

Trends

Ukrainian sovereign Eurobonds declined in value last week in line with the global market trend after US bond yields hit fresh multi-year highs on expectations of higher interest rates associated with strong US economic growth. The yield on benchmark 10-year US Treasuries jumped to 3.2%, surpassing the year-to-date high of 3.12% and representing the highest level since 2011. For several years, benchmark yields had been sitting in the 2% range. Longer-dated US bonds also sold off, with the yield on 30-year debt climbing to 3.33, its highest level in over 4 years. The lift in US yields was reflected across most sovereign bond markets. The longest Ukrainian outstanding Eurobonds with maturity in 2032 fell 1.5% to close at 85.2/86.2 (9.3%/9.2%) while the benchmark medium term issue, Ukraine-23s, decreased by 0.6% to 97.3/98.0 (8.4%/8.2%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) lost 2.3% to end at 51.4/52.5 cents on the dollar.

Traditionally, the quotes for Ukrainian corporate sector Eurobonds lag behind performance of the sovereign yield curve by 1-2 weeks. The debt papers of major Ukrainian steel producer Metinvest with maturity in 2026 edged down by only 0.5% to 94.6/95.4 (9.5%/9.4%). The soon-to-mature Eurobonds of Ferrexpo, due this coming April, inched down 0.2% to 102.3/103.0 (5.7%/4.2%). A bright outlook for iron ore prices has made investors confident that Ferrexpo will redeem the bonds on time. The Eurobonds of state-owned Ukrainian Railways (RAILUA-21s) shed 0.4% to 100.4/101.0 (9.7%/9.5%).

Quasi-sovereign UkrEximBank-25s edged down by 0.3% to 100.4/100.7 (9.7%/9.6%) and OschadBank-23s were little-changed at 100.9/101.5 (9.1%/9.0%).

The yield on the government's 1-year UAH-denominated treasuries stood at bid/ask of 19.50%/17.75%. The Finance Ministry placed short-term 77-day UAH-denominated notes at 19.00% and 259-day USD-denominated bonds at 7.00%. On the domestic currency market, the hryvnia gained 0.6% against the dollar to finish the week at 28.14 UAH/USD.

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

Highlights

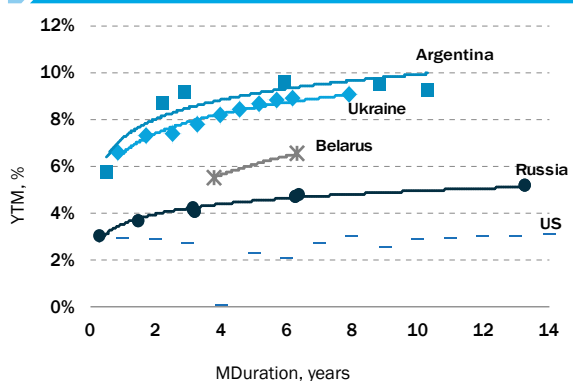
- > Kyiv's Relations with Hungary Worsen Amid Consul Explosions
- > MinFin Targets 2.3% of GDP Budget Deficit for 2019

UKRAINE 10-YEAR BOND YIELD



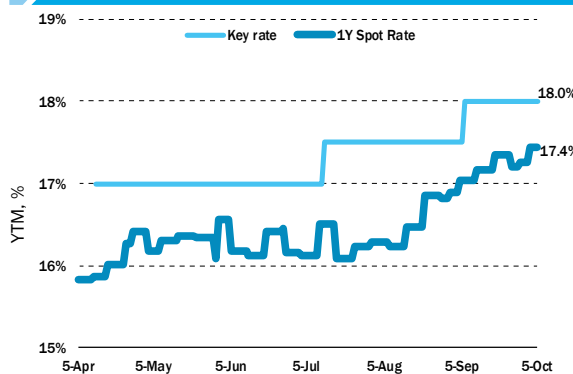
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



