

**Trends**

Ukrainian sovereign Eurobonds started off 2018 with modest gains, as investors seem to assume that stronger growth in the US will boost economic activity elsewhere. However, after a year of double-digit EM returns, one of the key questions for emerging markets in 2018 is whether crises in individual countries can be prevented from contaminating other EM sovereigns. Ukraine faces two primary threats: Russian military activity and the risk that it might not be able to attract enough external financing to cover the current account deficit without suffering a currency devaluation. Unfortunately, hopes that a new loan installment from the IMF could arrive in 2Q18 are continuing to go downhill.

The longest outstanding Ukraine-2032 sovereigns gained 1.1% to 99.0/99.5 (7.5%/7.4%), and medium-term 2023 sovereigns edged up 0.2% to 106.4/107.4 (6.4%/6.2%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) added 2.3% to close at 56.0/56.5 cents on the dollar.

Among corporate issues, DTEK-24s were little changed at 106.8/107.5 (9.5%/9.4%), ignoring expectations of an electricity tariff increase and higher electricity exports in 2018. The Energy Ministry is forecasting that Ukrainian generators will increase overall electricity exports by 15-20% YoY to 5.9 TWh this year. According to the forecast, deliveries from the country's energy system to the Hungary-Slovakia-Romania triad are estimated at 3.6 TWh, to Poland at 1.2 TWh, and to Moldova at 1.1 TWh. MHP-24s declined by 0.4% to 108.3/109.1 (6.1%/6.0%) and Kernel-22s slipped 0.1% to 110.0/110.8 (6.0%/5.7%).

In banking names, OschadBank-25s ended at 107.6/108.2 (8.2%/8.0%).

The yield on the government's 2-year UAH-denominated bonds was little-changed at bid/ask of 16.50%/15.30%. Domestic 1-year USD-denominated bonds traded with an impressively low yield of 4.8%.

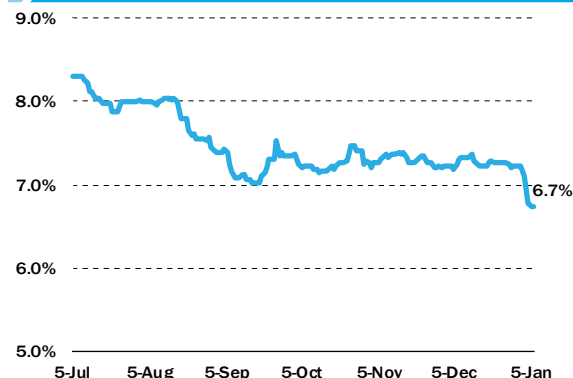
The hryvnia continued to be somewhat soft against the dollar, slipping 0.3% to close at 28.20 UAH/USD.

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

**Highlights**

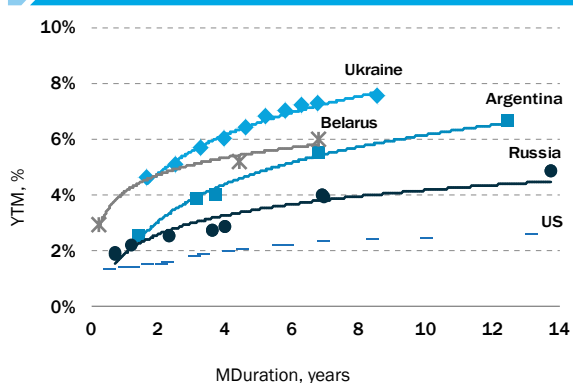
- > Vakarchuk a Question Mark in Ukraine Politics Heading Into Election Season
- > Manafort Sues US Justice Dep't Over Ukraine Accusations
- > Ukraine's NatGas Extraction Output Up 4% YoY to 21bn cu-m in 2017

