

Trends

Ukraine's sovereign Eurobonds declined last week amid a global trend of rising yields, as the latest US jobs report indicated that an uptick in inflation may not be far off. A falling dollar last month has also helped drive yields higher. The yield on the benchmark 10-year Treasury note surged to 2.8%, its highest since April 2014. US Treasuries weren't the only sovereigns making headlines, as the German 5-year note broke above zero yield for the first time since December 2015.

In Ukraine related events, the IMF said that the adoption of the bill on anti-corruption courts and bringing natural gas prices to the market level were the key conditions for the completion of the fourth review of the USD 17.5bn loan program for the country. The goal for the introduction of market prices on the gas market is to avoid artificial segmenting of the market separately for households and for industry. The IMF's statement notably left out the creation of a commercial land market in Ukraine, which was previously viewed as a must for any new disbursements.

The longest outstanding sovereigns, Ukraine-32s, dropped by 2.0% to close at 99.3/100.0 (7.5%/7.4%), and medium-term Ukraine-23s declined by 0.6% to 107.5/108.3 (6.1%/6.0%). The more volatile VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) lost 2.9% to close at 66.0/67.0 cents on the dollar, inching back from their high-water mark.

Corporate issues remained more or less unchanged, as it is not unusual for them to see a time lag before following broader fixed income trends. Kernel-22s were flat at 110.0/110.5 (5.8%/5.6%) while DTEK-24s decreased by 0.4% to 107.3/108.0 (9.5%/9.3%).

In banking names, OschadBank-25s edged up by 0.5% to 111.2/111.5 (7.6%/7.5%) and UkrEximBank-22s inched up by 0.2% to close at 108.8/109.2 (7.1%/7.0%).

The yield on the government's 2-year UAH-denominated bonds remained at the previous week's level of 17.15%/15.80%. Meanwhile, MinFin sold 3-year UAH-denominated bonds at 15.70% last week.

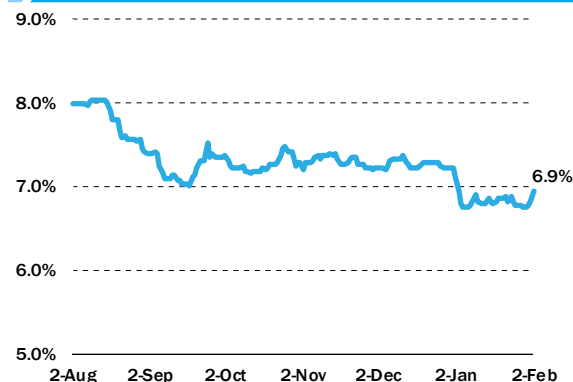
The hryvnia was surprisingly firm last week, regaining 2.5% against the dollar to close at 27.70 UAH/USD as fears of a near-term sharp hryvnia devaluation without a loan tranche from the IMF faded away for the moment. However, the lack of IMF cooperation is likely to remain in focus in the months ahead.

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

Highlights

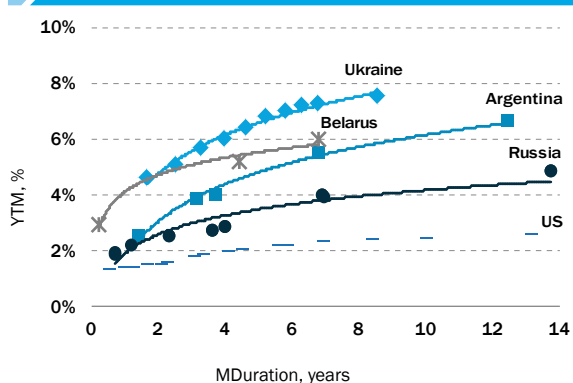
- > Top Russian Spies Make Unannounced Visit to Washington
- > NBU: BoP Surplus Doubled to USD 2.6bn in 2017
- > Ukraine's Public Debt Rises 8% YoY to USD 76bn (80% of GDP) in 2017