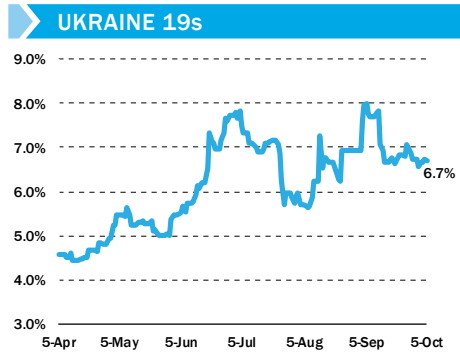
Source: Bloomberg, Eavex Capital

CURRENCY

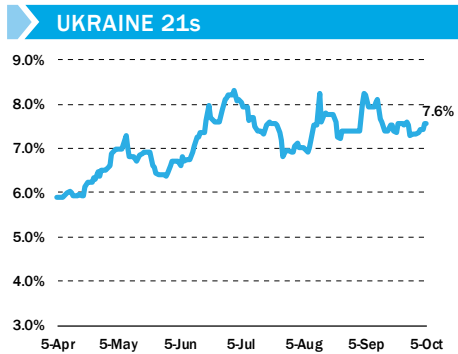
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	28.14	-0.6%	-1.1%	0.1%
EUR/UAH	32.39	-1.7%	-1.7%	-3.8%
EUR/USD	1.15	-1.1%	-0.6%	-4.1%

Source: Bloomberg, Eavex Capital

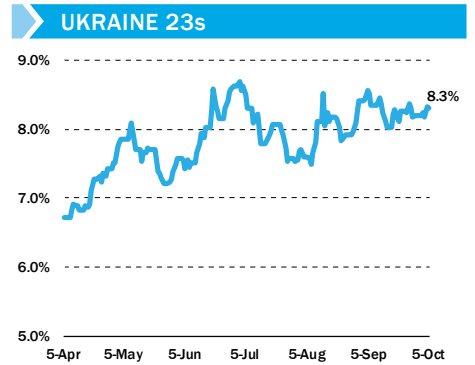
Selected Sovereign Issues



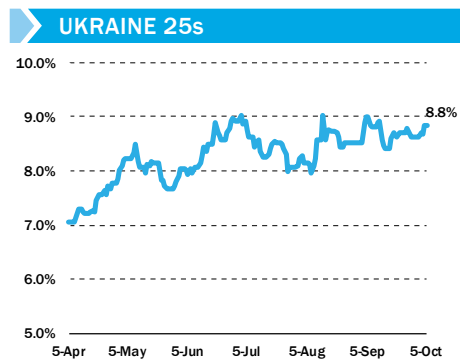
Source: Bloomberg, Eavex Research



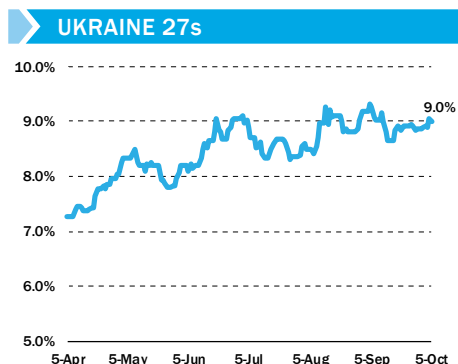
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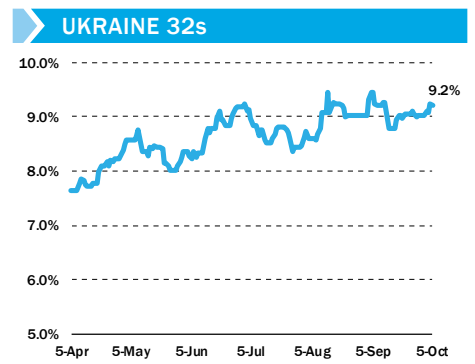
Source: Bloomberg, Eavex Research



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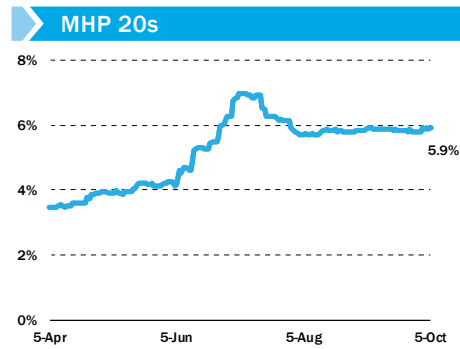


