

Trends

Quotes for Ukrainian sovereign Eurobonds rebounded somewhat last week after 3 previous weeks of decline. The situation on the global bond market encouraged investors to look at EM bonds, as the US yield curve reached its flattest level in more than a decade amid the probability that the Federal Reserve will raise short-term interest rates twice more in 2018. The spread between 5-year and 30-year Treasury yields fell to just 22 basis points, the tightest since July 2007, while the gap between 2-year and 10-year yields touched 29 bps, the narrowest since August 2007, Reuters data showed.

In major Ukraine developments, there was a new proposal from the government to the IMF regarding terms of the long-delayed USD 1.9bn loan tranche. Kyiv asked for a compromise in the negotiations over natural gas prices, which envisages a package of steps, including monetization of subsidies, further liberalization of the gas market, and a discount from the single price of gas for household consumers. The IMF has been demanding that Ukrainian authorities to switch to economically justified prices for natural gas for households since the USD 17.5bn support program for the country was approved in 2015.

The benchmark issue, Ukraine-27s, recovered 2.3% to close at 93.6/94.6 (8.8%/8.6%) and medium-term Ukraine-23s rose 1.2% to 97.2/98.0 (8.4%/8.2%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.0% to 62.3/63.2 cents on the dollar.

Corporate Ukrainian Eurobonds did not latch onto the gain in sovereigns. Metinvest-26s declined by 1.1% to 91.8/92.7 (10.0%/9.9%), while MHP-26s shed 1.3% to 92.2/92.7 (8.3%/8.2%).

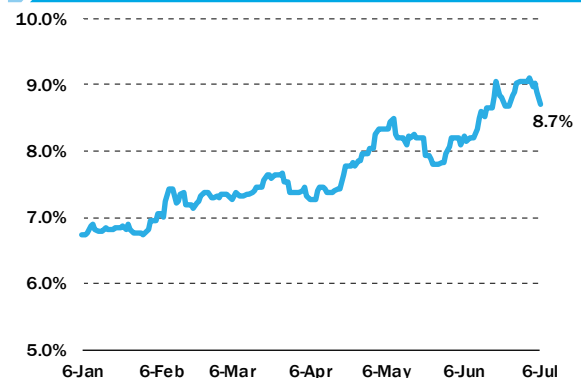
The quasi-sovereign Eurobonds of state-owned OschadBank with maturity in 2025 declined by 0.9% to 99.3/99.8 (9.8%/9.7%) despite positive news that Parliament passed a law requiring state-owned banks to appoint a majority of independent members to their supervisory boards.

The yield on the government's 1-year UAH-denominated treasuries remained at bid/ask of 17.95%/17.00%. The Finance Ministry placed a small amount of UAH-denominated 3-year bonds at 16.15% at its auction on Jul 3.

The hryvnia had a zigzag performance over the week, falling as low as 26.50 UAH/USD before strengthening back to 26.30 UAH/USD after the National Bank stepped in, selling hard currency from its reserves. The NBU reported that its foreign reserves stood at USD 18.0bn at the beginning of July, a drop of USD 190mn (1.1%) from a month earlier.

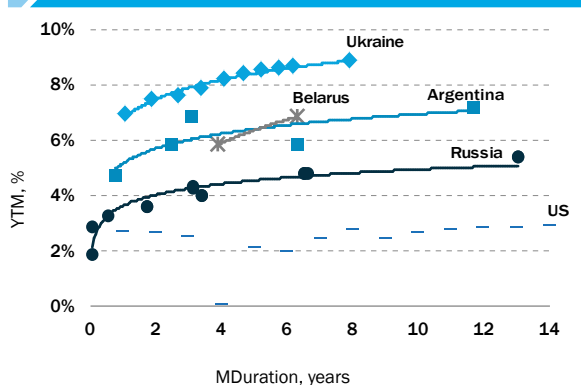
You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at sales@eavex.com.ua.