UKRAINE 10-YEAR BOND YIELD



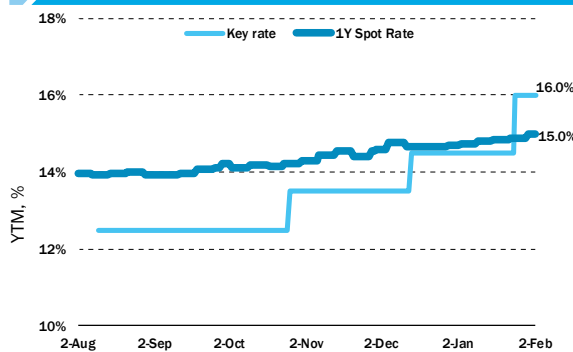
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



Source: Bloomberg, Eavex Capital

CURRENCY

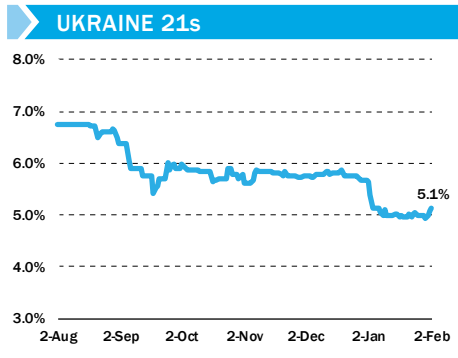
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	27.85	-2.4%	-0.1%	-0.9%
EUR/UAH	34.71	-2.0%	3.6%	3.1%
EUR/USD	1.25	0.3%	3.7%	3.8%