Source: Bloomberg, Eavex Research

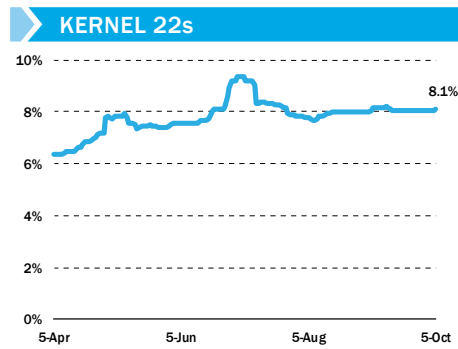


Source: Bloomberg, Eavex Research

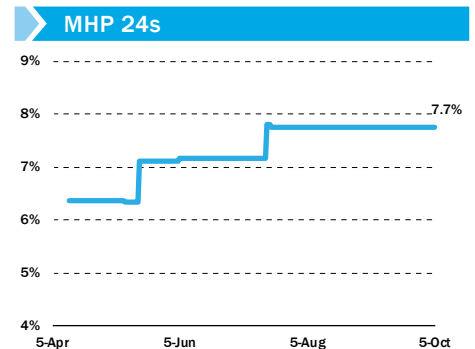
Selected Corporate Issues



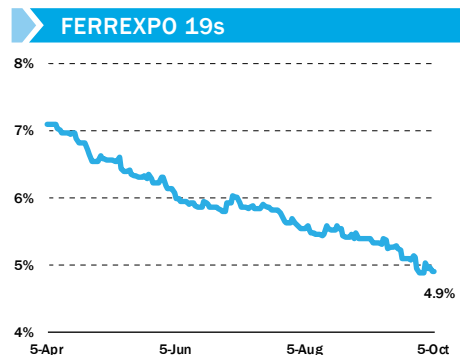
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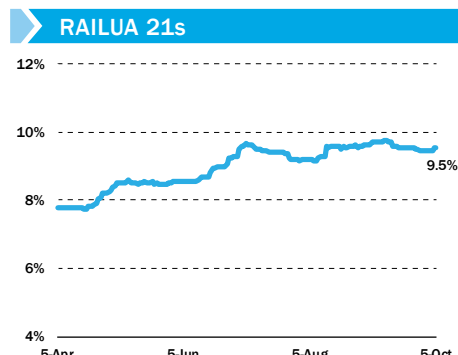
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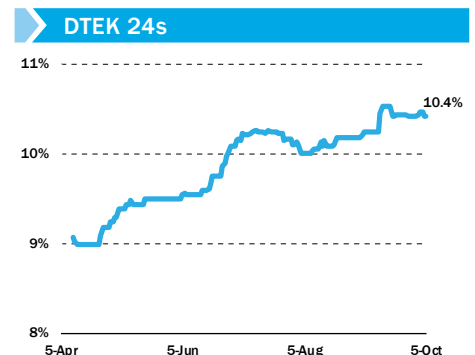
Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