UKRAINE 10-YEAR BOND YIELD



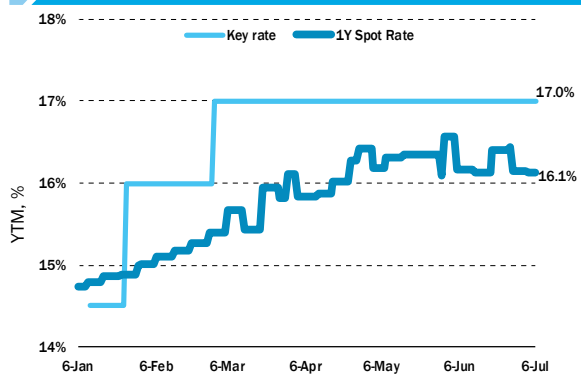
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



Source: Bloomberg, Eavex Capital

Highlights

- > Poroshenko Calls for Unity With Poland Against Russian Aggression
- > Ferrexpo's Iron Ore Pellet Output Down 1% in 1H18

CURRENCY

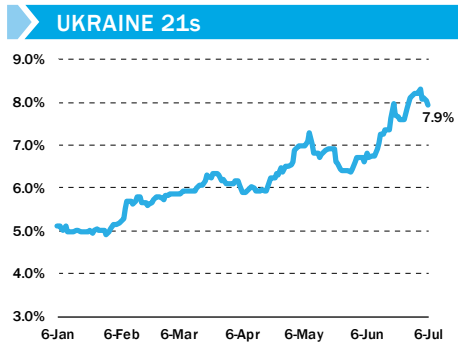
| | Last, UAH | 1W chg. | 1M chg. | YTD |
|---------|-----------|---------|---------|-------|
| USD/UAH | 26.31 | -0.1% | 0.6% | -6.4% |
| EUR/UAH | 30.90 | 0.5% | 0.4% | -8.3% |
| EUR/USD | 1.17 | 0.5% | -0.2% | -2.2% |

Source: Bloomberg, Eavex Capital

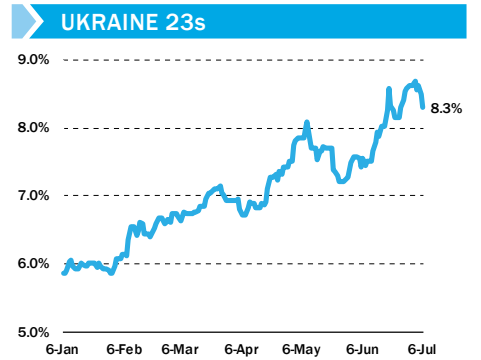
Selected Sovereign Issues



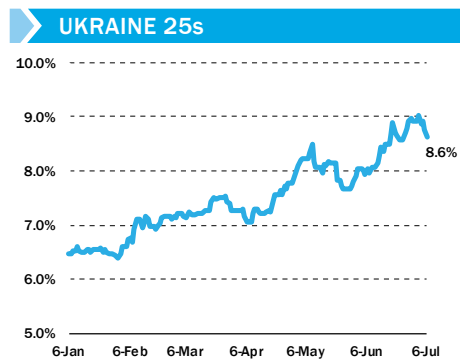
Source: Bloomberg, Eavex Research



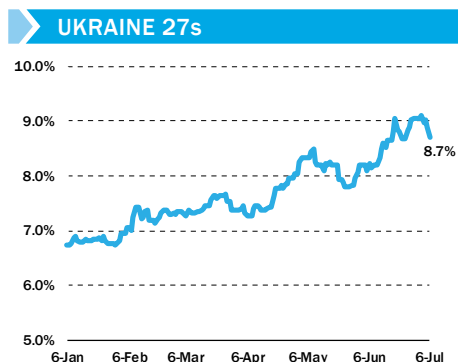
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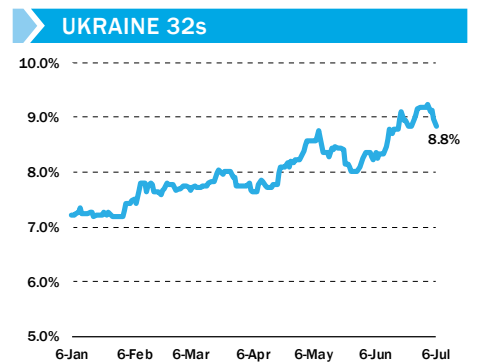
Source: Bloomberg, Eavex Research