Source: Bloomberg, Eavex Capital

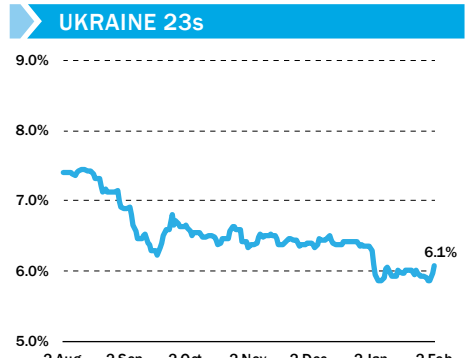
Selected Sovereign Issues



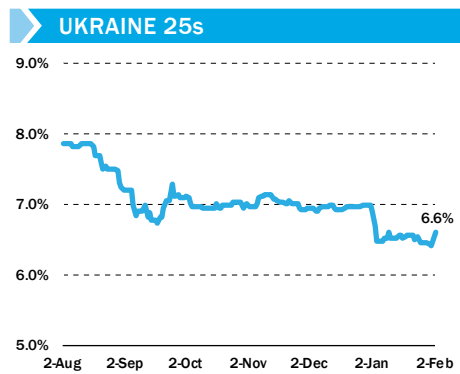
Source: Bloomberg, Eavex Research



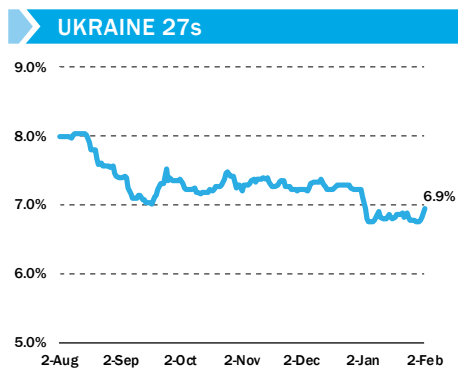
Source: Bloomberg, Eavex Research



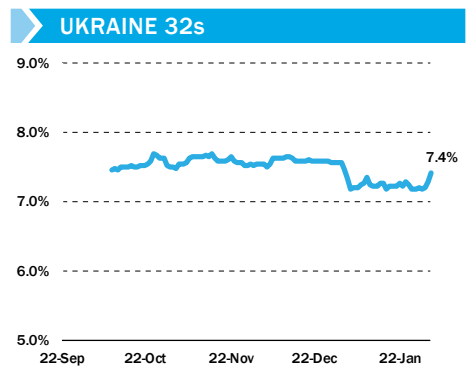
Source: Bloomberg, Eavex Research



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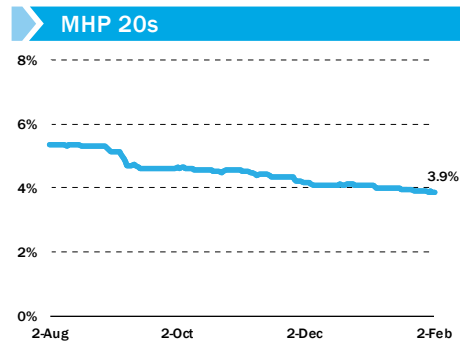


Source: Bloomberg, Eavex Research

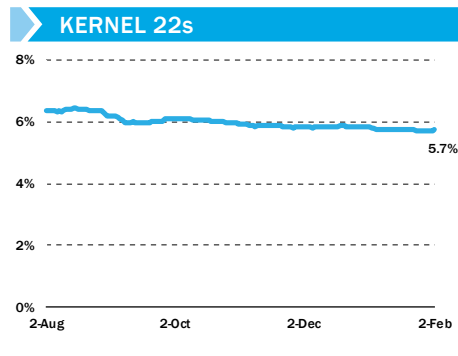


Source: Bloomberg, Eavex Research

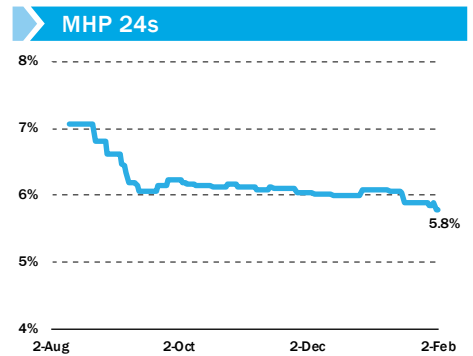
Selected Corporate Issues



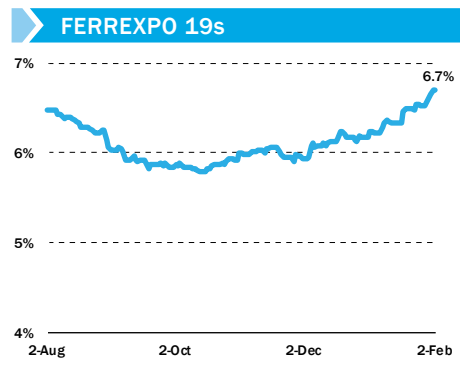
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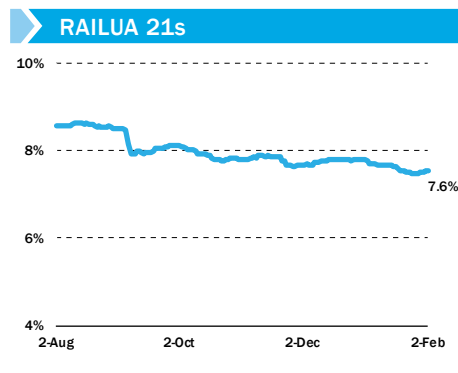
Source: Bloomberg, Eavex Research



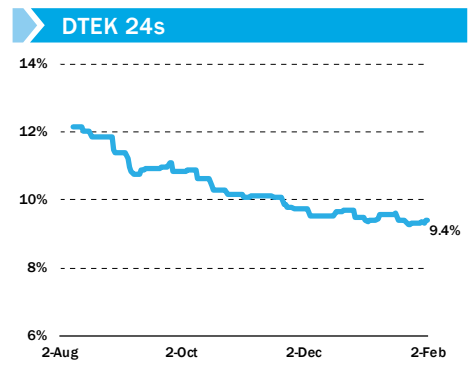
Source: Bloomberg, Eavex Research



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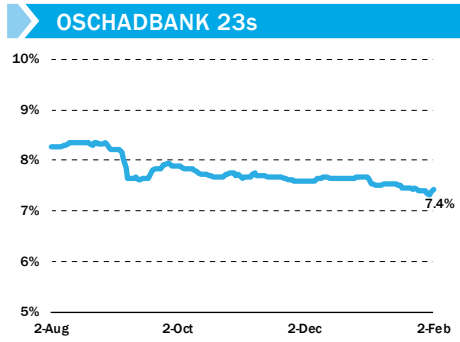


