

Trends

Ukraine's sovereign Eurobonds moved sharply higher last week as quotes reflected the prior weekend's announcement from the IMF about conditionally agreeing to lend the country USD 5.5bn over the next three years. An agreement with the IMF is seen as important to attracting foreign investment. Meanwhile, the Normandy summit in Paris on Dec 9 did not bring any major breakthroughs for the Kyiv-Moscow relationship. At a closing press conference, President Zelenskiy and Russian President Putin, who met face to face for the first time, clashed over the issue of border control and the question of Donbass municipal and provincial elections. Still, both Zelenskiy and Putin insisted that the talks were fruitful and would lead to more concrete progress in the months ahead.

The medium-term benchmark Ukraine-24s jumped by 2.0% to 108.2/109.0 (6.8%/6.6%), and Ukraine-32s, the longest outstanding sovereign issue, shot up by 3.7% to 103.3/104.0 (7.0%/6.9%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) added a solid 4.0% to 93.6/94.6 cents on the dollar.

In corporate Eurobonds, Kernel-22s gained 0.5% to 102.8/103.8 (7.4%/6.9%). Information that Ukraine's grain harvest topped 75mn tonnes this year helped to improve the company's short term outlook. The EUR-denominated debt papers of the country's state natural gas giant NaftoGaz with maturity in 2024 were unchanged at 101.3/102.3 (6.8%/6.5%).

Quasi-sovereign banking issue UkrEximBank-25s inched up by 0.3% to close at 101.7/102.7 (9.0%/8.5%), while OschadBank-25s remained flat at 102.2/103.3 (8.2%/7.5%).

The yield on the government's 1-year UAH-denominated treasuries declined by 100 basis points following the big interest rate cut of 200 bps by the National Bank. These domestic bonds now trade at bid/ask of 14.70%/13.00% YTM. The Finance Ministry placed 1-year UAH-denominated bonds at its primary auction on Dec 10 at 13.00% (simple yield). The 4-year UAH bonds were placed at 11.70% (SIM), down 80 bps from a week earlier.

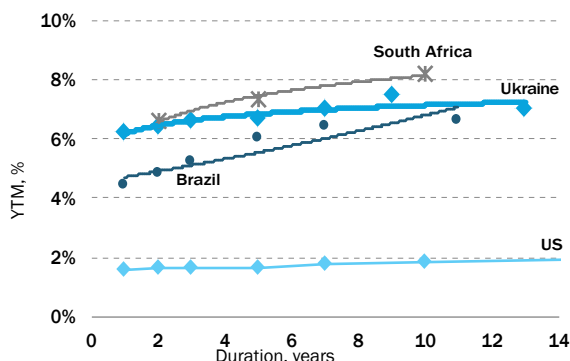
On the currency front, the hryvnia showed no negative reaction to the NBU's big interest rate cut of 200 bps, to 13.50%. The national currency rose by 0.9% against the dollar to 23.49 UAH/USD.

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

Highlights

- > Zelenskiy Stands Firm in First Putin Encounter
- > Ukraine Central Bank Extends Easing Cycle with 200-point Cut to 13.50%
- > Ukraine's Headline Inflation Slows to 5-Year Low of 5.1% in November

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	13.5%	-2.0 p.p.	-4.5 p.p.
UAH 1-year bond	14.7%/13.0%	-1.0 p.p.	-5.9 p.p.
Ukraine-2024	6.8%	-0.5 p.p.	-3.7 p.p.
Ukraine-2028	7.1%	-0.4 p.p.	-3.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	23.49	-0.9%	-15.1%
EUR/UAH	26.14	-0.4%	-17.6%

Source: Eavex Capital

Zelenskiy Stands Firm in First Putin Encounter

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NEWS

President Zelenskiy came out of last week's Paris summit meeting with Russian President Putin with Kyiv's position on the Donbass conflict essentially unchanged, as no major new breakthroughs were announced. The two sides remained at a stalemate on the key issues of when Moscow will give Ukraine back control of the pre-2014 border, what kind of special self-governing status the Donbass occupied territories will receive, and when municipal and provincial elections in the territories (which are likely to give democratic legitimacy to openly pro-Russian forces) will finally be held. However, the summit did produce agreements on the second-tier issues of prisoner exchanges and a new sustainable ceasefire to stop the ongoing hostilities taking place across the contact line. And there was a commitment that the so-called "Normandy Format", which also includes French President Macron and German Chancellor Merkel, will convene again within 4 months.