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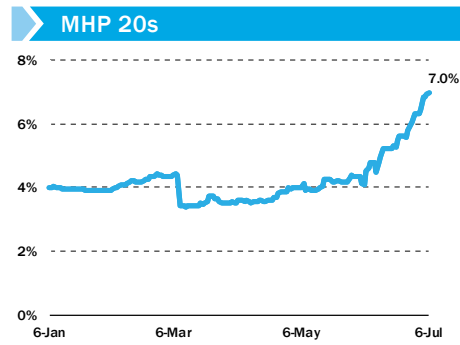


Source: Bloomberg, Eavex Research

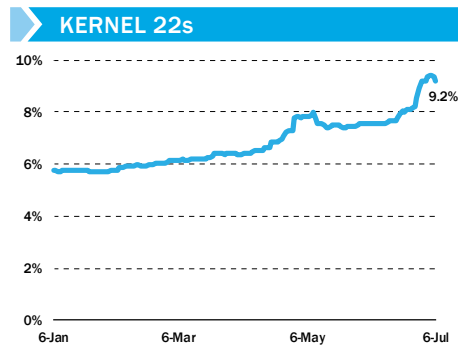


Source: Bloomberg, Eavex Research

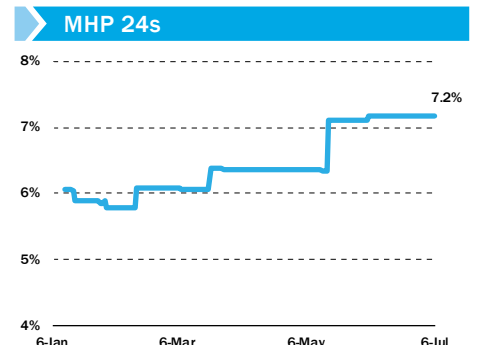
Selected Corporate Issues



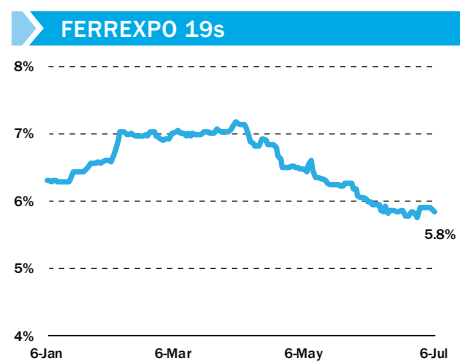
Source: Bloomberg, Eavex Research



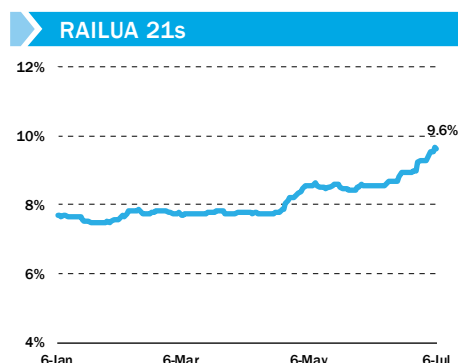
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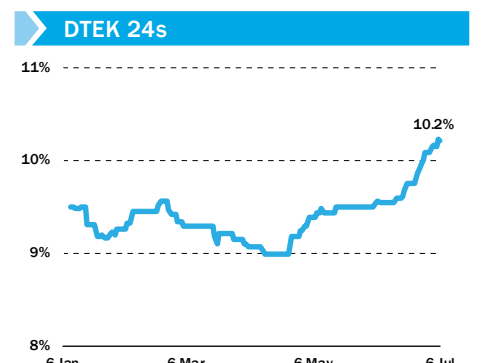
Source: Bloomberg, Eavex Research



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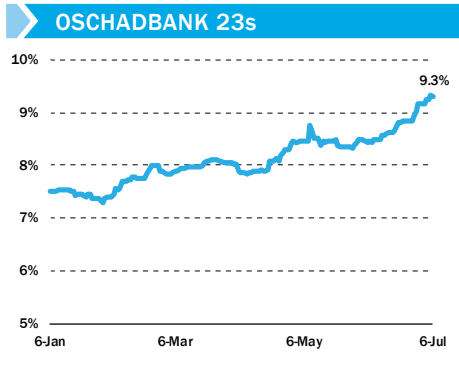


