

This is the final issue of the Ukraine Fixed Income Weekly Monitor for 2018. We at Eavex Capital extend our Greetings to you for the New Year holidays! Weekly coverage will resume on Tuesday, Jan 8.

## Trends

Quotes for Ukrainian sovereign Eurobonds had no reaction to news that the country received a long-awaited disbursement of USD 1.4bn from the IMF. The new 14-month program replaces the more ambitious USD 17.5bn assistance package that was frozen last year because of insufficient reform efforts. To get the new payout, Kyiv was forced to raise heating tariffs for households. The country could have come uncomfortably close to default next year without any IMF and IMF-linked Western donor support. External debt repayment and servicing are estimated at USD 5.1bn in 2019 while total debt servicing for the country is USD 12.2bn next year and around USD 10bn in 2020.

Ukraine's benchmark 10-year Eurobonds shed 2.2% last week to close at 92.9/94.0 (10.9%/10.7%), and the Ukraine-32s issue declined 1.5% to 79.5/80.5 (10.2%/10.0%). The medium-term sovereigns with maturity in 2023 were down 1.6% to 89.6/90.6 (10.6%/10.3%) and the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) decreased by 0.4% to close at 57.6/58.6 cents on the dollar.

In corporate issues Metinvest-26s were unchanged at 89.7/90.6 (10.6%/10.4%) and Ferrexpo-19s, which are maturing in April, inched down 0.1% to 100.4/101.2 (8.9%/6.0%). Quasi-sovereign issue UkrEximBank-22sc also inched down by 0.1% to close at 97.8/98.6 (10.4%/10.1%).

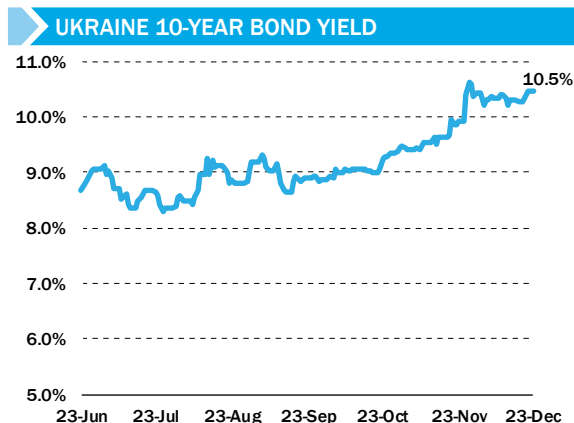
Quotes for the government's 1-year UAH-denominated treasuries rose by 75 bps to bid/ask of 21.00%/19.25% after the Finance Ministry unexpectedly placed UAH 3.5bn in 3-month bonds at an elevated yield of 20.50%. It was also a surprise to see a placement of 1-month USD-denominated domestic bonds for the huge amount of USD 252mn at a yield of 6.50%.

The hryvnia managed to stay firm for 2018 (barring any surprises in the next few days), as it currently sits higher by 2.6% against the dollar at 27.40 UAH/USD from where it opened the year. We have estimated the average UAH/USD rate over all of 2018 at 27.20 UAH/USD.

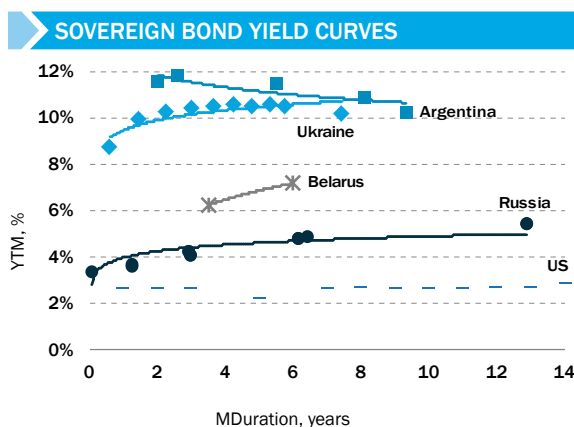
You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at sales@eavex.com.ua.