**UKRAINE 10-YEAR BOND YIELD**



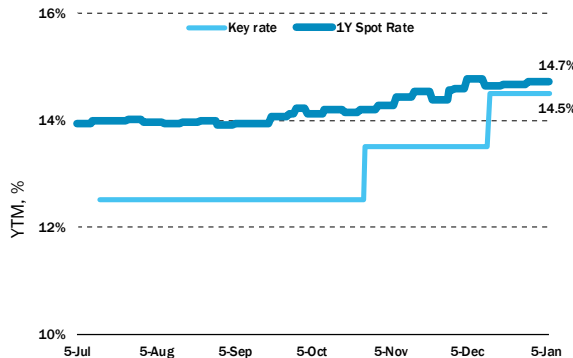
Source: Bloomberg, Eavex Capital

**SOVEREIGN BOND YIELD CURVES**



Source: Bloomberg, Eavex Capital

**KEY INTEREST RATE vs SPOT RATE**



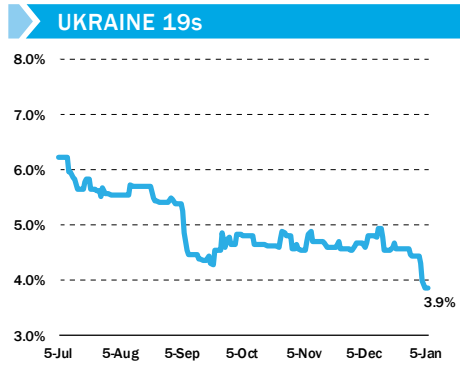
Source: Bloomberg, Eavex Capital

**CURRENCY**

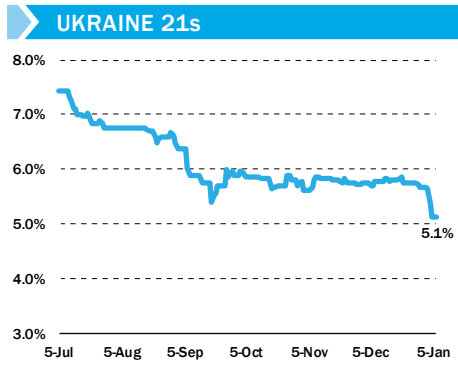
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	28.20	0.3%	4.0%	0.3%
EUR/UAH	34.02	1.0%	6.6%	1.0%
EUR/USD	1.20	0.2%	2.2%	0.2%

Source: Bloomberg, Eavex Capital

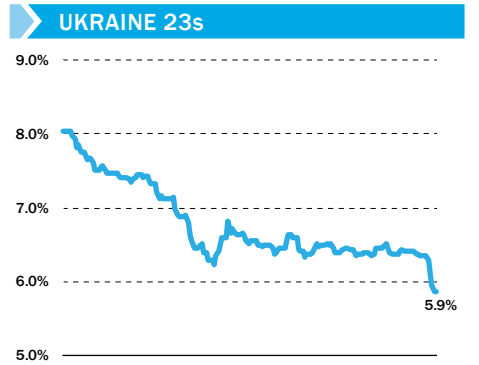
Selected Sovereign Issues



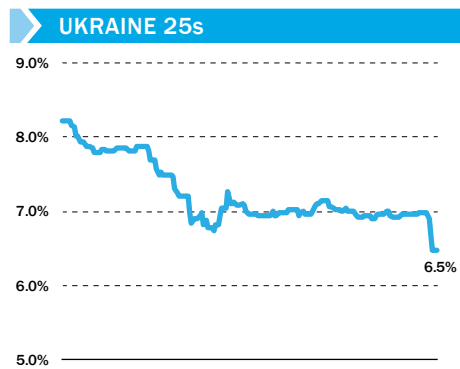
Source: Bloomberg, Eavex Research



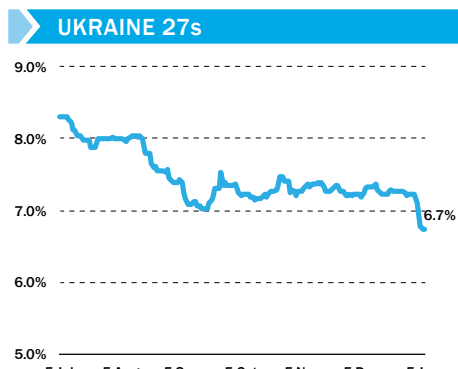
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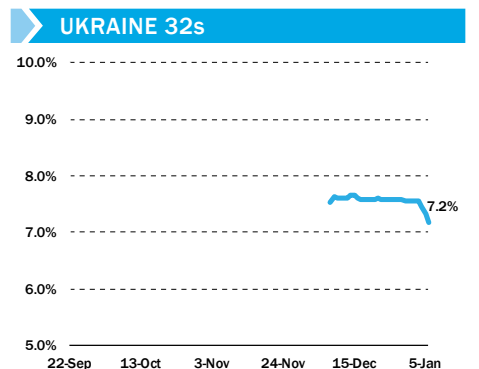
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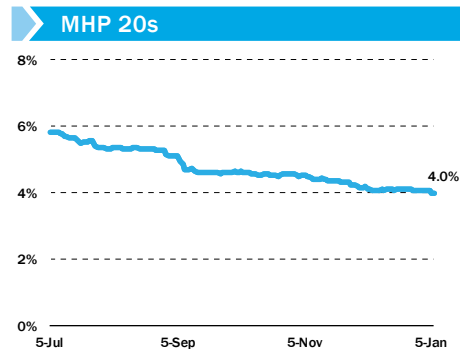