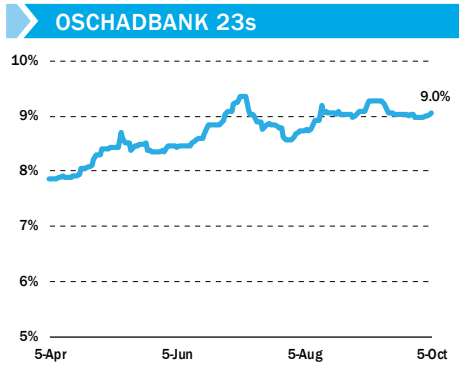


Source: Bloomberg, Eavex Research

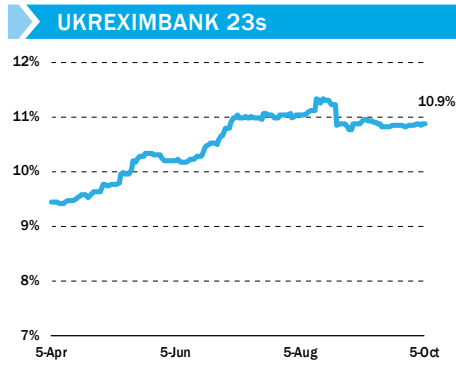


Source: Bloomberg, Eavex Research

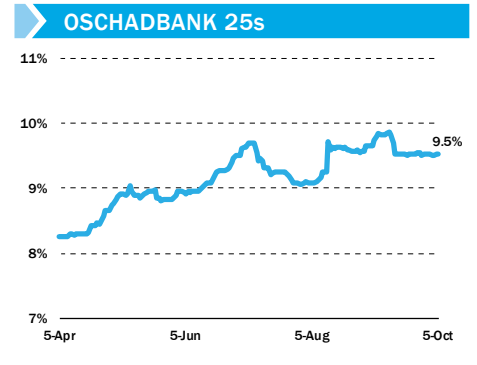
Selected Banking Issues



Source: Bloomberg, Eavex Research

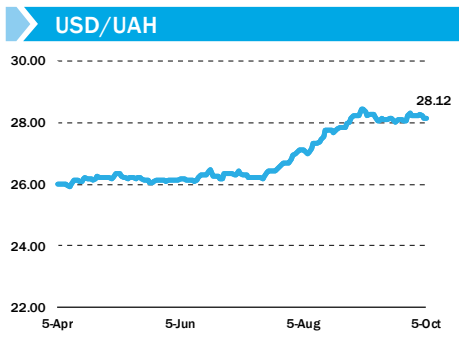


Source: Bloomberg, Eavex Research

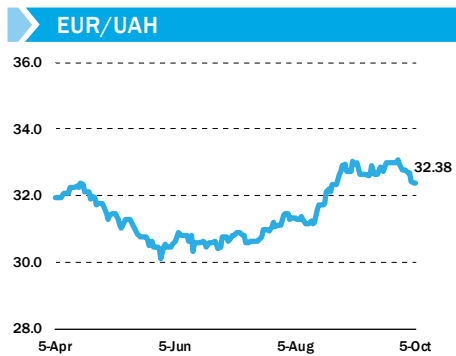


Source: Bloomberg, Eavex Research

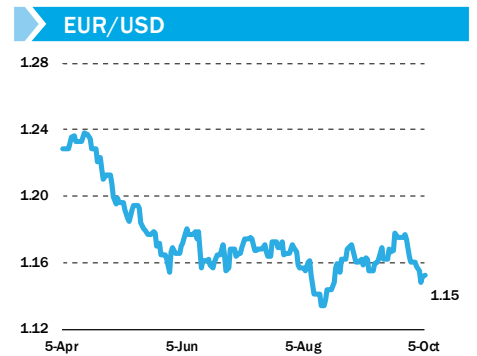
Currency



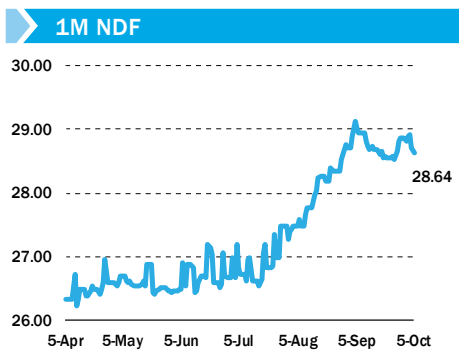
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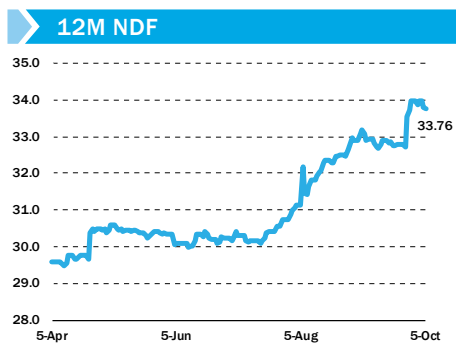
Source: Bloomberg, Eavex Research



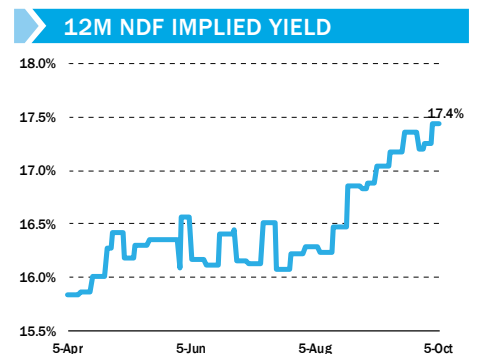
Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Kyiv's Relations with Hungary Worsen Amid Consul Expulsions

by Will Ritter
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NEWS

Ukraine kicked a Hungarian diplomat out of the country last week after he was caught awarding Hungarian citizenship to residents of TransCarpathia province in far Western Ukraine in violation of Ukraine's laws on dual citizenship. The Hungarian government responded with a reciprocal expulsion of a Ukrainian consul based in Budapest. The Hungarian consul was recorded in the act of providing citizenship documents to people in Beregove, a large town in TransCarpathia located just across the border from Hungary. The province was annexed from Hungary by the Soviet Union in 1940 and it retains a large Hungarian minority.