## Highlights

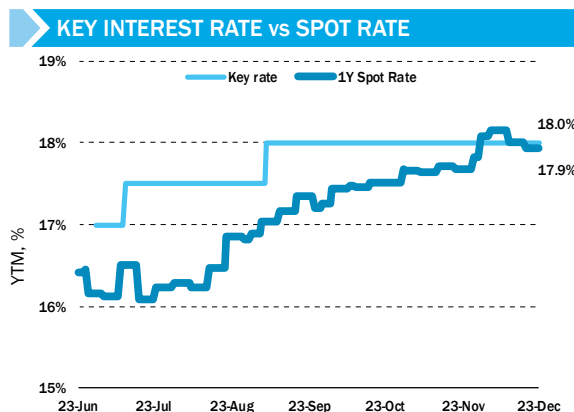
- > Zelenskiy Presents Rising Threat to Poroshenko Reelection
- > Ukraine Receives USD 1.4bn IMF Tranche Amid New Downsized Deal
- > Ukraine's GDP Grows for 11th Straight Quarter with 2.8% YoY Rise in 3Q18



Source: Bloomberg, Eavex Capital



Source: Bloomberg, Eavex Capital

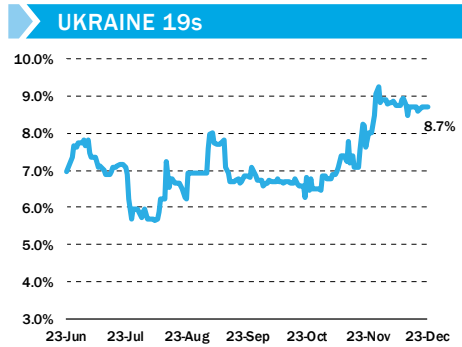


Source: Bloomberg, Eavex Capital

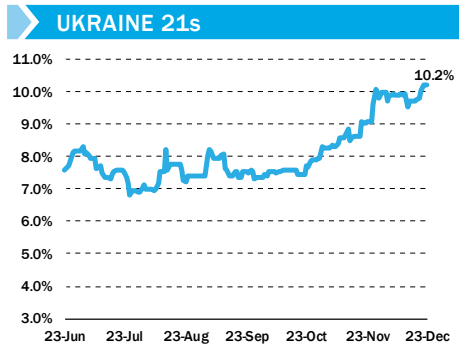
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	27.38	-2.0%	-1.3%	-2.6%
EUR/UAH	31.13	-1.4%	-1.4%	-7.6%
EUR/USD	1.14	0.6%	-0.1%	-5.3%