Source: Bloomberg, Eavex Research

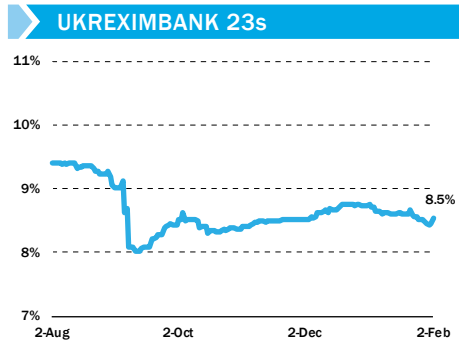


Source: Bloomberg, Eavex Research

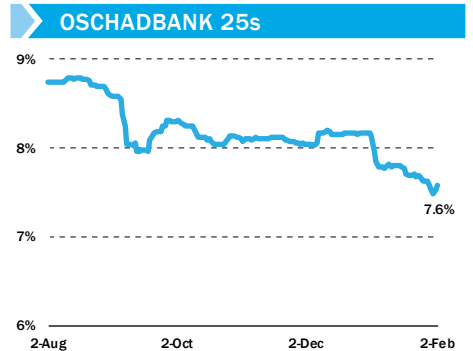
Selected Banking Issues



Source: Bloomberg, Eavex Research

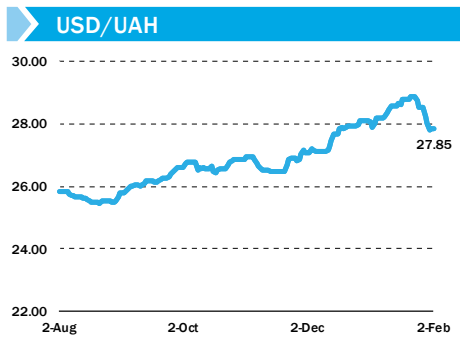


Source: Bloomberg, Eavex Research

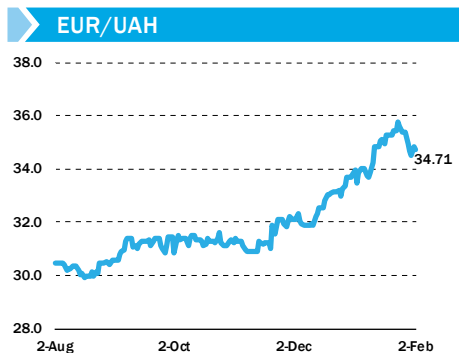


Source: Bloomberg, Eavex Research

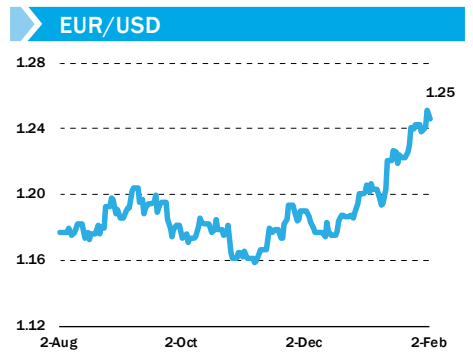
Currency



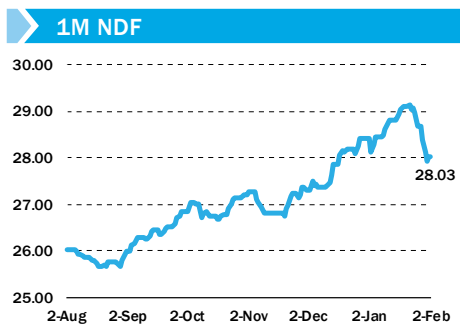
Source: Bloomberg, Eavex Research



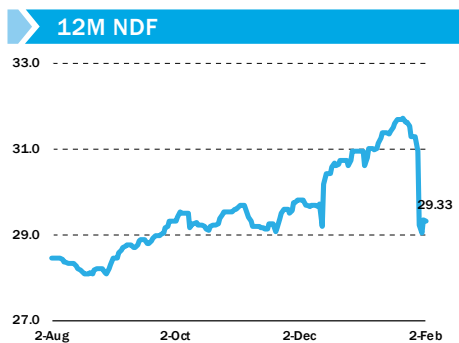
Source: Bloomberg, Eavex Research



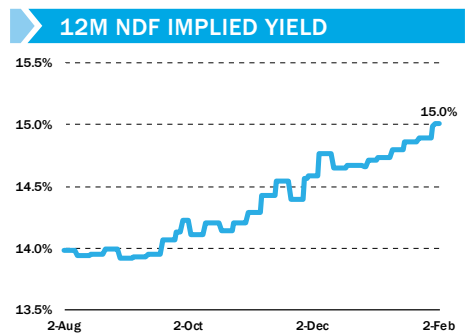
Source: Bloomberg, Eavex Research



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Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Top Russian Spies Make Unannounced Visit to Washington

by Will Ritter
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NEWS

Top Russian security and espionage officials visited the Central Intelligence Agency in Washington for talks with CIA Director Michael Pompeo in late January, US media reported last week. The visitors included Alexander Bortnikov, the chief of Russia's Federal Security Service, and Igor Korobov, who heads the GRU Russian military intelligence agency. Also on the visit was former State Duma (Parliament) Speaker Sergey Naryshkin. Korobov and Naryshkin are subject to personal US financial sanctions for their role in Russian military aggression