

Trends

The global environment of rising interest rates continued to hurt Ukrainian sovereign Eurobonds last week, with investors seeking higher risk premiums, leading to selloffs across most emerging market debt. Also, the International Monetary Fund lowered its global growth outlook in its October update by 0.2 percentage points to 3.7% each for 2018 and 2019.

In economic news, Ukrainian consumer inflation jumped by 1.9% in September, but 12-month headline inflation remained under control near 9% due to the seasonal nature of the price hikes. In major political news, Ukraine secured approval from religious authorities in Istanbul to establish an independent church, in what President Poroshenko called a vital step against Russian interference in Ukraine's affairs. The Russian Orthodox church has long been a hostile actor against the Ukrainian state, allowing itself to be used as a tool of the Kremlin to justify Russian imperialism.

Ukraine's benchmark long-term bonds, Ukraine-27s, slipped another 0.2% after the preceding week's 1.2% drop, closing at 91.5/92.5 (9.2%/9.0%). The country's longest outstanding issue with maturity in 2032 declined by 0.5% to 84.8/85.8 (9.3%/9.2%) while medium-term Ukraine-23s were unchanged at 97.2/98.0 (8.4%/8.2%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) continued to sell off, falling 2.0% to 50.4/51.5 cents on the dollar.

In the corporate sector, DTEK-24s, the most liquid Ukrainian corporate bond, was unchanged at 101.2/102.2 (10.5%/10.3%). Metinvest-26s inched down by 0.2% to 94.4/95.4 (9.6%/9.4%). The twin quasi-sovereign issues UkrEximBank-25s and OschadBank-23s were little-changed at 100.0/100.9 (9.7%/9.5%) and at 100.9/101.5 (9.1%/9.0%) respectively.

The yield on the government's 1-year UAH-denominated treasuries rose 25 bps to bid/ask of 19.50%/18.00% on expectations of further increase in the NBU's key refinancing rate later this month. The Finance Ministry placed short-term 68-day UAH-denominated notes at 19.00% and medium-term 475-day USD-denominated bonds at 7.50%. MinFin raised USD 175mn on the domestic market through the bond auction on Oct 11.

On the domestic currency market, the hryvnia strengthened by 0.6% against the dollar to finish the week at 27.96 UAH/USD.

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

Highlights

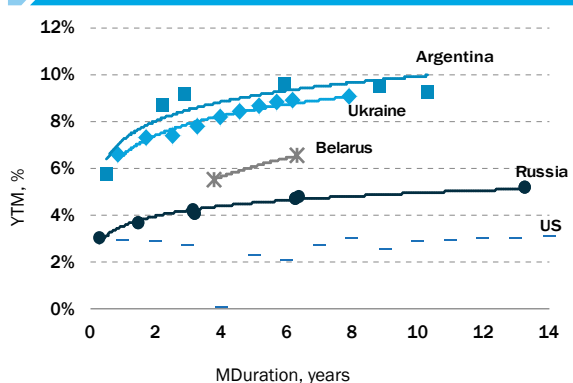
- > Ukraine's Orthodox Church to Split from Moscow; Avakov Warns Against Violence
- > Headline Inflation Remains Close to 9% After September Data
- > Ferrexpo's Pellet Production Up 7% YoY in 3Q, But Only 1% for 9M18

UKRAINE 10-YEAR BOND YIELD



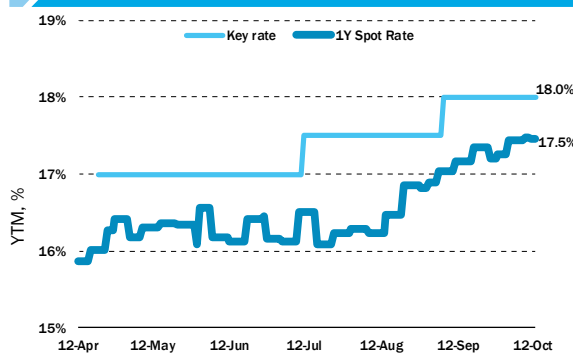
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