Source: Bloomberg, Eavex Capital

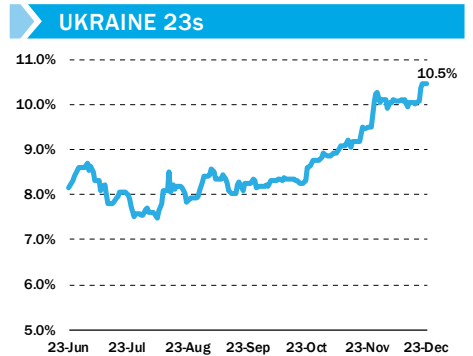
Selected Sovereign Issues



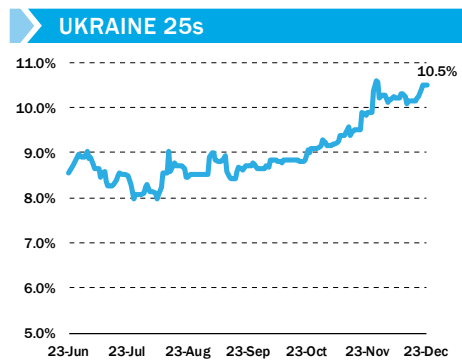
Source: Bloomberg, Eavex Research



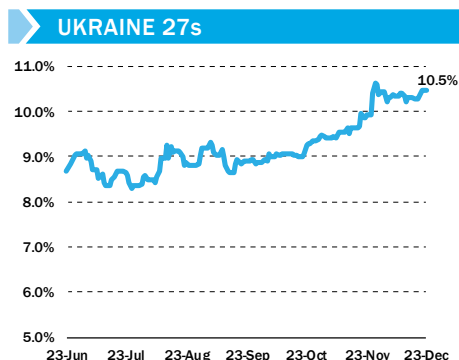
Source: Bloomberg, Eavex Research



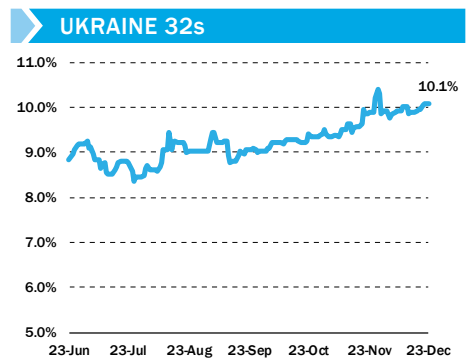
Source: Bloomberg, Eavex Research



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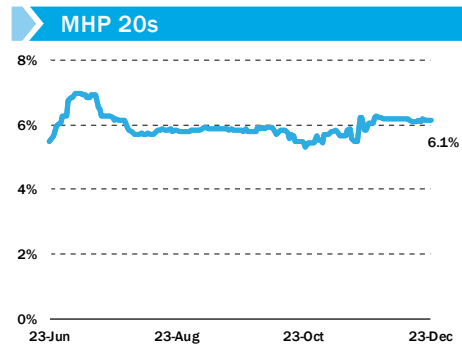


Source: Bloomberg, Eavex Research

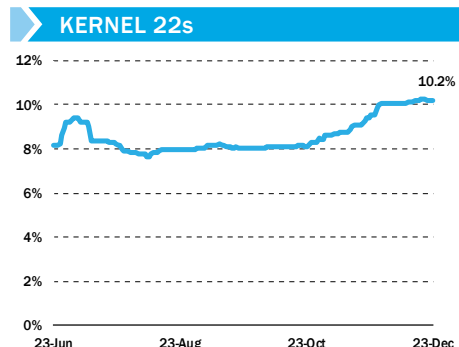


Source: Bloomberg, Eavex Research

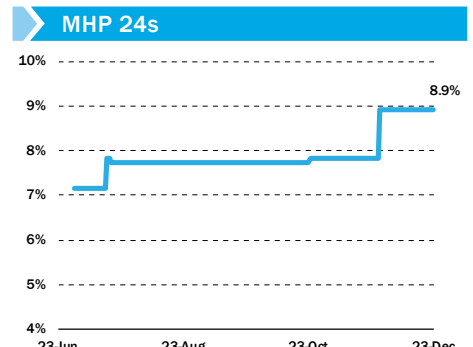
Selected Corporate Issues



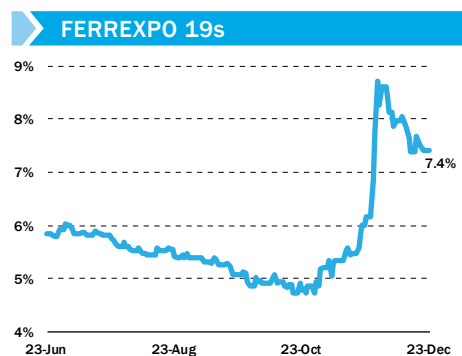
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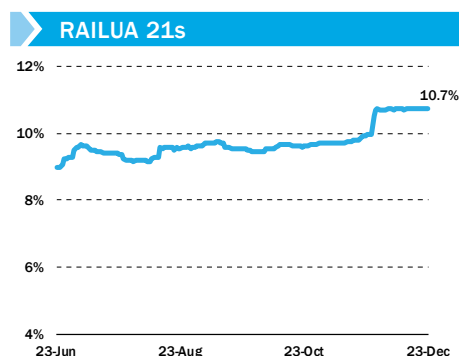
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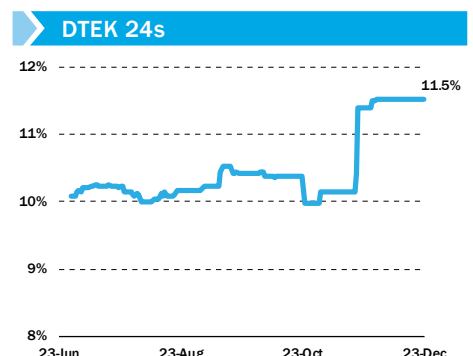
Source: Bloomberg, Eavex Research