against Ukraine. The meeting was unannounced by the US administration, and it only became public after it was reported in the Russian press and picked up by Reuters. Pompeo refused to answer a congressional leader's inquiry about whether US economic sanctions against Russia were discussed at the meeting, the Washington-based news site Politico reported, and he gave no details about the subject of the talks.

COMMENTARY

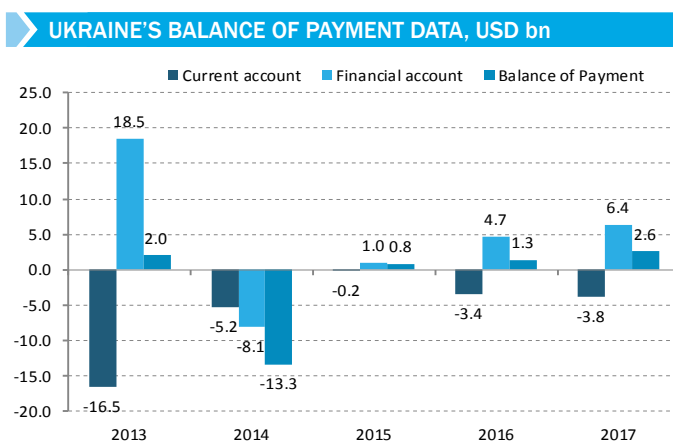
Shortly after the Russian spy chiefs' talks with Pompeo, the Trump administration declined to implement a congressional law passed in August mandating additional personal sanctions on an updated list of elite Russians determined to be close to the Putin regime (the administration did produce the list). We see the Russian interactions with Pompeo as particularly significant, as the CIA director does not belong to the faction of Russia hawks in the Trump administration, and he is reported to be much closer to Trump personally than either Defense Secretary James Mattis or National Security Council head H.R. McMaster. In our view, it would be dangerously naive to assume that Trump will not make any back door agreements with Moscow that are detrimental to Ukrainian interests simply because Mattis and McMaster are in the Cabinet; and it would surprise us greatly if the topic of Ukraine was not discussed at this high-level and rather secret US-Russia meeting.