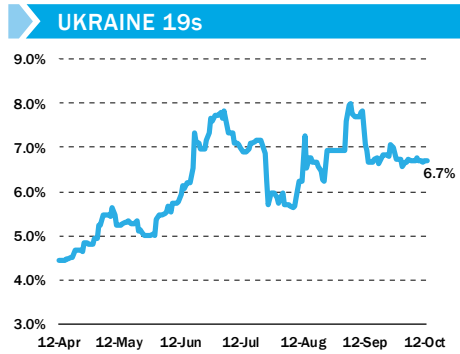
Source: Bloomberg, Eavex Capital

CURRENCY

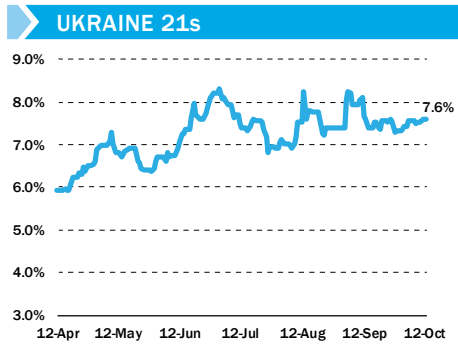
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	27.96	-0.6%	-0.4%	-0.5%
EUR/UAH	32.31	-0.2%	-1.0%	-4.1%
EUR/USD	1.16	0.3%	-0.6%	-3.7%

Source: Bloomberg, Eavex Capital

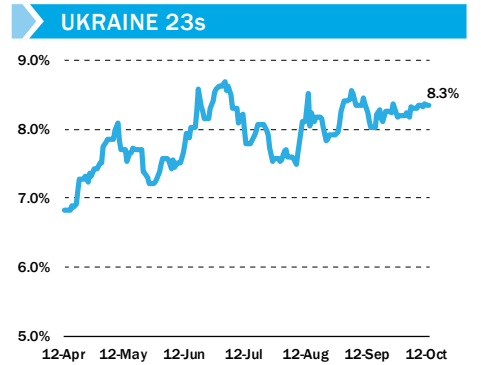
Selected Sovereign Issues



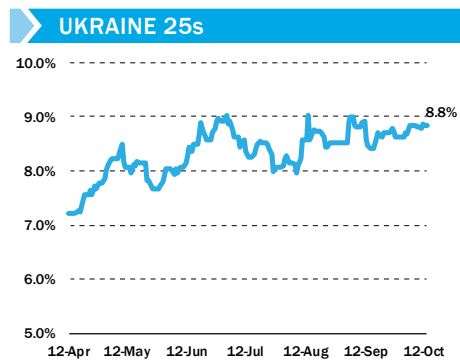
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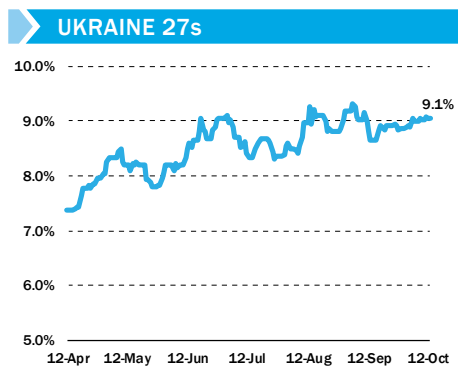
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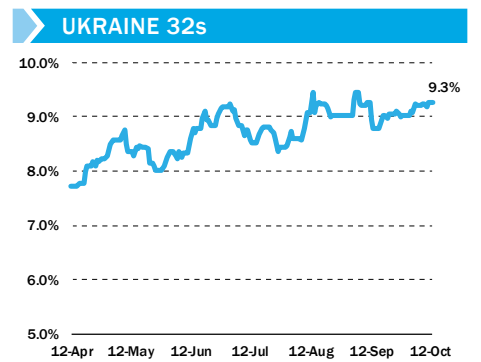
Source: Bloomberg, Eavex Research