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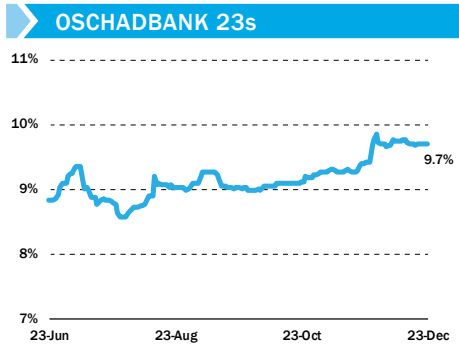


Source: Bloomberg, Eavex Research

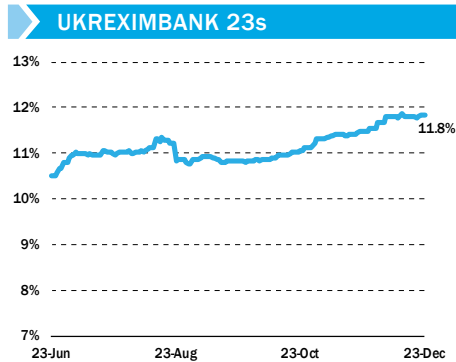


Source: Bloomberg, Eavex Research

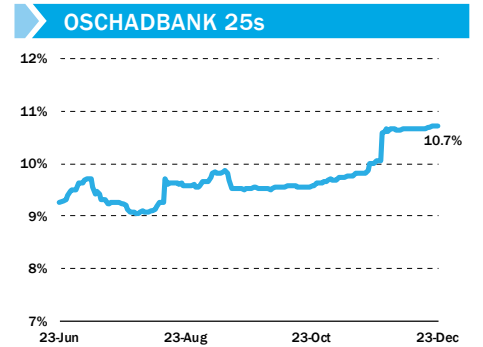
Selected Banking Issues



Source: Bloomberg, Eavex Research

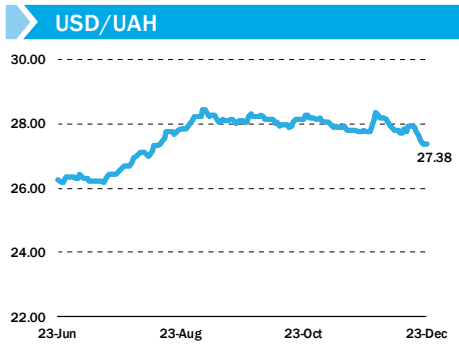


Source: Bloomberg, Eavex Research

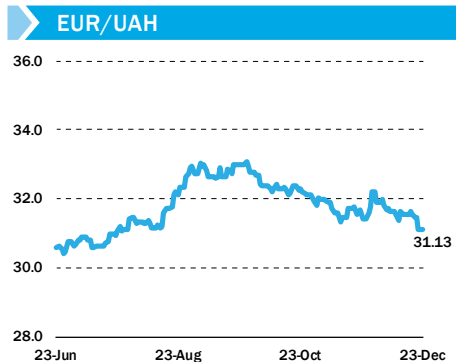


Source: Bloomberg, Eavex Research

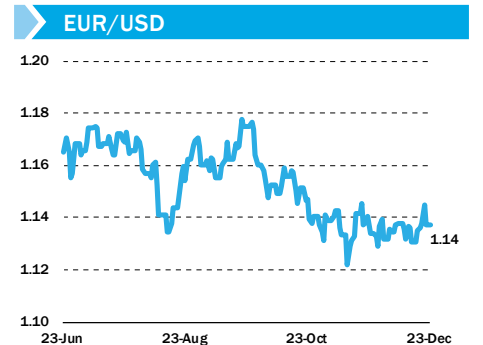
Currency



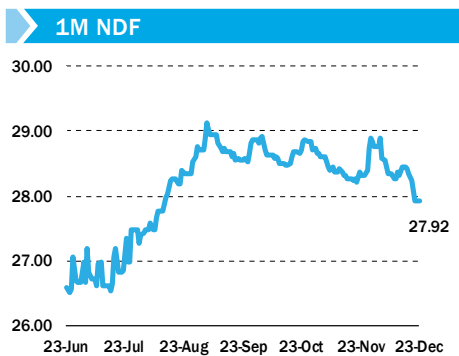
Source: Bloomberg, Eavex Research



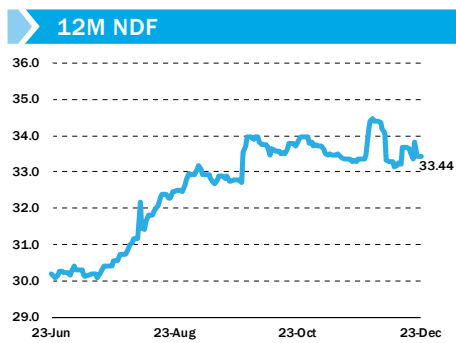
Source: Bloomberg, Eavex Research



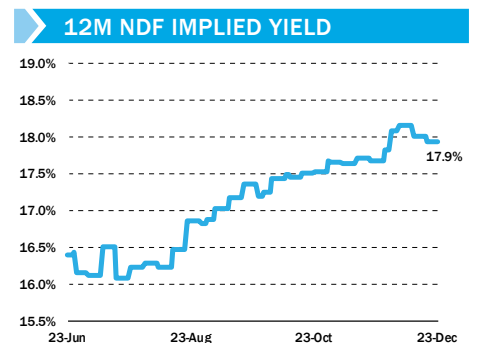
Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

## Zelenskiy Presents Rising Threat to Poroshenko Reelection

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

Russophone actor and comedian Volodymyr Zelenskiy relegated President Poroshenko to third place in Ukraine's presidential race in polling carried out by the respected Kyiv Institute of Sociology (KIIS) in late November. Zelenskiy, a native of the city of Kriviy Rih in southeastern Ukraine who rose to fame by starring in the "Block 95" political satire television program, received 14.6% support from decided voters in the poll, while Poroshenko was at only 11.6%. Leftist-nationalist Batkivschyna opposition party leader Yulia Tymoshenko had the largest chunk of support at 21.2%. The top two finishers in the Mar 31 presidential ballot will advance to a runoff on Apr 21.

### COMMENTARY

The fact that Zelenskiy, who has not even officially announced his candidacy, is receiving such high numbers without taking any explicit political positions has to be a worrying prospect for Poroshenko. The incumbent could easily find himself frozen out of the decisive runoff (it is nearly certain that no candidate will win on the opening Mar 31 ballot) if his numbers do not begin to move higher in the next month or so. Although it would be premature to label Zelenskiy as a pro-Russian candidate, he is certainly not explicitly pro-Western, and the Kremlin's mouth must be watering at the prospects of a runoff between Tymoshenko (who