Source: Bloomberg, Eavex Research

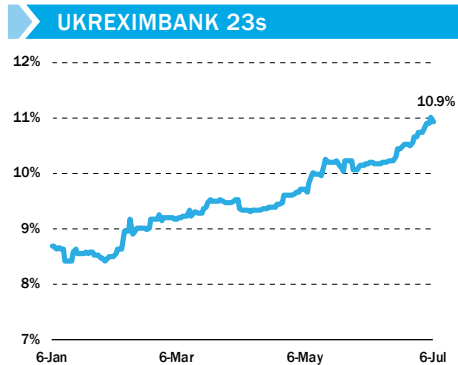


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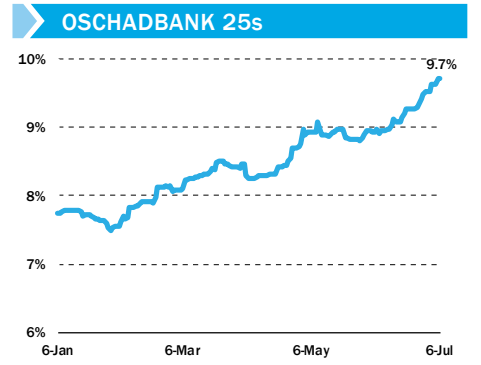
Selected Banking Issues



Source: Bloomberg, Eavex Research

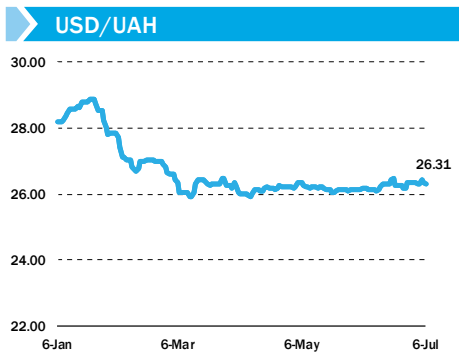


Source: Bloomberg, Eavex Research

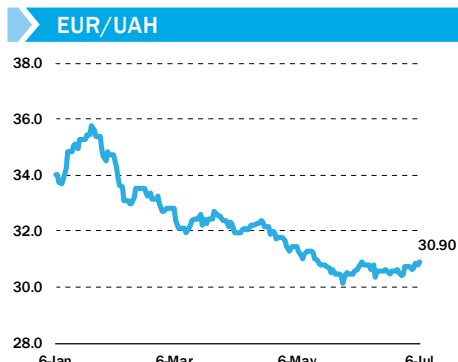


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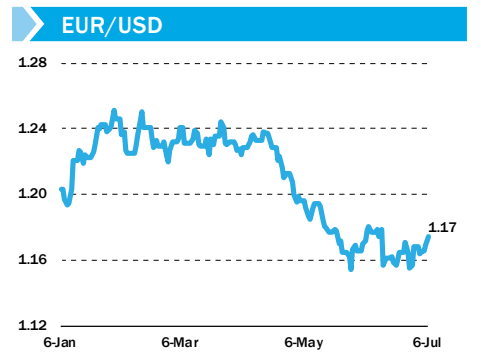
Currency



