half (225) of MPs via local geographic districts, and if so, whether the 27 MP mandates from the occupied territories will remain vacant, effectively reducing the size of the chamber to 423 members. The effect of a late July election date on voter turnout should also be considered, as we believe that participation could fall by 10-15 percent from the traditional level of 60-70 percent for Ukrainian elections.

Ukraine's GDP Growth Estimated at 2.2% YoY in 1Q19

by Dmitry Churin
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NEWS

The Ukrainian economy grew by 2.2% YoY in 1Q19, according to the preliminary estimate from the State Statistics Committee released on May 15. The data also showed that the country's seasonally-adjusted GDP inched up by 0.2% on a quarterly basis in the period. The 1Q19 figure came in well below the growth of 3.5% in 4Q18 and 2.8% in 3Q18; full-year growth of 3.3% YoY was registered for 2018. The government built the national budget for 2019 on a forecast for a GDP rise of 3.0% and inflation of 7.4%.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The country's economic growth, which is in line with global trends, continues to rely mostly on improvement in consumer sentiments. UkrStat reported that retail sales grew by 7.4% YoY in 1Q19, driven by a very impressive increase in the nominal average wage in the country by 22% YoY in the period. Still, the nominal average monthly wage in Ukraine of UAH 10,240 (USD 390) remains one of the lowest in Europe along with Moldova. For this year, Ukraine's nominal GDP is forecasted at USD 137bn, which translates at GDP per capita of USD 3340, compared to USD 15,400 GDP per capita for neighboring Poland and USD 9,350 for Turkey.

The GDP growth of 2.2% YoY in 1Q19 was worse than initial expectations for the period, but the figure was not surprising after Ukraine's overall industrial production output contracted by 0.9% YoY in 1Q19. Nevertheless, in March alone the industrial production index demonstrated a rebound of 2.1% YoY, signaling that slow start of the year could be just an anomalous event.

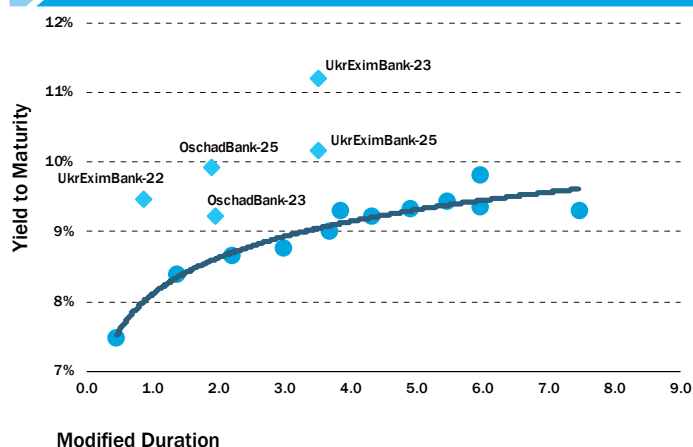
SELECTED UKRAINIAN EUROBONDS

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	95.5	96.3	0.0%	9.1%	8.9%	7.75%	1 Sept 2020	1,365	USD	Caa1/B-/B-
Ukraine, 2024	93.5	94.5	-0.7%	9.5%	9.3%	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2028	101.4	102.4	-0.7%	9.7%	9.6%	9.75%	1 Nov 2028	1,600	USD	Caa1/B-/B-
Ukraine, 2032	86.5	87.5	-1.2%	9.3%	9.1%	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	63.0	64.0	-1.2%	2.2%	2.1%	0.00%	31 May 2040	3,214	USD	/B-/
Corporate Eurobonds										
Kernel, 2022	99.2	100.2	-0.9%	9.3%	8.8%	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2026	90.7	91.7	-0.1%	8.9%	8.7%	6.95%	4 Apr 2026	550	USD	B3/B/B
DTEK, 2024	95.1	96.6	-1.0%	10.7%	10.3%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	97.4	98.4	-0.3%	9.2%	9.0%	8.50%	23 Apr 2026	648	USD	B3//B
UZ Rail, 2021	98.5	101.5	0.0%	11.6%	8.5%	9.88%	15 Sept 2021	350	USD	/CCC+/CCC
Bank Eurobonds										
UkrEximBank, 2022	99.8	100.8	-0.2%	10.0%	9.3%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	92.1	94.6	-0.4%	13.2%	11.1%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	96.9	97.9	-0.5%	11.4%	10.9%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	98.3	99.3	-0.2%	10.6%	10.0%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	98.3	99.3	-0.5%	10.8%	10.2%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

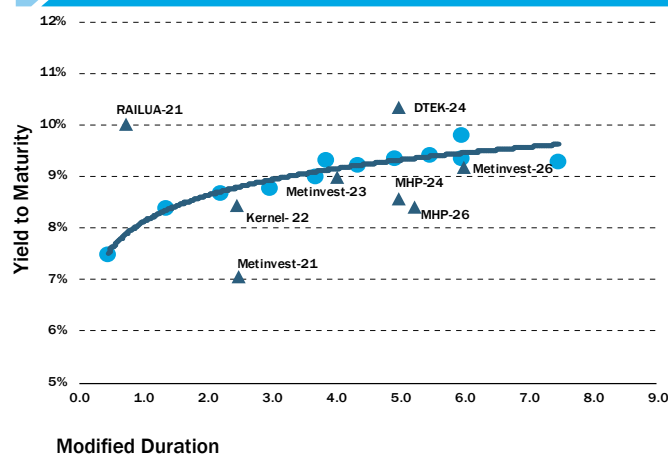
¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EUROBONDS



SOVEREIGNS vs. CORPORATE and MUNICIPAL 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									
UA4000195580			19.50%	18.00%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.50%	18.00%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.50%	18.30%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			7.50%	5.15%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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