is pro-Western in name only) and a Russian-speaking political novice with no particular commitment to maintaining Ukraine's hard-won Western course. The presidential picture will become clearer once it is known whether another pop-culture superstar, Ukrainophone musician Sviatoslav Vakarchuk, plans to enter the race; Vakarchuk operates on the same general electoral territory as Poroshenko, and we do not believe that there is room for both of them in the contest. If Vakarchuk doesn't run, we expect Poroshenko to benefit with a significant improvement in polling numbers. However, if Vakarchuk does run and is able to pick up a strong following among the key moderate nationalist electorate that has decided the outcome of all six of Ukraine's previous presidential elections, we can foresee a scenario in which Poroshenko might withdraw from the race in order to prevent a victory of Tymoshenko or a pro-Russian candidate.

## Ukraine Receives USD 1.4bn IMF Tranche Amid New Downsized Deal

by Dmitry Churin  
d.churin@eavex.com.ua

### NEWS

The International Monetary Fund approved a new USD 3.9bn “standby” loan program for Ukraine, including an immediate USD 1.38bn disbursement, according to an official press statement from the IMF released on Dec 18. The new program replaces Ukraine’s more ambitious USD 17.5bn “Extended Fund Facility” set up in early 2015, about half of which had been disbursed, while the other half had stalled due to Kyiv’s refusal to meeting various program benchmarks. To obtain additional payouts under the replacement program, Kyiv will need to pass semi-annual reviews planned for May and November 2019. The program - Ukraine’s 10th with the IMF since 1992 - is set on continuing fiscal consolidation for the purpose of a steady decrease in the country’s public debt level.

The IMF said it expects Ukraine’s GDP to rise by 2.7% and 3.0% in 2019 and 2020 respectively. Its inflation forecast for the next year is 9.2%. The IMF also worsened the estimation of the deficit of the current account balances for 2018 to 3.3% from 3.1% of GDP. The forecast for 2019 is improved – from 3.9% to 2.9%. In 2020, a deficit of the current account balances at the level of 2.2% of GDP is expected.