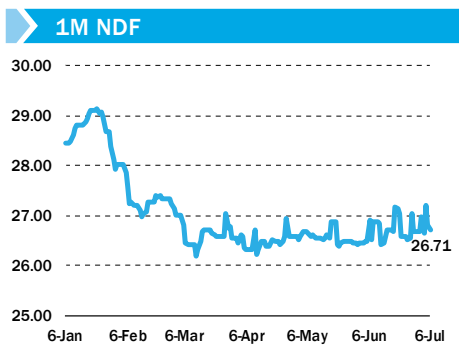
Source: Bloomberg, Eavex Research



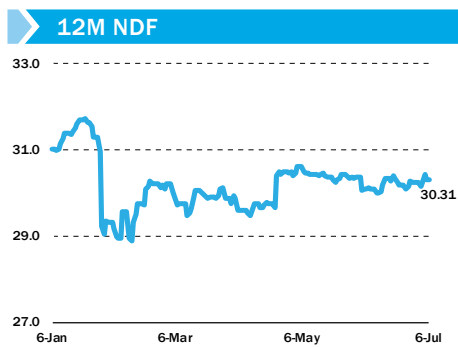
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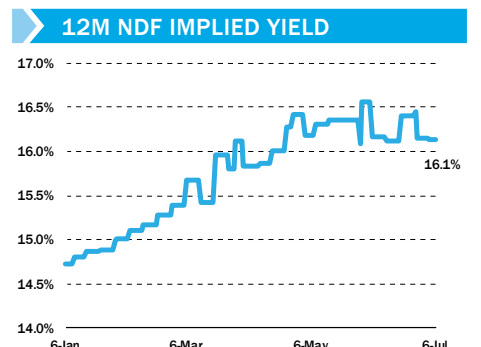
Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Poroshenko Calls for Unity With Poland Against Russian Aggression

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

NEWS

President Poroshenko said that a “lasting strategic partnership” between Ukraine and Poland is needed to fend off the threat of an aggressive Russia, at a ceremony in Lutsk (Volyn province) with his Polish counterpart Andrzej Duda marking the conflict between Ukrainians and Poles during World War Two. Poroshenko accused the Kremlin of “waging war not only against Ukraine, but also against Poland, against the whole Europe, against the whole world, in order to impose its ‘Russian world’”, the domestic UNIAN news agency reported. Poroshenko’s tough rhetoric echoed that of Polish Prime Minister Mateusz Morawiecki days earlier, who said last week in the European Parliament that the Donbass war in Eastern Ukraine is part of a large-scale Russian plan to destabilize the West.

COMMENTARY

Poland, which was formerly Ukraine’s strongest ally in Europe during the administration of ex-prime minister (and now EU Council President) Donald Tusk, has cooled notably in its support of Kyiv in recent years after the nationalist Law and Justice party took power from Tusk’s centrist coalition. Therefore, we see the possibility of Kyiv and Warsaw coming back onto the same page as a positive development for Ukraine’s standing with the EU. Poroshenko is in Brussels today (Jul 9) for the annual EU-Ukraine summit, where he is meeting Tusk and European Commission President Jean-Claude Juncker, with a joint statement of solidarity as well as some additional aid programs expected. Poroshenko’s ability to keep Ukraine on solid ground with Europe despite disagreements over anti-corruption measures, as well as Kyiv’s poor relations with a few EU member states (most notably Hungary), demonstrates that he is still viewed externally as a relevant figure heading into what will surely be an uphill battle for re-election in early 2019. As we have stated previously, the main advantage that Poroshenko currently holds is that there is no alternative candidate in the race who could credibly claim a stronger pro-Western orientation than the incumbent president.

Ferrexpo's Iron Ore Pellet Output Down 1% in 1H18

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

NEWS

Ferrexpo, Ukraine's largest iron ore pellet exporter, reduced its pellet output by 1.2% YoY to 5.09mn tonnes in 1H18, according to the company's operational update dated Jul 5. The output of top-value-added 65 percent Fe pellets declined by 2.5% in the period to 4.77mn tonnes, accounting for 94% of total production in 1H18. In a quarter-on-quarter basis, the company reported a 2.9% decline in output to 2.51mn tonnes for 2Q18. Ferrexpo said that the lower pellet production reflected a planned 65-day pellet line refurbishment in the period.

| FERREXPO PRODUCTION FIGURES | | | | | | |
|-----------------------------|-------|-------|------------|-------|-------|------------|
| 000' tonnes | 2Q18 | 1Q18 | Change QoQ | 1H18 | 1H17 | Change YoY |
| Total Pellets Produced | 2,511 | 2,585 | -2.9% | 5,096 | 5,160 | -1.2% |
| - 62% Fe pellets | 167 | 150 | +11.6% | 317 | 258 | +23% |
| - 65% Fe pellets | 2,344 | 2,435 | -3.8% | 4,779 | 4,902 | -2.5% |

Source: Companies' data

COMMENTARY

It was expected that Ferrexpo would report a moderate decline in output for both 2Q18 and 1H18, as overall Ukrainian iron ore production statistics for 5M18 had indicated a decrease in output. Although Ferrexpo is still on the way to producing more than 10mn tonnes of pellets in full-year 2018, the company might face a challenge from iron ore pricing turbulence. There are some predictions that benchmark iron ore prices could fall from the current level of USD 64/tonne to USD 50. This scenario could be triggered if supplies of the raw material continue to increase in an environment where top buyer China has started to reduce purchases. However, the market has seen a shifted over the past two years as China's anti-pollution campaign spurs demand for cleaner ore, thus widening the pricing spread between top-quality ore and lower-grade material, which benefits Ferrexpo as top-quality pellet producer.

