

Trends

Ukrainian sovereigns appreciated in value after the newly-elected Parliament voted on Aug 29 to approve the new prime minister and the Cabinet. The new government includes only 17 ministers, as opposed to 25 ministers that served in the outgoing Cabinet led by Volodymyr Groysman. Several ministries were disbanded and merged with others, such as the Agriculture Ministry, the Sports Ministry, and the Ministry of Occupied Territories. New Prime Minister Oleksiy Honcharuk has already announced that an IMF mission is expected to arrive in the coming weeks for discussion of a new 3-4 year cooperation program. When Honcharuk spoke to Parliament, he promised to move quickly to ensure economic growth of 5-7%, and said the first 37 bills that are necessary for economic liberalization have already been drafted.

The longest outstanding Ukrainian Eurobonds due in 2032 added 1.4% last week to close at 97.8/98.5 (7.7%/7.6%), while medium-term Ukraine-24s edged up by 0.4% to 108.3/109.1 (6.9%/6.7%). The EUR-denominated bonds with maturity in 2026 added 0.7% to 105.7/106.5 (5.7%/5.6%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were flat at 86.3/87.0 cents on the dollar after their big jump of the preceding week.

In corporate Eurobonds, MHP-26s issue did not react to domestic media reports that the EBRD could block a EUR 100mn loan that had been previously agreed with the company. MHP (MHPC) has been suffering from political fallout following the election of Vladimir Zelenskiy to the presidency. MHP's Eurobonds closed at 96.0/97.0 (7.9%/7.7%). DTEK-24s rose by 1.1% to 99.3/100.3 (9.7%/9.1%) while Kernel-22s were unchanged at 104.8/105.8 (6.7%/6.2%).

In quasi-sovereign banking issues, UkrEximBank-25s declined by 0.3% to 103.9/104.9 (8.1%/7.7%).

The yield on the government's 1-year UAH-denominated treasuries remained at a wide bid/ask of 17.70%/16.50%. The Finance Ministry sold 1-year UAH-denominated bonds at 16.00% last week, which was 16 bps lower than a week earlier, and there was a placement of 5-year UAH-denominated bonds at 15.30%.

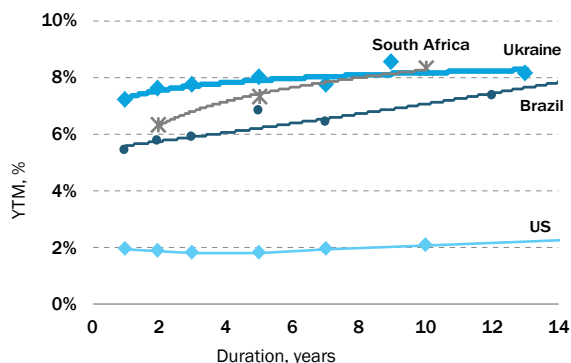
On the interbank currency market, the hryvnia finished essentially unchanged for the week at 25.16 UAH/USD.

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

Highlights

- > Honcharuk Named PM, Avakov Keeps Job at Interior, Zelenskiy Threatens New Parliament with Dismissal After 1 Year
- > Industry Under-Performs Ukraine GDP Growth, Down 0.2% YoY in July

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	6.8%	-0.1 p.p.	-3.7 p.p.
Ukraine-2028	8.0%	-0.2 p.p.	-2.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	25.16	0.2%	-9.1%
EUR/UAH	27.79	-0.8%	-12.4%

Source: Eavex Capital

Honcharuk Named PM, Avakov Keeps Job at Interior, Zelenskiy Threatens New Parliament with Dismissal After 1 Year

by Will Ritter
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NEWS

Ukraine's newly-elected Parliament convened for the first time on Thursday (Aug 29) and voted in the country's new Cabinet of Ministers, which will be led by 35-year-old lawyer Oleksiy Honcharuk. The Cabinet was approved by 281 MPs (President Zelenskiy's 254 SN faction members plus 27 additional MPs). Other key appointments were Dmytro Kuleba as Deputy Prime Minister for European Integration, holdovers from the previous Cabinet Arseniy Avakov and Oxana Markarova at the Interior and Finance ministries respectively, Vadim Prystaiyko as Foreign Minister, and Ruslan Ryaboshapko as General Prosecutor. Notable parliamentary committee heads are former investment banker Andriy Gerus at the Energy committee, Anastasia Krasnocilska at the Anti-Corruption committee, and Ivanna Klympush-Tsintsadze (the European Integration Minister in the previous Cabinet) at the European Integration committee. Speaking to the convocation, President Zelenskiy said he is giving Parliament a 1-year trial period to institute the needed reform measures, and that he is ready to dismiss the legislature and call a new election if it fails (Zelenskiy would have the constitutional authority to take this step, assuming that he could convince a relatively small number of the MPs from his SN faction to break up their own ruling coalition).