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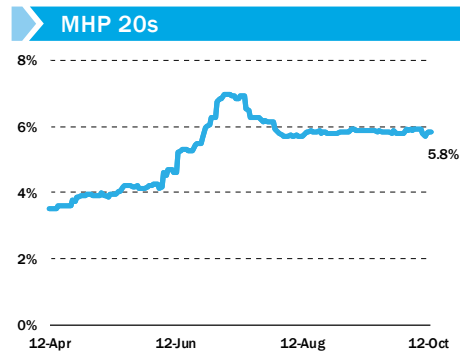


Source: Bloomberg, Eavex Research

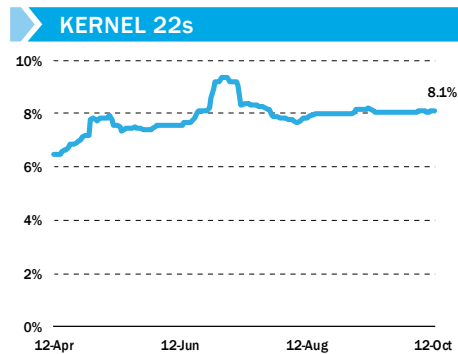


Source: Bloomberg, Eavex Research

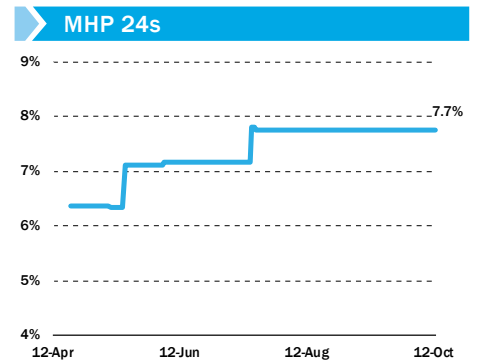
Selected Corporate Issues



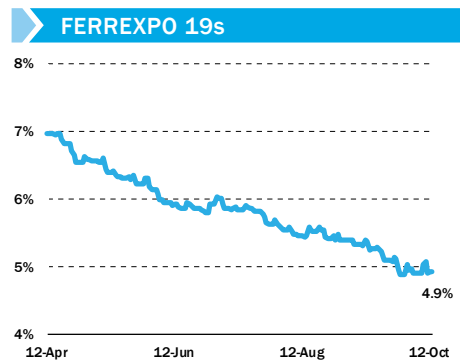
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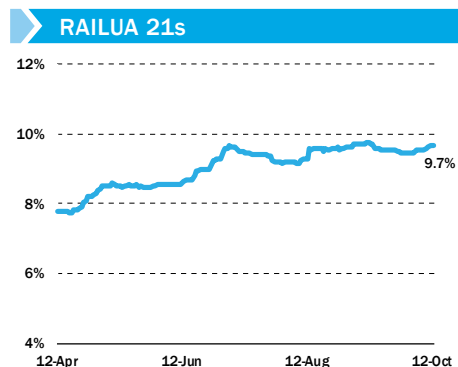
Source: Bloomberg, Eavex Research



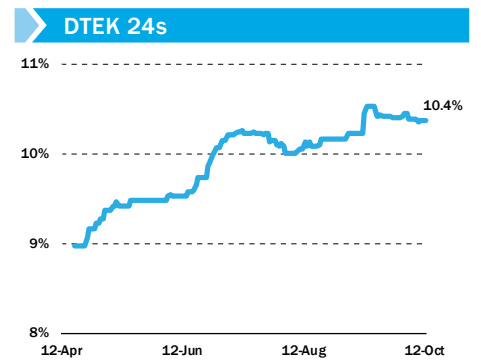
Source: Bloomberg, Eavex Research



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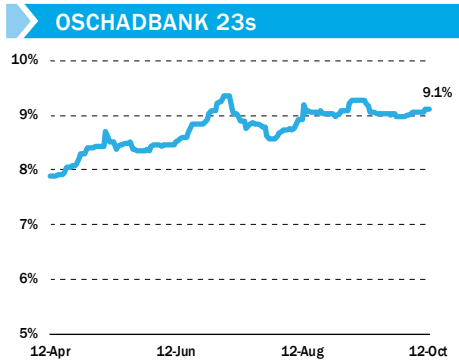