### COMMENTARY

The downsizing of the IMF program as well as the USD 1.4bn disbursement, which is Kyiv’s first receipt of IMF cash since April 2017, had been widely telegraphed and anticipated throughout the autumn. Without the new support, it was unclear how the government would pay internal and external debt and finance the budget deficit. A key requirement of the new IMF deal is that Ukraine break the State Fiscal Service up into its two key component organs, the State Tax Administration and the State Customs Committee, which had existed as separate agencies prior to 2012. However, a previous key IMF requirement for continued lending to Ukraine, a liberalization of restrictions on the sale of land, appears to have been dropped after Kyiv refused to enact the measure over several years. The renewed arrangement with the IMF has already brought additional funding for Ukraine. The World Bank approved a USD 750mn guarantee to Ukraine over 10 years simultaneously with the IMF announcement. The country’s tough debt schedule for 2019 foresees a total of UAH 238bn (USD 8.1bn) in redemptions, and an additional UAH 122bn (USD 4.1bn) for debt servicing. Financial support from Western donors remains crucial for Kyiv as the cost of borrowing on international markets is currently too high for the country. The benchmark 10-year Ukraine-2028 Eurobonds trade on the secondary market at a yield of 10.9%.

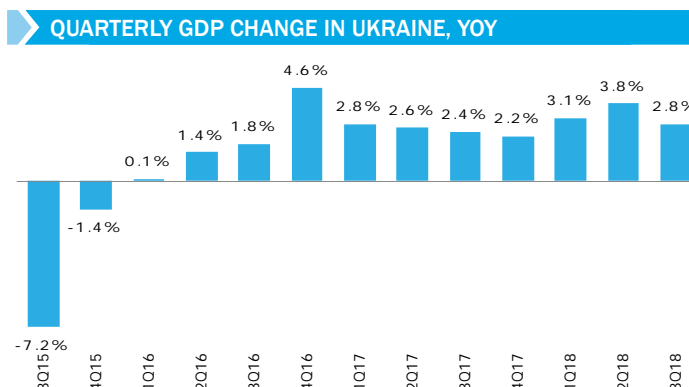
The IMF has been demanding that Ukraine create an “independent anti-corruption court” to crack down on the theft of budget money - which often includes Western aid - by government insiders. It is also calling for more heating/natural gas price hikes. The Poroshenko administration is promising that the anti-corruption court will be up and running next year, but there is no guarantee that this administration will still be in place after the spring’s presidential election.

**Ukraine's GDP Grows for 11th Straight Quarter with 2.8% YoY Rise in 3Q18**

by Dmitry Churin  
d.churin@eavex.com.ua

**NEWS**

The Ukrainian economy demonstrated its 11th straight quarter of growth with 3Q18 GDP rising by 2.8% YoY (after 3.8% growth for 2Q18), 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 0.4% on a quarterly basis in the period. The country's economy last contracted (on a year-over-year basis) in 4Q15 amid the detrimental effects of lost territory and lost industrial capacity due to the Donbass war.



Source: State Statistics Committee, Eavex Research

**COMMENTARY**

The 3Q GDP rise of 2.8% YoY is somewhat lower than expected, but nonetheless confirms that the country's economy is performing reasonably well. We continue to expect full-year 2018 growth at 3.0%, as we view the National Bank's forecast of 3.4% as too optimistic. It is unlikely that Ukraine's 4Q18 GDP figure will exceed 3.5%, as neither industrial production or retail sales showed a notable acceleration in November. The industrial production index is up by a modest 1.6% YoY year-to-date through November, and it declined by 0.9% YoY in November alone. On the other hand, national agricultural production in Ukraine remained a bright spot for the economy, with the agro output index increasing by a solid 8.2% YoY in 11M18. We now see a situation where Ukraine could become a notable beneficiary of the recent sharp drop in global oil prices, as the country pays approximately USD 1.1bn every month for fuel and energy imports. Lower oil prices should improve Ukraine's trade balance and also boost consumer sentiment. Ukraine's current account deficit amounted to USD 4.57bn in 10M18, increasing by 2.6x from the deficit of USD 1.74bn seen in the corresponding period in 2017 (when oil prices were lower). As a result, Ukraine's overall balance of payments was a deficit of USD 254mn in 10M18 after a surplus of USD 2.07bn in 10M17.