NBU: BoP Surplus Doubled to USD 2.6bn in 2017

by Dmitry Churin
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NEWS

Ukraine is reporting a balance of payments (BoP) surplus of USD 2.6bn for full-year 2017, nearly double the figure of USD 1.3bn for 2016. Prior years' data was a surplus of USD 800mn for 2015 and 2014's large deficit of USD 13.3bn, according to information from the National Bank (NBU) released on Jan 31. The country had a current account (C/A) deficit of USD 3.84bn (compared to a deficit of USD 3.45bn for FY16) in the period. Ukraine's financial and capital account surplus was USD 6.4bn in FY17 (after surplus of USD 4.7bn in FY16). The NBU reported a drop in foreign direct investments (FDI) into Ukraine by 29% YoY to USD 2.3bn in 2017 as a result of weaker inflows related to banking sector recapitalizaion.



Source: National Bank of Ukraine

COMMENTARY

The country's balance of payments bottom line improved largely thanks to the placement of USD 3.0bn Eurobonds in September. Another positive factor for the financial account (F/A) was the ongoing inflow of foreign currency cash back into the banking system. This item brought USD 1.7bn to the F/A surplus, the NBU said. On the downside, Ukraine's FDI last year was disappointing, as the FDI-to-GDP ratio is estimated at just 2.4% compared to the government's target of at least of 4%. Back in the economic boom years of 2003-2007, Ukraine had an average FDI/GDP ratio of 5.2%, but in 2010-2016 the average ratio fell to 2.7%, so 2017 represented a continuation of that trend.

Ukraine's reported C/A (trade) deficit of USD 3.8bn (equivalent to 4.0% of GDP) was much worse than our overly optimistic forecast of a deficit equivalent to 1.5% of GDP. The higher C/A deficit was a result of a faster increase in imports (+21% YoY) compared to increase in exports (+19% YoY).

For 2018, we forecast that Ukraine's C/A deficit will amount to USD 2.8bn (2.4% of GDP), decreasing from last year's level due to higher global prices for iron ore and steel, which account for one third of overall exports from the country. Nevertheless, Ukraine will continue to experience pressure on its balance of payments unless more loan assistance arrives from the IMF or unless the country is able to place more than USD 2.0bn in new Eurobonds this year.

Ukraine's Public Debt Rises 8% YoY to USD 76bn (80% of GDP) in 2017

by Dmitry Churin
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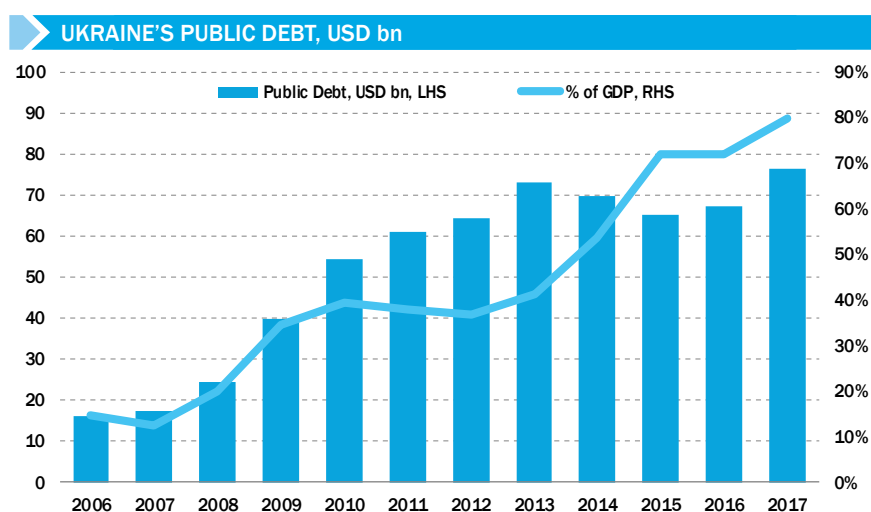
NEWS

Ukraine's state and guaranteed debt increased by 7.5% YoY to USD 76.3bn over full-year 2017, according to data from the Finance Ministry released on Thursday (Feb 1). The country's public debt falls into three main categories:

- domestic debt of an equivalent of USD 26.8bn;
- outstanding Eurobonds with maturity over 2019-2032 in the amount of USD 20.5bn;
- IMF loans of USD 14.0bn.