The Ferrexpo stock listed in London has been experiencing a downward slide since March amid the correction in iron ore prices from their 2017 peak levels. The stock has lost 40% so far this year to trade at GBp 173 per share. We continue to believe in the company's strong fundamental value and have a BUY recommendation for the FXPO stock with a target price of GBp 230, implying 33% upside.

Ferrexpo-2019 Eurobonds, which are due to be redeemed next April, are currently quoted at 103.0/103.5 (6.2%/5.5%). The bonds were immune to the recent shift down in the Ukrainian sovereign yield curve, as investors expect the issue to be paid on time. Ferrexpo has said that it does not intend to place new Eurobonds to refinance the outstanding papers.

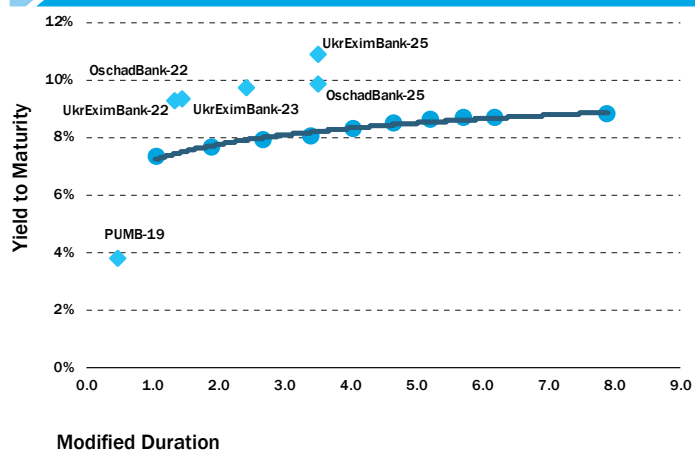
UKRAINIAN EUROBONDS

| 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 ¹ |
|----------------------------|-----------|-----------|-------------------|------------|------------|-------------------|------------------|--------|---------------|---------------|----------|----------------------|
| Sovereign Eurobonds | | | | | | | | | | | | |
| Ukraine, 2019 | 100.2 | 100.7 | 0.4% | 7.6% | 7.1% | -38.2 | 1.0 | 7.75% | 1 Sept 2019 | 1,744 | USD | Caa2/B-/B- |
| Ukraine, 2020 | 99.9 | 100.5 | 0.5% | 7.8% | 7.5% | -27.3 | 1.9 | 7.75% | 1 Sept 2020 | 1,780 | USD | Caa2/B-/B- |
| Ukraine, 2021 | 99.1 | 99.8 | 0.7% | 8.1% | 7.8% | -25.2 | 2.7 | 7.75% | 1 Sept 2021 | 1,409 | USD | Caa2/B-/B- |
| Ukraine, 2022 | 98.5 | 99.2 | 1.0% | 8.2% | 8.0% | -27.4 | 3.4 | 7.75% | 1 Sept 2022 | 1,384 | USD | Caa2/B-/B- |
| Ukraine, 2023 | 97.2 | 98.0 | 1.2% | 8.4% | 8.2% | -28.6 | 4.0 | 7.75% | 1 Sept 2023 | 1,355 | USD | Caa2/B-/B- |
| Ukraine, 2024 | 95.7 | 96.7 | 1.4% | 8.7% | 8.4% | -28.0 | 4.6 | 7.75% | 1 Sept 2024 | 1,339 | USD | Caa2/B-/B- |
| Ukraine, 2025 | 94.9 | 95.9 | 1.5% | 8.7% | 8.5% | -27.9 | 5.2 | 7.75% | 1 Sept 2025 | 1,329 | USD | Caa2/B-/B- |
| Ukraine, 2026 | 93.9 | 94.9 | 1.7% | 8.8% | 8.6% | -28.5 | 5.7 | 7.75% | 1 Sept 2026 | 1,318 | USD | Caa2/B-/B- |
| Ukraine, 2027 | 93.6 | 94.6 | 2.3% | 8.8% | 8.6% | -35.3 | 6.2 | 7.75% | 1 Sept 2027 | 1,307 | USD | Caa2/B-/B- |
| Ukraine, 2032 | 87.8 | 88.8 | 2.9% | 8.9% | 8.8% | -34.1 | 7.9 | 7.38% | 25 Sept 2032 | 3,000 | USD | /B- |
| Ukraine, GDP-linked | 62.2 | 63.2 | -1.0% | n/a | n/a | n/a | na | 0.00% | 31 May 2040 | 3,214 | USD | /B-/ |
| Corporate Eurobonds | | | | | | | | | | | | |
| Agroton, 2019 | 16.0 | 20.6 | 0.0% | 0% | 0% | 0 | 0.3 | 6.00% | 14 Jul 2019 | 18 | USD | // |
| Kernel, 2022 | 98.4 | 98.9 | 0.0% | 9.3% | 9.1% | 1 | 2.9 | 8.75% | 31 Jan 2022 | 500 | USD | /B/B+ |
| MHP, 2020 | 101.6 | 102.4 | -1.1% | 7.2% | 6.7% | 69.1 | 1.6 | 8.25% | 2 Apr 2020 | 750 | USD | /B-/B- |