Source: Bloomberg, Eavex Research

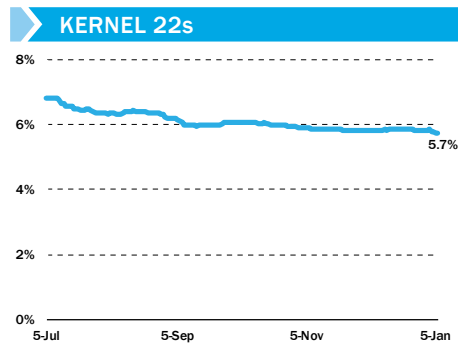


Source: Bloomberg, Eavex Research

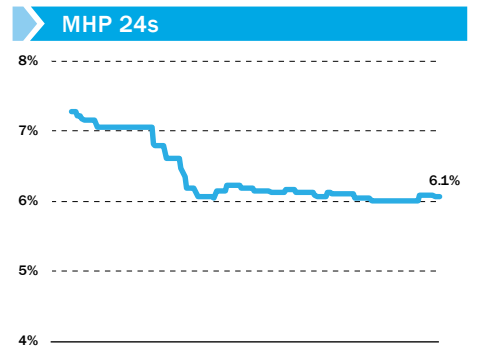
Selected Corporate Issues



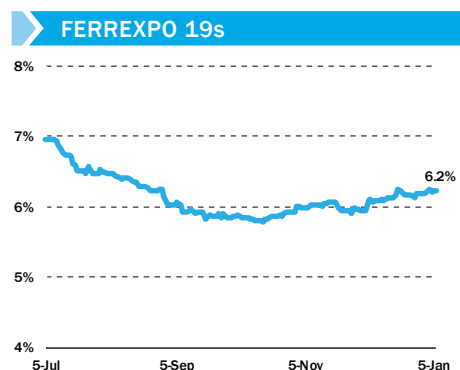
Source: Bloomberg, Eavex Research



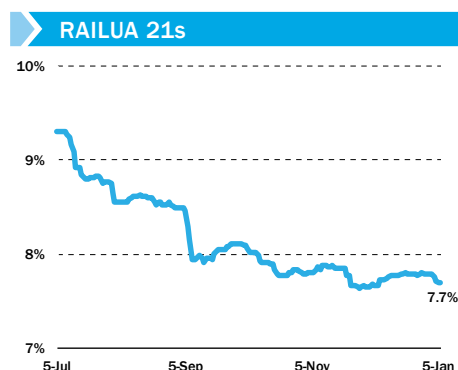
Source: Bloomberg, Eavex Research



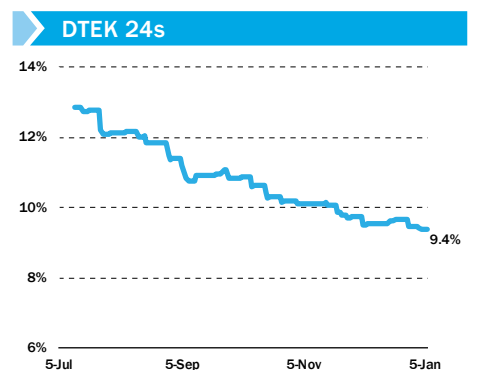
Source: Bloomberg, Eavex Research



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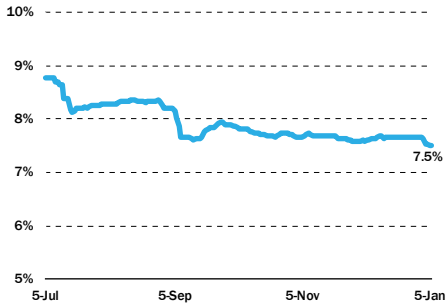
Source: Bloomberg, Eavex Research