COMMENTARY

Relations between Ukraine and Hungary continue to deteriorate amid the aggressive efforts by Hungarian Prime Minister Victor Orban to assert an active policy in TransCarpathia. This year has already seen a diplomatic row over Ukraine's attempt to enforce Ukrainian language schooling in the province, which resulted in Budapest's withdrawal of support for Ukrainian cooperation with NATO. Particularly dangerous for Ukraine is that the policy goals of the Orban regime are converging with those of the Kremlin, which sees territorial de-stabilization as its leading method of attacking the Ukrainian state. While it is too early to say that Budapest has formed an organized diplomatic alliance with the Kremlin against Kyiv, the situation appears to be moving in that direction given that both the Orban and Putin governments were recently re-elected and have a long window to remain in power. Although Hungary is considered to be outside the European Union mainstream on many issues, there has been no talk yet of the country exiting the EU and/or NATO; any such development would have serious repercussions for Ukraine's security situation.

MinFin Targets 2.3% of GDP Budget Deficit for 2019

by Dmitry Churin
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NEWS

Ukraine's Finance Ministry (MinFin) is targeting a 2.3%-of-GDP deficit for the national budget for 2019, according to a draft document presented in late September. The budget deficit is expected to come in at 2.4% GDP for 2018 and actual deficit of 2.7% reached in 2017. In absolute figures, the deficit is targeted at UAH 90bn (USD 3.1bn). Another important indicator for the national budget, the hryvnia exchange rate, was forecasted at 29.40 UAH/USD for 2019. Overall economic growth for the year was assumed at 3.0%, with consumer inflation of 7.4% YoY. The Finance Ministry forecasts Ukraine's nominal GDP at UAH 3.947tn (USD 134bn). Military expenditures were one of the major items of the national budget which were specified. The country's military budget was proposed at UAH 210bn (USD 7.2bn) for 2019, which represents an increase of 17% YoY in hryvnia terms. The state healthcare budget is going to be increased by 10% YoY to UAH 128bn (USD 4.4bn).

COMMENTARY

It should be noted that the national budget deficit is not the full deficit of public spending in the country, as it does not include some transfers to local and provincial budgets and also some subsidies paid to the national pension fund. Nonetheless, this MinFin document is one of key requirements from the IMF regarding preparation of a balanced national budget for 2019. The task was especially complicated by the election cycle in 2019, making both the President and MPs eager to show their commitment to large social spending. On the debt side, the government has to pay a total of UAH 417bn for servicing and redemption of outstanding debt. The figure represents a 24% YoY increase in hryvnia terms and consists of USD 6.0bn of external debt repayments, including USD 1.9bn of interest payments. Most of the UAH 150bn redemption of domestic debt is expected to be refinanced via issuance of new UAH-denominated bonds. Currently the biggest chunk of UAH bonds is held by the National Bank and the big state-owned banks. The draft budget envisages USD 4.2bn in new foreign currency loans and bonds in 2019. We assume that Ukraine will manage to place only USD 2.5bn in Eurobonds next year, meaning that the balance should be received from the IMF, World Bank, and other Western supporters.