Source: Bloomberg, Eavex Research

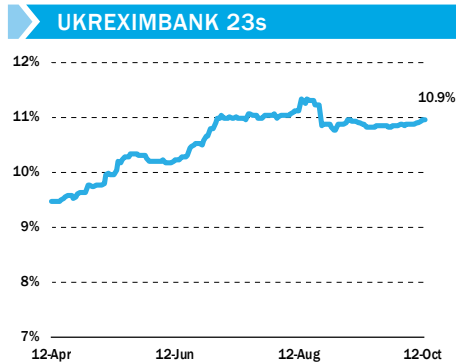


Source: Bloomberg, Eavex Research

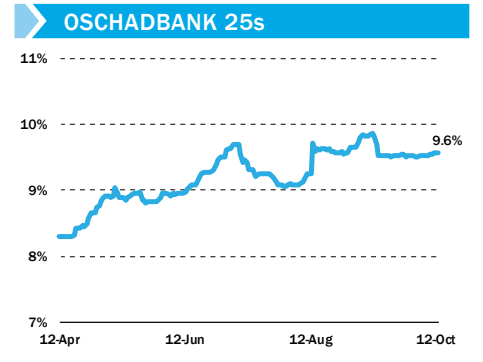
Selected Banking Issues



Source: Bloomberg, Eavex Research

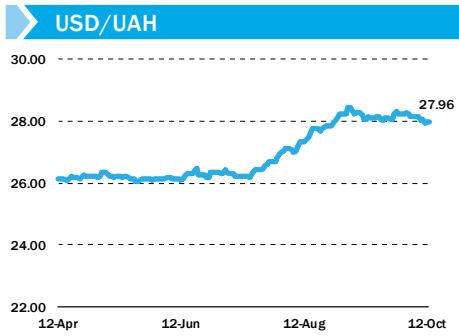


Source: Bloomberg, Eavex Research

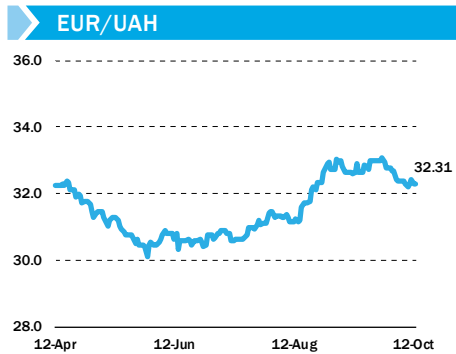


Source: Bloomberg, Eavex Research

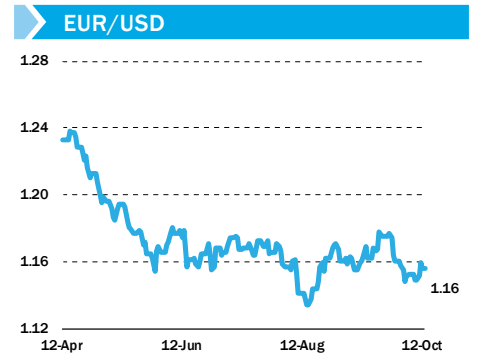
Currency



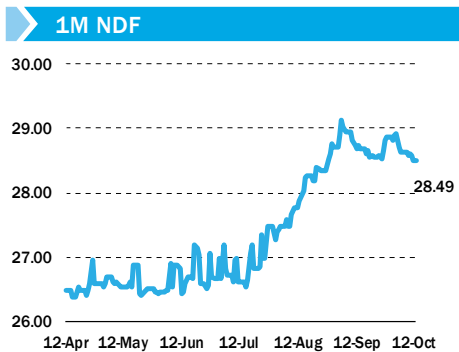
Source: Bloomberg, Eavex Research



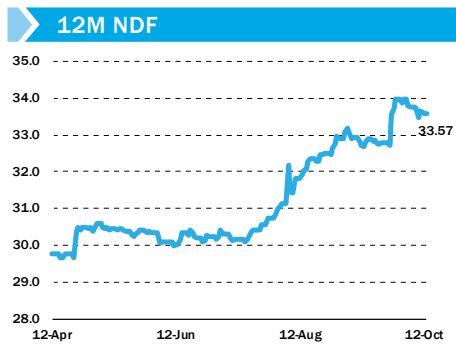
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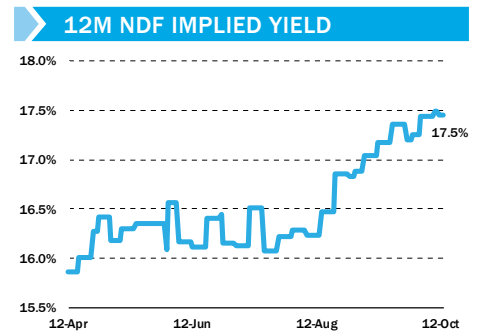
Source: Bloomberg, Eavex Research



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Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Ukraine's Orthodox Church to Split from Moscow; Avakov Warns Against Violence

by Will Ritter
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NEWS

Orthodox Christian religious authorities based in Istanbul last week gave the green light for Ukraine's main Orthodox church to end its more than 300-year history as a branch of the Russian Orthodox Church and receive independent status known as autocephaly. In response, the Russian church said that it will itself break away from the worldwide Orthodox Church if Ukraine is granted independent status. Such a move by Moscow would represent the most serious split in Orthodoxy in nearly 1000 years. Ukraine's Interior Minister Arseniy Avakov warned of a tough response against violence from any and all sides associated with the approaching split in religious loyalties.

COMMENTARY