| MHP, 2024 | 102.5 | 103.0 | 0.0% | 7.2% | 7.1% | -0.2 | 4.6 | 7.75% | 10 May 2024 | 500 | USD | // |
| MHP, 2026 | 92.2 | 92.7 | -1.3% | 8.3% | 8.2% | 22.1 | 5.7 | 6.95% | 4 Apr 2026 | 550 | USD | /B/B |
| Avangardco, 2018 | 20.1 | 22.9 | 1.2% | 0% | 0% | 0 | 0.1 | 10.00% | 29 Oct 2018 | 206 | USD | // |
| UkrLandFarming, 2018 | 20.3 | 22.5 | | 0% | 0% | 0 | 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 | 102.1 | 103.1 | -0.6% | 10.3% | 10.1% | 12.9 | 4.7 | 10.75% | 12 Dec 2024 | 1,275 | USD | // |
| Metinvest, 2021 | 100.0 | 102.0 | 0.0% | 7.4% | 6.8% | -0.2 | n/a | 7.50% | 31 Dec 2021 | 1,197 | USD | //B |
| Metinvest, 2023 | 92.3 | 92.9 | -1.4% | 9.8% | 9.6% | 38.1 | 3.8 | 7.75% | 23 Apr 2023 | 945 | USD | //B |
| Metinvest, 2026 | 91.8 | 92.7 | -1.1% | 10.0% | 9.9% | 20.9 | 5.4 | 8.50% | 23 Apr 2026 | 648 | USD | //B |
| Ferrexpo, 2019 | 102.7 | 103.8 | 0.0% | 6.5% | 5.0% | -12.0 | 0.7 | 10.38% | 07 Apr 2019 | 186 | USD | Caa3/CCC/CC |
| Ferrexpo, 2019 | 103.0 | 103.5 | 0.0% | 6.2% | 5.5% | -6.4 | 0.7 | 10.38% | 07 Apr 2019 | 161 | USD | Caa3/CCC/CC |
| UZ Rail, 2018 | 100.4 | 101.1 | -0.9% | 9.7% | 9.5% | 33.9 | 1.3 | 9.88% | 21 May 2018 | 500 | USD | /CCC+/CCC |
| Interepipe, 2017 | 30.3 | 34.6 | 0.0% | n/a | n/a | -6.7 | n/a | 10.25% | 2 Aug 2017 | 200 | USD | IN DEFAULT |
| JKX Oil&Gas, 2020 | 85.0 | 95.0 | 0.0% | 25.8% | 17.6% | 2.6 | 1.3 | 14.00% | 19 Feb 2020 | 16 | USD | // |
| Bank Eurobonds | | | | | | | | | | | | |
| PUMB, 2018 | 102.9 | 103.8 | 0.0% | 4.8% | 2.8% | -21.5 | 0.5 | 11.00% | 31 Dec 2018 | 252 | USD | // |
| PrivatBank, 2018-2 | 20.4 | 30.4 | 0.0% | n/a | n/a | n/a | n/a | 10.25% | 23 Jan 2018 | 200 | USD | IN DEFAULT |
| PrivatBank, 2021 | 10.2 | 13.4 | -1.1% | n/a | n/a | n/a | 1.1 | 11.00% | 09 Feb 2021 | 220 | USD | IN DEFAULT |
| PrivatBank, 2018 | 25.0 | 29.6 | -0.4% | n/a | n/a | n/a | n/a | 10.88% | 28 Feb 2018 | 175 | USD | IN DEFAULT |
| UkrEximBank, 2022 | 100.5 | 101.2 | -0.3% | 9.5% | 9.2% | 9.5 | n/a | 9.63% | 27 Apr 2022 | 750 | USD | Caa3//CCC |
| UkrEximBank, 2023 | 94.4 | 95.5 | -0.6% | 11.1% | 10.8% | 18.6 | 4.0 | 9.00% | 9 Feb 2023 | 125 | USD | Caa3//CCC |
| UkrEximBank, 2025 | 99.3 | 99.6 | -1.0% | 9.9% | 9.8% | 21.7 | 2.8 | 9.75% | 22 Jan 2025 | 500 | USD | Caa3//CCC |
| Oschadbank, 2023 | 100.0 | 100.5 | -0.5% | 9.4% | 9.2% | 14.2 | 1.3 | 9.38% | 10 Mar 2023 | 700 | USD | Caa3//CCC |
| Oschadbank, 2025 | 99.3 | 99.8 | -0.9% | 9.8% | 9.7% | 19.2 | 2.4 | 9.63% | 20 Mar 2025 | 500 | USD | Caa3//CCC |
| Municipal Eurobonds | | | | | | | | | | | | |
| City of Kyiv, 2015 | 87.2 | 89.3 | -0.2% | n/a | n/a | n/a | n/a | 8.00% | 6 Nov 2015 | 101 | USD | IN DEFAULT |