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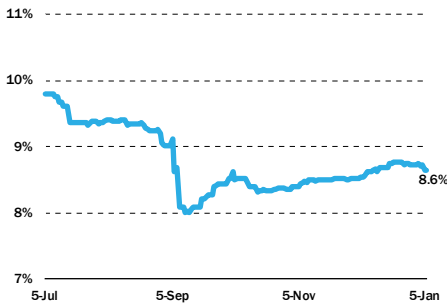
Selected Banking Issues

OSCHADBANK 23s



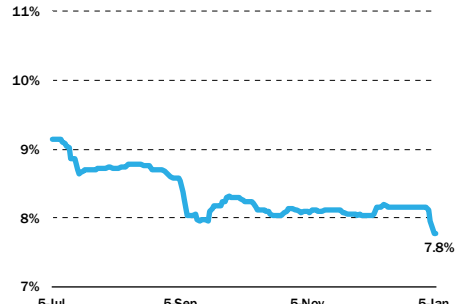
Source: Bloomberg, Eavex Research

UKREXIMBANK 23s



Source: Bloomberg, Eavex Research

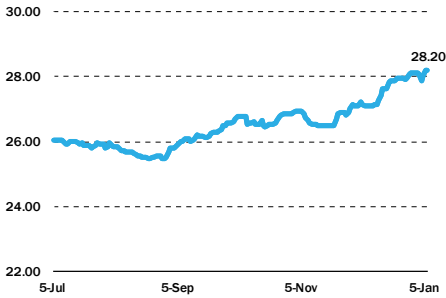
OSCHADBANK 25s



Source: Bloomberg, Eavex Research

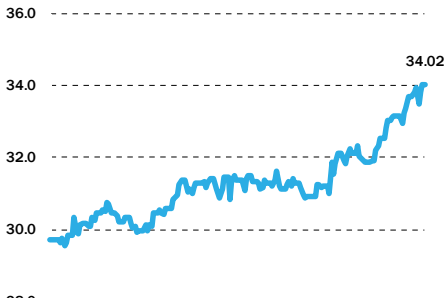
Currency

USD/UAH



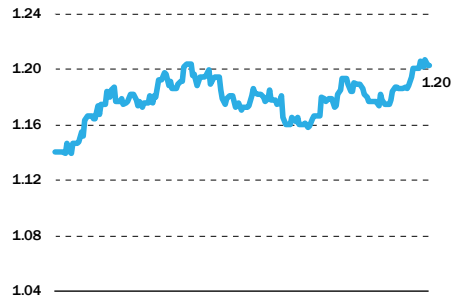
Source: Bloomberg, Eavex Research

EUR/UAH



Source: Bloomberg, Eavex Research

EUR/USD



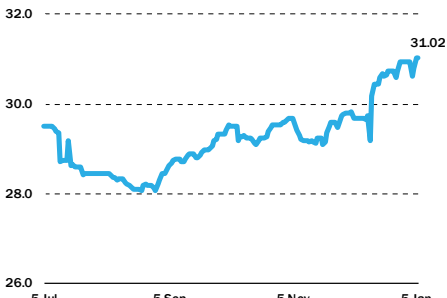
Source: Bloomberg, Eavex Research

1M NDF



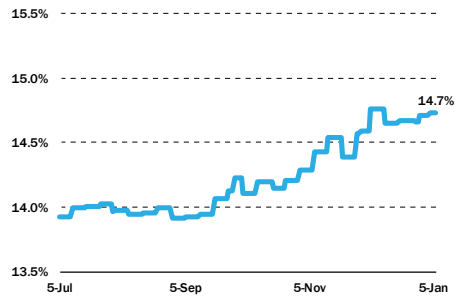
Source: Bloomberg, Eavex Research

12M NDF



Source: Bloomberg, Eavex Research

12M NDF IMPLIED YIELD



Source: Bloomberg, Eavex Research

## Vakarchuk a Question Mark in Ukraine Politics Heading Into Election Season

by Will Ritter  
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### NEWS

Popular music star Sviatoslav Vakarchuk is being increasingly cited as a potential candidate in Ukraine's next presidential election, which is due in the first half of 2019. In his most recent public remarks on the matter in December, Vakarchuk, 42, who is by far the country's leading pop-culture celebrity, neither confirmed nor denied an intention to run for the presidency. Vakarchuk previously served as an MP in 2006 from the Our Ukraine party of then-President Yuschenko, although he resigned his mandate without completing his term.