COMMENTARY

As we stated in early August, Honcharuk was the front-runner and obvious choice for the PM's chair once the short-list of candidates was announced, as he is a political novice who will be entirely dependent on the Zelenskiy administration for support. We think that Naftgaz CEO Andriy Kobolev, who was also on the short-list, was never really a serious candidate for the position, as he would have represented too much of an independent power center for Zelenskiy. In terms of individual appointments, we see Kuleba, a widely respected former Foreign Ministry spokesman who did an admirable job fighting Russian propaganda, as a home run for the new government who will be welcomed by the Western community, and Markarova was also obviously kept on at MinFin for similar reasons. However, the same cannot be said for Avakov, and despite a promise from SN faction head David Arakhamia that Avakov will only serve in a transitional role for 6 months, suspicions will persist that a backroom deal was made not to encroach on the territory of the powerful "cilovik". Avakov has been in charge of Ukraine's police ever since the EuroMaidan revolution in early 2014, and he was allied with industrialist Igor Kolomoyskiy in providing valuable help in Zelenskiy's campaign this winter/spring to unseat Petro Poroshenko. Finally, we view Zelenskiy's threat to dissolve Parliament as a sign that he may have less control over his own faction than is generally assumed, and that this is likely to become an issue sooner rather than later in his presidency.

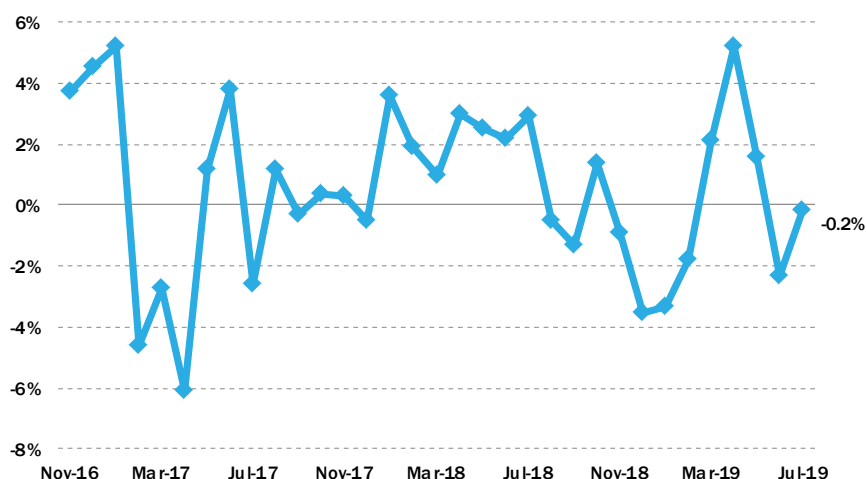
Industry Under-Performs Ukraine GDP Growth, Down 0.2% YoY in July

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial production inched down by 0.2% YoY in July after a larger drop of 2.3% YoY in June (+1.5% YoY in May), according to data from the State Statistics Committee. In the extraction sector, the output was up by only 0.1% YoY in July despite a solid 6.8% YoY gain in coal extraction; iron ore and hydrocarbons extraction declined by 1.2% and 0.3% YoY respectively. The manufacturing sector index rose by 0.3% YoY and the utility sector had a drop in output of 3.6% YoY. Year-to-date through July, overall industrial production in Ukraine grew by a lethargic 0.4% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The overall decline in industrial production in July was a disappointing fact, especially taking into account that the country's economic growth accelerated to 4.6% YoY in 2Q19. In particular manufacturing sub-sectors, UkrStat reported a 3.2% YoY decrease in steel production in July, although steel sector output remains higher by 1.0% YoY for 7M19. A worse situation was observed in the machinery sector, with a 1.0% decline in output in July and a decrease in output by 3.9% YoY for 7M19. Meanwhile, food production in Ukraine grew by 4.4% YoY in July and by 3.1% YoY for 7M19.