This move by Kyiv is long overdue, as the Russian Orthodox Church is openly hostile to the Ukrainian state; its official ideology is that Russia, Ukraine, and Belarus are a single indivisible nation. Importantly, Russian Orthodoxy harbors a territorial claim not only against Russian-speaking areas in the East and South of Ukraine, but against the entire country with the exception of the far western provinces. President Poroshenko has been pushing hard on this issue and his persistence has paid off at a time when he is sorely in need of political victories that he can sell to the public to promote his re-election campaign. A recently released poll said that 45% of Ukrainian churchgoers consider themselves loyal to the Kyiv Patriarchate (the denomination set to become Ukraine's independent church) and that only 17% favor the Moscow Patriarchate. However, a further 33% stated that they are simply "Orthodox" without specifying Ukraine or Russia, and we suspect that many of these respondents could end up opposing the split. Political divisions between the East/South of the country and the West/Center are likely to be exacerbated by autocephaly, with a significant fraction of parishes in Russophone Ukraine probably opting to stay with the Moscow church, and perhaps most alarmingly, inter-parish conflicts may also occur. Despite Ukraine's new autocephaly, the Russian church will continue to control much of the high-end ecclesiastical real estate in Kyiv and the provincial cities of Central Ukraine, and dividing up church property will not be a trivial matter.

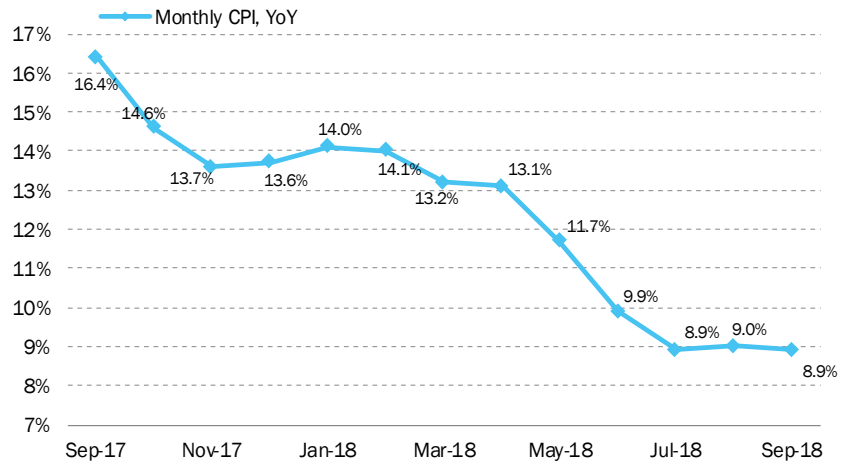
Headline Inflation Remains Close to 9% After September Data

by Dmitry Churin
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NEWS

Ukraine’s State Statistics Committee reported that rolling 12-month consumer inflation inched down to 8.9% in September from 9.0% in August (the July figure was also 8.9%). On a month-on-month basis, the CPI index showed a 1.9% increase in September, according to data released on Oct 9.