### COMMENTARY

There is currently some ambiguity about the exact date for the presidential election, which according to the Constitution should be held in mid-June of 2019, i.e. on the first Sunday falling five years after the inauguration of President Poroshenko. However, it is possible that the date could be moved up to the first Sunday in March 2019 to correspond to the date when former Acting President Olexander Turchinov was sworn in following the abdication of Victor Yanukovich in late February 2014. We expect Parliament to confirm the election date within a few months. If Vakarchuk decides to run, it will be in line with a growing trend of celebrity candidates (as opposed to experienced career politicians) seeking high office in Western countries. Should he run, Vakarchuk is likely to compete for the same moderate nationalist voter pool as President Poroshenko. Although Vakarchuk enjoys a positive public image in Ukraine as a serious artist and thinker, it remains to be seen whether he has the toughness to prevail in a drawn-out political contest. Another likely candidate for 2019 is left-wing populist and political veteran Yulia Tymoshenko, who despite a long history of being distrusted by a majority of Ukrainians, enjoys a solid core of support in the high single digits that has kept her in the game. Tymoshenko could make a play for the backing of US

President Trump, who might be inclined to view her ostentatious populist brand in a positive light. Civil Position party leader Anatolii Grytsenko, another veteran of the stage who dates back to the Yuschenko administration (in which he served as Defense Minister), saw his profile rebound considerably in 2017. We see Grytsenko as a conservative nationalist who is unlikely to win, but he could have a significant influence on the race. We are skeptical about the presidential prospects of Kyiv mayor Vitaliy Klitschko and Lviv mayor Andriy Sadoviy, both of whom carry heavy political baggage despite having a national profile. We also do not expect former prime minister Arseniy Yatseniuk to run; we believe that he will eventually align himself strategically with either Poroshenko or Vakarchuk. Finally, there will doubtless be a candidate oriented toward the Russia-friendly electorate of southeastern Ukraine. With Crimea and the major Donbass cities no longer voting in Ukrainian elections, this candidate will have no chance at victory, but he/she is likely to impact the race given that the remaining southeastern provinces still contain about 30% of Ukraine's total population.

## Manafort Sues US Justice Dep't Over Ukraine Accusations

by Will Ritter  
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### NEWS

Former Ukraine political consultant Paul Manafort filed a lawsuit last week against the US Justice Department alleging that the department exceeded its authority when it empowered Special Prosecutor Robert Mueller to investigate activities in Ukraine that led to Manafort's indictment in October on charges of money laundering and conspiracy against the United States for his 2006-2013 work for ex-President Victor Yanukovich. The Justice Department called Manafort's suit "frivolous". Mueller was appointed last May to investigate possible collusion and coordination of the presidential campaign of Donald Trump, which Manafort headed, with the Russian government. However, the appointment also allowed Mueller to look into any other criminal activity arising during the investigation. Manafort's suit claims that the latter stipulation amounts to constitutional overreach by the Justice Department.

### COMMENTARY

The ongoing legal situation with Manafort is significant for Ukraine because Manafort's role in Ukrainian politics continues to be flagrantly misrepresented in the US media. Manafort has been repeatedly painted as a pro-Russian operative, when the fact is that his multi-year strategic efforts to build up Kyiv's relations with the West and convince Yanukovich to sign the Ukraine-EU Association Agreement were the complete opposite of pro-Russian activity. Although the Justice Department is probably on firm legal ground, and Manafort may well be guilty of tax evasion on his millions of dollars in repatriated Ukraine earnings, we find the "pro-Russian" public relations aspect of the case against Manafort puzzling, and we do not believe it will hold up in court. Thus far, Manafort's apparent refusal to cooperate with the Special Counsel could be interpreted as loyalty to Trump, but it also could be that Manafort simply lacks any information that might be valuable in proving Trump's collusion with the Kremlin or regarding Trump's alleged Russian money laundering activities that occurred in earlier years prior to Manafort joining the Trump circle. In our view, any attempt by Ukraine to file its own charges against Manafort - with the exception of tax evasion - would be interpreted as politically motivated. Given that Manafort only joined Trump's circle in March 2016, it seems unlikely that Manafort would have knowledge of any Russia-related money laundering schemes which Trump might have been involved in.