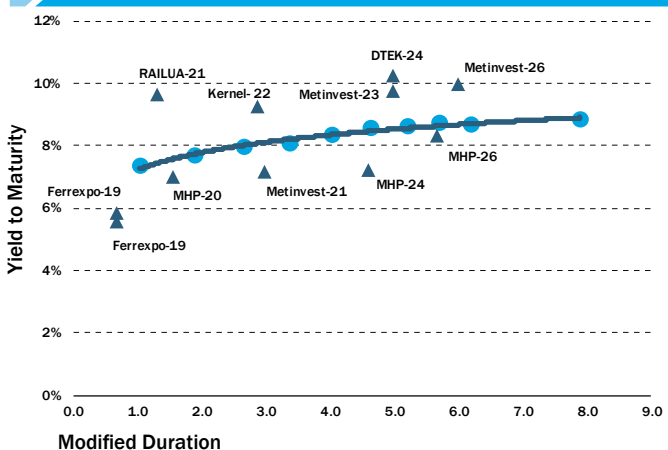
¹ Moody's/S&P/Fitch

Source: Bloomberg, Cbonds, Eavex Research

SOVEREIGNS vs. BANKING 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 | | | | | | | | | |
| UA80426 | | | 17.90% | 16.70% | n/a | n/a | S/A | 10 Apr. 2019 | n/a |
| VAT Bonds | | | | | | | | | |
| UA4000185151 | | | 17.95% | 17.00% | 1.9 | 9.50% | S/A | 8 Jul 2019 | 3,577 |
| UA4000185557 | | | 17.95% | 17.00% | 1.9 | 9.50% | S/A | 22 Jul 2019 | 2,171 |
| UA4000186159 | | | 17.95% | 17.00% | 1.9 | 9.50% | S/A | 20 Aug 2019 | 955 |

Source: Bloomberg, Cbonds, Eavex Research

Eavex Capital

7 Klovsky 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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