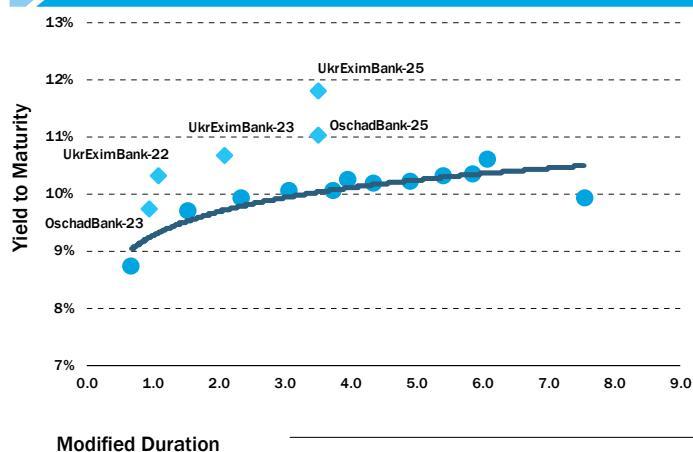
## UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	YTM ch., W/W, bps	MDuration, years	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>												
Ukraine, 2019	98.9	99.9	0.0%	9.5%	7.9%	0.1	0.6	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	96.4	97.2	-0.5%	10.1%	9.6%	37.5	1.5	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	93.9	94.9	-1.1%	10.4%	10.0%	47.3	2.3	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	91.6	92.6	-1.4%	10.6%	10.2%	47.0	3.0	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	89.6	90.6	-1.6%	10.6%	10.3%	42.9	3.7	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	88.0	89.0	-1.5%	10.6%	10.4%	34.7	4.3	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2024-2	93.3	94.3	-1.6%	10.7%	10.5%	40.8	3.9	8.99%	1 Feb 2024	750	USD	/B-/B-
Ukraine, 2025	86.5	87.5	-1.7%	10.6%	10.4%	35.5	4.8	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	84.9	85.9	-1.6%	10.7%	10.5%	29.3	5.3	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	84.3	85.3	-0.9%	10.6%	10.4%	16.4	5.8	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2028	92.9	94.0	-2.2%	10.9%	10.7%	35.9	6.0	9.75%	1 Nov 2018	1,250	USD	/B-/B-
Ukraine, 2032	79.5	80.5	-1.5%	10.2%	10.0%	19.1	7.5	7.38%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	57.6	58.6	-0.4%	n/a	n/a	n/a	na	0.00%	31 May 2040	3,214	USD	/B-/
<b>Corporate Eurobonds</b>												
Agroton, 2019	16.0	20.6	0.0%	0%	0%	0	0.1	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	95.7	96.6	-0.2%	10.4%	10.0%	7	2.5	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	102.0	103.1	-0.1%	6.6%	5.7%	3.5	1.2	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	94.8	95.3	0.0%	9.0%	8.9%	0.4	4.2	7.75%	10 May 2024	500	USD	//
MHP, 2026	85.9	86.9	-0.1%	9.7%	9.5%	1.6	5.3	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	20.3	23.0	0.4%	n/a	n/a	n/a	n/a	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	15.1	16.5	n/a	n/a	n/a	n/a	n/a	10.88%	26 Mar 2018	275	USD	/CC/
Mriya, 2016	8.0	12.0	n/a	n/a	n/a	n/a	n/a	10.95%	30 Mar 2016	72	USD	IN DEFAULT
Mriya, 2018	8.0	12.0	n/a	n/a	n/a	n/a	n/a	9.45%	19 Apr 2018	400	USD	IN DEFAULT
DTEK, 2024	96.2	97.2	0.0%	11.6%	11.4%	0.2	4.4	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	100.0	102.0	0.0%	7.4%	6.7%	-0.4	n/a	7.50%	31 Dec 2021	1,197	USD	//B
Metinvest, 2023	90.7	91.7	0.1%	10.5%	10.2%	-0.7	3.4	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	89.7	90.6	0.0%	10.6%	10.4%	1.1	5.1	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	100.2	101.3	0.2%	9.3%	5.5%	-81.2	0.3	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	100.4	101.2	-0.1%	8.9%	6.0%	0.4	0.3	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	97.4	98.5	-0.1%	11.0%	10.5%	3.2	0.9	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	28.5	33.7	0.0%	n/a	n/a	140.6	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	78.0	85.0	0.0%	39.5%	30.3%	39.3	0.9	14.00%	19 Feb 2020	16	USD	//
<b>Bank Eurobonds</b>												
PUMB, 2018	99.6	100.9	-0.6%	49.3%	-64.8%	648.2	0.0	11.00%	31 Dec 2018	252	USD	//
PrivatBank, 2018-2	20.0	30.0	0.0%	n/a	n/a	n/a	n/a	10.25%	23 Jan 2018	200	USD	IN DEFAULT
PrivatBank, 2021	9.0	10.1	-5.9%	n/a	n/a	n/a	0.8	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	18.9	23.2	-1.2%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	97.8	98.6	-0.1%	10.4%	10.1%	4.9	n/a	9.63%	27 Apr 2022	750	USD	Caa3/CCC
UkrEximBank, 2023	92.1	95.5	0.0%	12.4%	11.3%	1.9	4.0	9.00%	9 Feb 2023	125	USD	Caa3/CCC
UkrEximBank, 2025	93.6	94.6	-0.1%	11.2%	11.0%	3.4	2.5	9.75%	22 Jan 2025	500	USD	Caa3/CCC
Oschadbank, 2023	98.4	99.3	0.0%	9.8%	9.6%	-0.3	0.9	9.38%	10 Mar 2023	700	USD	Caa3/CCC
Oschadbank, 2025	94.6	95.6	-0.2%	10.8%	10.6%	4.1	2.0	9.63%	20 Mar 2025	500	USD	Caa3/CCC
<b>Municipal Eurobonds</b>												
City of Kyiv, 2022	91.2	91.8	-1.0%	10.3%	10.1%	n/a	n/a	7.50%	15 Dec 2022	115	USD	/B-/B-