## Ukraine's NatGas Extraction Output Up 4% YoY to 21bn cu-m in 2017

by Dmitry Churin  
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### NEWS

Ukrainian natural gas extractors increased their total output by 4.2% YoY to 20.8bn cubic meters (cu-m) in full-year 2017, according to a statement released by state-owned pipeline operator UkrTransGaz on Jan 3. State extraction company UkrGazVydobuvannya, which like UkrTransGaz is a subsidiary of Ukraine's state energy giant Naftogaz, raised its output by 4.4% YoY to 15.2bn cu-m. Kyiv-listed UkrNafta (UNAF), which is half-owned by Naftogaz but controlled by industrialist Igor Kolomoyskiy, decreased its output by 15.1% YoY to 1.10bn cu-m in 2017. Other small and medium-sized gas extractors increased their combined output by 9.6% YoY to 4.5bn cu-m.

Overall natural gas consumption in Ukraine, excluding the in-house needs of UkrTransGaz, declined by 6.3% YoY to 28.4bn cu-m in FY17. For comparison, this represents an impressive 28% cut from 2014, when gas consumption was 39.7bn cu-m.

UkrTransGaz reported that it used 2.2bn cu-m of gas for pipeline technical needs in 2017, up from 1.7bn cu-m in 2016. Ukraine's gas imports rose 26.8% YoY to 14.1bn cu-m in 2017, with the country's stockpiles in storage amounting to around 15bn cu-m of gas as of year-end.

### COMMENTARY

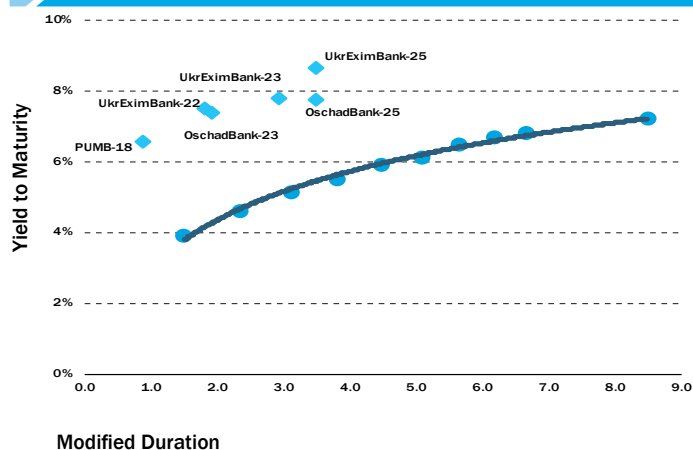
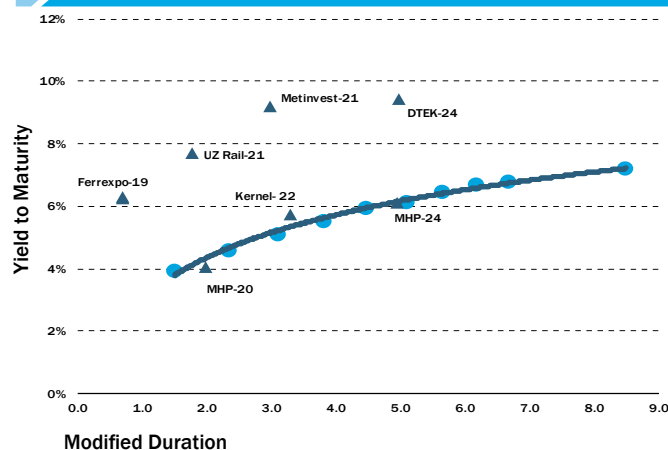
UkrTransGaz also reported that Russian gas transiting through Ukraine increased by 13% YoY to 93bn cu-m in 2017. However, we suppose that this transit figure includes around 11bn cu-m of volumes of Russian gas that Ukraine bought de-jure from European traders. This leaves transit volumes substantially below the signed minimum of 110bn cu-m that Russia promised in the 2009 bilateral gas contract, with the missing volume flowing through the North Stream gas pipeline, which opened in 2012. Ukraine's gas inventory is currently at a firm level thanks to another year of warmer-than-average weather throughout both November and December, and the trend has continued into January; weather-related gas savings could total as much as 6bn cu-m if there is no major consumption spike later in the winter, we estimate. Although Ukraine is not in range of achieving energy self-sufficiency in the foreseeable future, the current ratio of domestic gas extraction to imports is much more reasonable than at any time in the country's previous history. We expect moderate gas extraction increases to continue in 2018-2023, as the government has reduced the production tax on new gas wells from 29% to 12% for wells less than 5,000 meters deep, and from 14% to 6% for wells deeper than 5,000 meters.