These categories represent around 80% of the public debt.

In a currency breakdown, domestic UAH-denominated debt represented an equivalent of USD 22.9bn as of end-2017, or 30% of total debt. The other 70% is mostly denominated in USD.



Source: Finance Ministry of Ukraine

COMMENTARY

We estimate that the end-2017 level of public debt amounts to 80% of Ukraine's GDP, compared to 76% of GDP for end-2016 and 72% of GDP for end-2015. The main factor behind the growth in public debt was an increase in outstanding UAH-denominated sovereign bonds. The Finance Ministry placed new UAH bonds not only for financing debt repayments and the national budget, but also for capital injections into state-owned banks.

In 2018, Ukraine is on the hook to pay some USD 3.6bn for redemption and servicing of external debt, suggesting that the Finance Ministry will be busy searching for sources of refinancing. Meanwhile, it is likely that the domestic debt with maturity in 2018 will be smoothly refinanced by issuance of new UAH-denominated sovereign bonds. As we reported earlier, Ukraine had USD 18.8bn in foreign currency reserves as of start of this year.

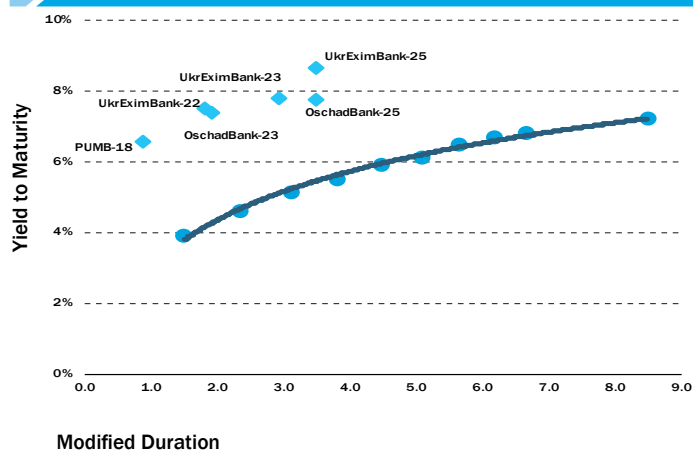
UKRAINIAN EURO BONDS

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 ¹
Sovereign Eurobonds												
Ukraine, 2019	105.5	106.0	-0.1%	4.1%	3.8%	3.6	1.5	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	107.3	107.7	-0.1%	4.7%	4.6%	1.7	2.3	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	108.7	109.2	-0.1%	5.1%	4.9%	2.3	3.1	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	108.8	109.3	0.1%	5.5%	5.4%	-3.7	3.8	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	108.2	108.9	0.3%	6.0%	5.9%	-6.9	4.4	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	107.9	108.6	0.3%	6.3%	6.1%	-5.9	5.0	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	107.3	108.0	0.5%	6.5%	6.4%	-9.3	5.6	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	106.4	107.1	0.3%	6.8%	6.6%	-4.8	6.1	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	106.4	107.2	0.4%	6.8%	6.7%	-6.1	6.6	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	101.3	102.1	0.3%	7.2%	7.1%	-3.5	8.5	7.375%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	68.0	69.0	2.2%	n/a	n/a	n/a	na	n/a	31 May 2040	3,214	USD	/B-/
Corporate Eurobonds												
Agroton, 2019	16.6	21.4	-6.2%	0%	0%	0	0.7	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	110.3	111.0	0.0%	5.8%	5.6%	-3	3.4	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	108.6	109.3	0.0%	4.1%	3.8%	-5.0	2.0	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	109.3	110.0	0.0%	6.0%	5.8%	-0.5	4.9	7.75%	10 May 2024	500	USD	//