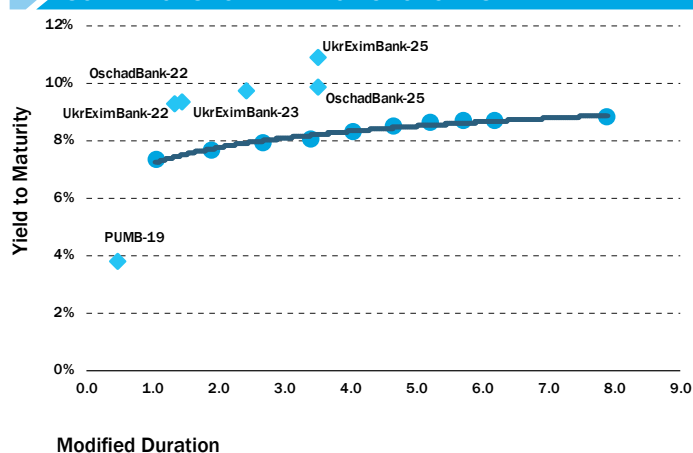
UKRAINIAN EUROBONDS

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%	6.3%	-3.4	0.8	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	100.6	101.1	0.0%	7.4%	7.1%	-1.9	1.7	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	100.1	100.8	-0.6%	7.7%	7.4%	22.2	2.5	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	99.1	99.8	-0.5%	8.0%	7.8%	16.1	3.3	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	97.3	98.0	-0.6%	8.4%	8.2%	15.0	4.0	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	95.8	96.8	-0.9%	8.7%	8.4%	20.2	4.6	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	94.0	95.0	-1.0%	8.9%	8.7%	19.7	5.2	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	92.8	93.8	-1.0%	9.0%	8.9%	17.2	5.7	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	91.8	92.8	-1.0%	9.1%	8.9%	16.0	6.2	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	85.2	86.2	-1.5%	9.3%	9.1%	18.8	7.9	7.38%	25 Sept 2032	3,000	USD	/B-
Ukraine, GDP-linked	51.4	52.5	-2.3%	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	101.5	102.3	-0.2%	8.2%	7.9%	6	2.8	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	102.6	103.9	-0.2%	6.4%	5.4%	11.8	1.4	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	99.8	100.3	0.0%	7.8%	7.7%	0.1	4.3	7.75%	10 May 2024	500	USD	//
MHP, 2026	92.7	93.6	-0.4%	8.3%	8.1%	7.7	5.7	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	20.1	23.3	n/a	n/a	n/a	n/a	n/a	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.2	23.9	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	101.2	102.2	0.1%	10.5%	10.3%	-0.2	4.6	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	95.3	96.3	-0.4%	9.0%	8.8%	11.5	3.7	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	94.6	95.4	-0.5%	9.5%	9.4%	10.1	5.2	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	102.1	103.2	-0.1%	5.9%	3.7%	4.7	0.5	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	102.1	103.1	-0.1%	5.9%	3.9%	3.8	0.5	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	100.4	101.3	-0.2%	9.7%	9.3%	9.0	1.2	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	29.7	33.9	0.0%	n/a	n/a	59.5	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	85.1	95.1	0.0%	27.5%	18.1%	0.0	1.2	14.00%	19 Feb 2020	16	USD	//
Bank Eurobonds												
PUMB, 2018	100.5	102.2	-0.2%	8.7%	1.2%	47.0	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	9.0	14.1	0.0%	n/a	n/a	n/a	1.2	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	25.0	25.7	-7.6%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	101.6	102.5	-0.2%	9.1%	8.8%	6.9	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	94.7	96.7	0.0%	11.2%	10.6%	3.3	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	100.2	101.1	-0.2%	9.7%	9.5%	4.1	2.7	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	100.8	101.6	-0.2%	9.2%	8.9%	5.8	1.2	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.9	100.9	-0.1%	9.6%	9.4%	1.6	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	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

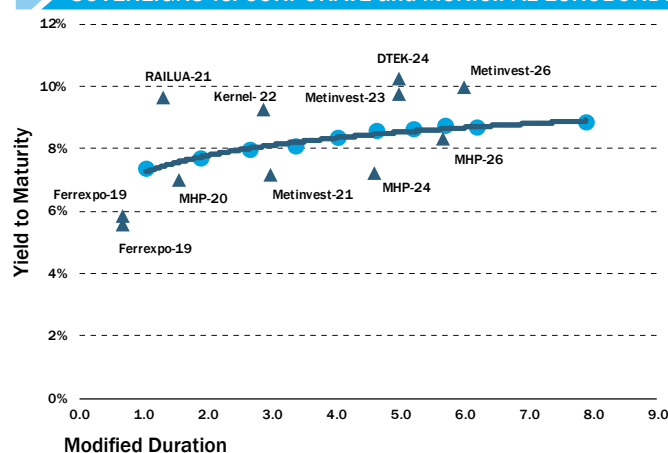
¹ Moody's/S&P/Fitch

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%	17.75%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			19.50%	17.75%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			19.50%	17.75%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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