**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 <sup>1</sup>
<b>Sovereign Eurobonds</b>												
Ukraine, 2019	105.3	105.6	0.4%	4.4%	4.2%	-25.9	1.5	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	106.2	106.6	0.2%	5.2%	5.1%	-11.6	2.3	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	106.6	107.1	0.4%	5.7%	5.6%	-11.8	3.1	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	106.6	107.1	0.6%	6.1%	6.0%	-15.5	3.8	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	106.4	107.4	0.2%	6.4%	6.2%	-5.4	4.5	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	105.5	106.1	0.2%	6.7%	6.6%	-4.7	5.1	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	104.6	105.2	0.4%	7.0%	6.9%	-6.4	5.6	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	103.9	104.4	0.7%	7.1%	7.1%	-11.6	6.2	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	103.8	104.3	0.5%	7.2%	7.1%	-7.2	6.7	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	99.0	99.5	1.1%	7.5%	7.4%	-12.9	8.5	7.375%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	56.0	56.5	2.3%	n/a	n/a	n/a	na	n/a	31 May 2040	3,214	USD	/B-/
<b>Corporate Eurobonds</b>												
Agroton, 2019	16.3	20.8	11.7%	0%	0%	0	0.7	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	110.0	110.8	-0.1%	6.0%	5.7%	1	3.3	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	108.5	109.2	0.0%	4.2%	3.9%	-1.4	2.0	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	108.3	109.1	-0.4%	6.1%	6.0%	7.6	5.0	7.75%	10 May 2024	500	USD	//
Avangardco, 2018	22.1	26.2	0.4%	0%	0%	0	0.3	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.0	21.9	0.3%	0%	0%	0	0.0	10.88%	26 Mar 2018	275	USD	/CC/
Mriya, 2016	5.5	7.5	n/a	n/a	n/a	n/a	n/a	10.95%	30 Mar 2016	72	USD	IN DEFAULT
Mriya, 2018	5.5	7.5	n/a	n/a	n/a	n/a	n/a	9.45%	19 Apr 2018	400	USD	IN DEFAULT
DTEK, 2024	106.8	107.5	0.1%	9.5%	9.4%	-25.9	5.2	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	104.8	105.5	0.0%					9.37%	31 Dec 2021	1,197	USD	//
Ferrexpo, 2019	104.5	105.2	-0.2%	6.6%	6.0%	12.5	0.7	10.375%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	104.5	105.4	-0.2%	6.6%	5.9%	8.8	0.7	10.375%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	106.1	107.1	-0.1%	7.9%	7.6%	2.2	1.8	9.50%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	25.9	30.4	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	//
<b>Bank Eurobonds</b>												
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	103.3	105.1	-0.2%	7.5%	5.7%	12.3	0.9	11.00%	31 Dec 2018	252	USD	//
Nadra Bank, 2018	0.8	1.4	0.2%	n/a	n/a	n/a	0.0	6.25%	31 Jun 2018	60	USD	IN DEFAULT
PrivatBank, 2018-2	32.0	35.0	0.0%	n/a	n/a	n/a	0.0	10.25%	23 Jan 2018	200	USD	IN DEFAULT
PrivatBank, 2021	13.0	18.0	0.0%	n/a	n/a	n/a	1.4	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	40.0	40.6	0.3%	n/a	n/a	n/a	0.0	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	106.8	107.6	-0.2%	7.7%	7.5%	4.7	n/a	9.625%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	99.5	101.2	-0.1%	9.0%	8.5%	2.0	4.0	7.51%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	108.3	109.1	0.1%	8.2%	8.0%	-2.7	3.3	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	106.9	107.7	0.1%	7.7%	7.5%	-1.9	1.8	8.25%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	107.6	108.5	0.2%	8.2%	8.0%	-3.6	2.9	8.88%	20 Mar 2025	500	USD	Caa3//CCC
<b>Municipal Eurobonds</b>												
City of Kyiv, 2015	80.5	85.0	-0.2%	n/a	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

<sup>1</sup> 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
<b>UAH denominated Bonds</b>									
UA4000194591			15.90%	15.15%	n/a	16.62%	S/A	11 Jul .2018	1,454
<b>VAT Bonds</b>									
UA4000185151			16.55%	15.30%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			16.55%	15.30%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			16.55%	15.30%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research



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