In other macroeconomic data, UkrStat said that the agricultural production index is up by an impressive 12.0% YoY for 7M19 amid an early start to the grain harvest campaign.

The construction industry, consistently the top performing sector of the economy, jumped by 15.2% YoY in July with growth of 21.8% YoY for 7M19.

Retail sales continue to look strong, rising 9.0% YoY in July and by 10.1% YoY through the first 7 months of 2019.

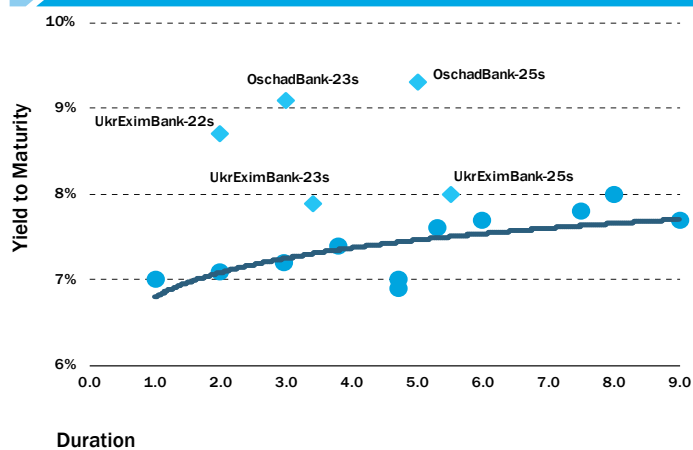
SELECTED UKRAINIAN EUROBONDS

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	98.7	99.5	-0.1%	9.4%	8.5%	7.75%	1 Sept 2020	1,365	USD	Caa1/B-/B-
Ukraine, 2024	108.3	109.1	0.4%	6.9%	6.7%	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2028	112.2	112.9	1.6%	8.0%	7.9%	9.75%	1 Nov 2028	1,600	USD	Caa1/B-/B-
Ukraine, 2032	97.8	98.5	1.4%	7.7%	7.6%	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	86.3	87.0	0.0%	0.7%	0.7%	0.00%	31 May 2040	3,214	USD	/B-/
Corporate Eurobonds										
Kernel, 2022	104.8	105.8	0.0%	6.7%	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	99.3	101.3	1.1%	9.7%	9.1%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	102.0	103.0	0.5%	8.3%	8.1%	8.50%	23 Apr 2026	648	USD	B3//B
UZ Rail, 2021	101.3	103.6	2.6%	8.1%	5.0%	9.88%	15 Sept 2021	350	USD	/CCC+/CCC
Bank Eurobonds										
UkrEximBank, 2022	100.7	101.7	0.0%	9.2%	8.4%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	97.6	99.6	-0.1%	9.2%	7.4%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	103.9	104.9	-0.3%	8.1%	7.7%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	99.6	100.6	0.0%	9.9%	9.2%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	100.0	101.0	0.1%	9.8%	9.2%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

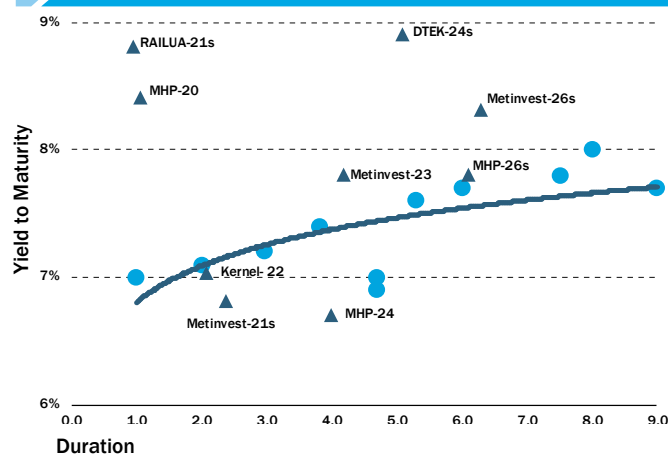
¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EUROBONDS



SOVEREIGNS vs. CORPORATE 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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