Avangardco, 2018	18.3	22.7	-5.3%	0%	0%	0	0.2	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.8	21.3	-1.5%	0%	0%	0	0.0	10.88%	26 Mar 2018	275	USD	/CC/
Mriya, 2016	6.0	8.0	n/a	n/a	n/a	n/a	n/a	10.95%	30 Mar 2016	72	USD	IN DEFAULT
Mriya, 2018	6.0	8.0	n/a	n/a	n/a	n/a	n/a	9.45%	19 Apr 2018	400	USD	IN DEFAULT
DTEK, 2024	107.8	108.5	0.7%	9.1%	9.0%	-15.2	4.7	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	102.9	103.6	-0.8%					9.37%	31 Dec 2021	1,197	USD	//
Ferrexpo, 2019	103.9	104.6	-0.2%	6.9%	6.3%	13.6	0.7	10.375%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	103.9	104.7	-0.1%	6.9%	6.2%	4.3	0.7	10.375%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	107.0	108.0	0.2%	7.6%	7.3%	-6.7	1.7	9.50%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	27.3	30.7	0.0%	n/a	n/a	n/a	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2018								8.00%	19 Feb 2018	16	USD	//
Bank Eurobonds												
Fin&Credit Bank, 2019	0.7	1.5	n/a	n/a	n/a	n/a	n/a	9.25%	25 Jan 2019	100	USD	IN DEFAULT
PUMB, 2018	103.4	105.2	0.1%	7.1%	5.2%	-24.9	0.8	11.00%	31 Dec 2018	252	USD	//
Nadra Bank, 2018	0.8	1.4	-0.1%	n/a	n/a	n/a	0.0	6.25%	31 Jun 2018	60	USD	IN DEFAULT
PrivatBank, 2018-2	35.0	38.0	12.3%	n/a	n/a	n/a	n/a	10.25%	23 Jan 2018	200	USD	IN DEFAULT
PrivatBank, 2021	13.3	15.8	-2.2%	n/a	n/a	n/a	1.3	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018				n/a	n/a	n/a	0.0	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	108.6	109.2	0.2%	7.2%	7.1%	-6.3	n/a	9.625%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	100.9	102.7	0.5%	8.7%	8.3%	-9.4	4.0	7.51%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	110.8	111.6	0.3%	7.7%	7.6%	-7.0	3.4	9.75%	22 Jan 2025	500	USD	Caa3//CCC
VAB Bank, 2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.00%	14 Jun 2019	88	USD	IN DEFAULT
Oschadbank, 2023	107.9	108.7	0.2%	7.5%	7.3%	-4.7	1.8	8.25%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	110.4	111.3	0.3%	7.7%	7.6%	-6.9	2.9	8.88%	20 Mar 2025	500	USD	Caa3//CCC
Municipal Eurobonds												
City of Kyiv, 2015	82.9	87.0	0.1%	n/a	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

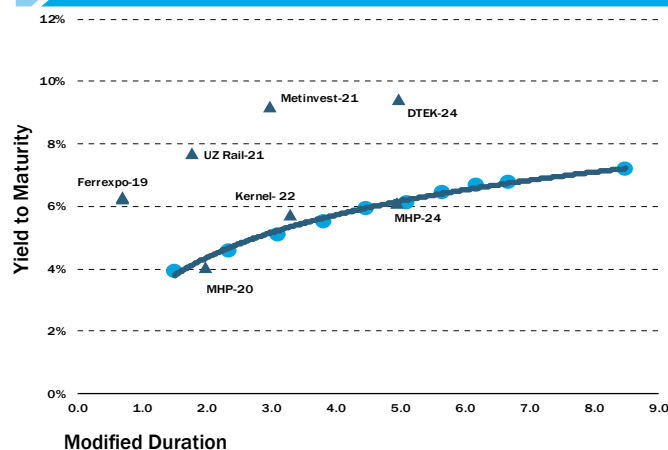
¹ Moody's/S&P/Fitch

Source: Bloomberg, Cbonds, Eavex Research

SOVEREIGNS vs. BANKING EURO BONDS



SOVEREIGNS vs. CORPORATE and MUNICIPAL EURO BONDS



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									
UA80426			16.70%	15.75%	n/a	n/a	S/A	10 Apr .2019	n/a
VAT Bonds									
UA4000185151			17.15%	15.75%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			17.15%	15.75%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			17.15%	15.75%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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