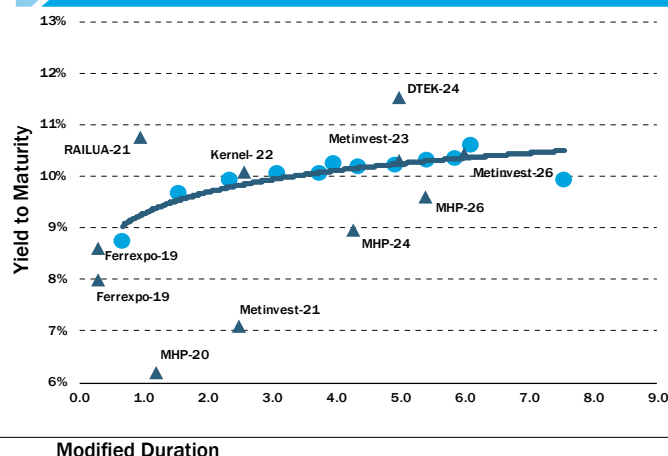
<sup>1</sup> Moody's/S&P/Fitch

Source: Bloomberg, Cbonds, 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
<b>UAH denominated Bonds</b>									
UA80426			19.75%	18.00%	n/a	n/a	S/A	10 Apr 2019	n/a
UA4000196620			20.50%	18.50%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			20.50%	18.50%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>VAT Bonds</b>									
UA4000185151			21.00%	19.25%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			21.00%	19.25%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			21.00%	19.25%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research



## Eavex Capital

7 Klovisky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: office@eavex.com.ua  
Web-page: www.eavex.com.ua

Yuriy Yakovenko  
**Chairman of the Board**  
yuriy.yakovenko@eavex.com.ua

**SALES & TRADING**  
Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
p.korovitskiy@eavex.com.ua

Alexander Klymchuk  
**Equity and Fixed Income**  
a.klymchuk@eavex.com.ua

Evgen Klymchuk  
**Fixed Income Sales and Trading**  
e.klymchuk@eavex.com.ua

Serhiy Scherbaniuk  
**Equity Trading**  
s.shcherbaniuk@eavex.com.ua

**RESEARCH**  
Dmitry Churin  
**Head of Research**  
d.churin@eavex.com.ua

Will Ritter  
**Research editor**  
w.ritter@eavex.com.ua

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