UKRAINE’S ROLLING 12-MONTH CPI & PPI INFLATION



Source: State Statistics Committee

COMMENTARY

The rather large-looking 1.9% MoM inflation for September is actually about average for the traditional seasonal pattern in Ukraine, and leaves the index still in good shape to finish 2018 in single digits. Among individual consumer price basket components, there was a 10% MoM rise in prices for educational services associated with the start of the new school year. Another notable CPI component with rising prices was transportation services. An upward trend in the global oil price led to an aggregate 2.8% MoM increase in transportation services in Ukraine. This category has risen by 10.7% since the start of the year. The aggregate food price index added 1.6% MoM in September, but the category is still up by only 3.1% since the start of the year. Prices for bread advanced by 12.7% in January-September on the back of a 17.2% YtD price increase for the benchmark FOB Black Sea price for wheat (to USD 211 per tonne).

Ferrexpo's Pellet Production Up 7% YoY in 3Q, But Only 1% for 9M18

by Dmitry Churin
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NEWS

Ferrexpo, Ukraine's largest iron ore pellet exporter, increased pellet production by 6.7% YoY to 2.66mn tonnes in 3Q18, according to the company's operational update dated Oct 9. The increase was attributed to completion of modernization of the pellet production line in 2Q18. The output of top-value-added 65 percent Fe pellets rose by 6.3% QoQ to 2.49mn tonnes in 3Q18, accounting for 94% of total production in the period. For 9M18 Ferrexpo's production rose by 1.3% to 7.76mn tonnes.

FERREXPO PRODUCTION FIGURES						
000' tonnes	3Q18	2Q18	Change QoQ	9M18	9M17	Change YoY
Total Pellets Produces	2,659.85	2,511.01	+5.9%	7,756.06	7,652.80	+1.3%
- 62% Fe pellets	167.44	167.23	+0.1%	484.57	414.50	+16.9%
- 65% Fe pellets	2,492.41	2,343.78	+6.3%	7,271.49	7,238.30	+0.5%

Source: Companies' data

COMMENTARY

The latest Ferrexpo's production data suggests that the company will produce about 10.5mn tonnes of iron ore pellets in full year of 2018, which would be only marginally higher than in FY17 and still below a production level of 11.2mn tonnes reached in FY16. Meanwhile, the main good news for Ferrexpo is that global iron ore prices perform better than expected. According to Metal Bulletin, the spot price for benchmark 62% fines was steady at USD 70.00 a tonne, consolidating at a seven-month high.

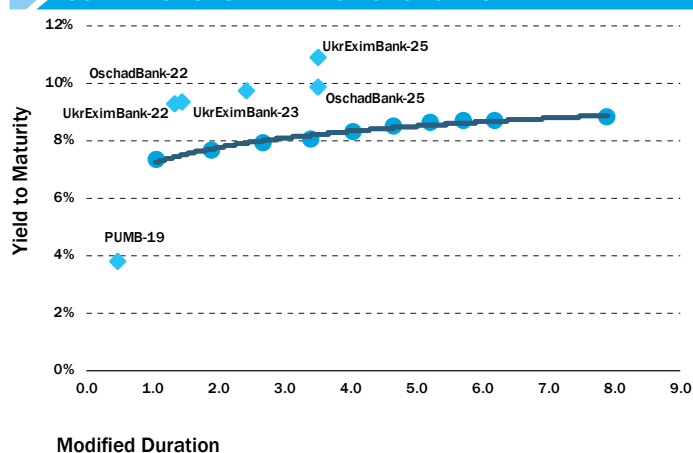
UKRAINIAN EUROBONDS

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	100.5	101.3	0.0%	7.1%	6.2%	-0.9	0.8	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	100.3	100.8	-0.3%	7.6%	7.3%	16.8	1.7	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	100.0	100.8	-0.1%	7.7%	7.4%	2.6	2.5	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	99.1	99.8	0.0%	8.0%	7.8%	0.0	3.3	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	97.3	98.1	0.0%	8.4%	8.2%	-1.0	3.9	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	95.7	96.7	-0.1%	8.7%	8.5%	3.3	4.6	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	94.0	95.0	0.0%	8.9%	8.7%	0.6	5.1	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	92.6	93.6	-0.2%	9.1%	8.9%	4.3	5.7	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	91.6	92.6	-0.2%	9.1%	9.0%	2.6	6.1	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	84.8	85.8	-0.5%	9.3%	9.2%	6.2	7.8	7.38%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	50.4	51.4	-2.0%	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	0.2	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	101.4	102.3	0.0%	8.2%	7.9%	0	2.8	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	102.6	104.0	0.1%	6.3%	5.4%	-6.3	1.4	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	99.8	100.3	0.0%	7.8%	7.7%	0.0	4.3	7.75%	10 May 2024	500	USD	//
MHP, 2026	92.6	93.5	-0.2%	8.3%	8.1%	3.0	5.6	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	20.1	23.2	-0.3%	0%	0%	0	0.0	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.3	24.0		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	101.2	102.2	0.0%	10.5%	10.3%	-0.4	4.5	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	100.0	102.0	0.0%	7.4%	6.7%	-0.2	n/a	7.50%	31 Dec 2021	1,197	USD	//B
Metinvest, 2023	95.1	96.0	-0.3%	9.1%	8.8%	7.8	3.7	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	94.4	95.3	-0.2%	9.6%	9.4%	3.4	5.2	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	102.1	103.1	-0.1%	5.9%	3.7%	-1.3	0.5	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	102.0	103.0	-0.1%	6.0%	3.9%	2.1	0.5	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	100.0	101.0	-0.3%	9.9%	9.5%	12.6	1.1	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	29.7	33.9	0.0%	n/a	n/a	59.3	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	85.2	95.2	0.2%	27.8%	18.1%	10.6	1.1	14.00%	19 Feb 2020	16	USD	//
Bank Eurobonds												
PUMB, 2018	100.6	102.3	0.1%	8.2%	-0.3%	-104.1	0.2	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	9.2	12.0	0.2%	n/a	n/a	n/a	1.1	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	22.0	25.3	-6.5%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	101.5	102.3	-0.2%	9.1%	8.8%	5.7	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	94.6	96.6	-0.1%	11.3%	10.6%	7.3	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	100.0	100.9	-0.2%	9.8%	9.5%	4.9	2.7	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	100.5	101.3	-0.2%	9.2%	9.0%	5.8	1.1	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.7	100.8	-0.1%	9.7%	9.5%	3.1	2.3	9.63%	20 Mar 2025	500	USD	Caa3//CCC
Municipal Eurobonds												
City of Kyiv, 2015				n/a	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

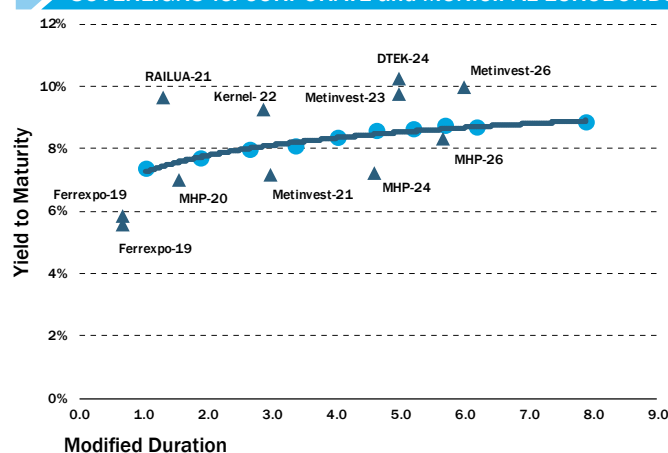
¹ Moody's/S&P/Fitch

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			19.30%	17.80%	n/a	n/a	S/A	10 Apr .2019	n/a
VAT Bonds									
UA4000185151			19.50%	18.00%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			19.50%	18.00%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			19.50%	18.00%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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