COMMENTARY

We were impressed by Zelenskiy's showing at the Paris meeting, where he took a tougher line on defending Ukraine's interests than many had expected in the weeks leading up to the summit. Zelenskiy even earned praise from his top political rival Petro Poroshenko, who admitted that "no red lines" had been crossed; indeed, Zelenskiy's positions on the Donbass appeared quite close to those maintained by Poroshenko during the latter's presidency. Fears that Zelenskiy would be overmatched by Putin in such a high-profile environment turned out to be unfounded. Perhaps most impressive is the bold political strategy that Zelenskiy revealed in declining to concede any ground on key points: he clearly believes that he can maintain the support of his core Russian-speaking electorate in southeastern Ukraine without adopting measures that would be seen by the pro-Western electorate as betraying Ukrainian national interests. The Paris summit brought the principal quandary facing Ukraine into sharper relief: the regional autonomy for the Donbass outlined in the Minsk agreements is simply a non-starter, as such autonomy would eventually have to be extended to all Ukrainian provinces (i.e. federalization), critically undermining the state as a whole. This implies that the price for reclaiming the occupied territories is simply too high for Kyiv, and that the only palatable option is an indefinite continuation of the status quo. Of course, whether Zelenskiy will be able to maintain his bold stance on the Donbass going forward remains to be seen, as domestic political developments in Ukraine could eventually soften his position. However, it looks positive to us that the initial attempt by the Kremlin to separate Zelenskiy from pro-Western political support has turned out to be a failure.

Ukraine Central Bank Extends Easing Cycle with 200-point Cut to 13.50%

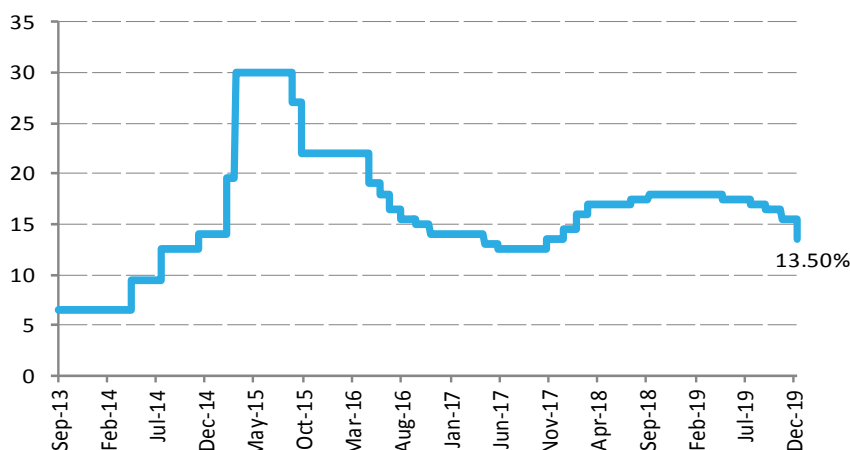
by Dmitry Churin
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NEWS

Ukraine’s National Bank slashed its main refinancing rate by 200 bps to 13.50% on Thursday (Dec 12), a 50 bps larger than expected cut, in its fifth consecutive policy easing this year. The rate, which is viewed as the country’s key benchmark, has now dropped from 18.00% at the start of the year to a current to 13.50% amid slowing consumer inflation and a visible economic recovery in the period. Inflation has slowed due to both the stronger hryvnia and to an improvement in inflation expectations. The above factors neutralized the pressure on prices from robust consumer demand this year, with retail sales having risen by 10.2% YoY through the first 10 months of 2019. The hryvnia strengthened due to several reasons. In October-November, an ample supply of foreign currency was mainly driven by proceeds from Ukrainian exports, in particular thanks to a record harvest of grain and oil crops, and the sale of foreign currency inflows received via the borrowings of state-owned companies. Offshore entities continued to invest in hryvnia government bonds, but this did not have a major influence on the foreign exchange market, unlike in the past months. The National Bank actively purchased excess foreign currency to replenish international reserves. The NBU reports that its net foreign exchange purchases have totaled USD 5.5bn since the start of 2019.

The regulator also lowered its benchmark overnight deposit rate from 13.50% to 11.50%.

UKRAINE'S KEY INTEREST RATE



Source: Finance Ministry of Ukraine

COMMENTARY

In our view, the NBU’s decision to perform a 200-point key rate cut is justified by the country’s economic situation. There has been considerable criticism of the National Bank for not moving earlier to aggressively lower the rate, as interest rates on the UAH-denominated bond market have been well below the key refinancing rate. Moreover, the hryvnia yield curve remains at an inverse shape, with 4-year domestic bonds recently placed at 11.70% (simple yield) while 1-year bonds were placed at 13.00% (simple yield) at the primary auction on Dec 10.

We project that the National Bank will continue its easing of monetary policy next year, with a further rate cut of 100 bps to 12.50% at the next board meeting on Jan 30.

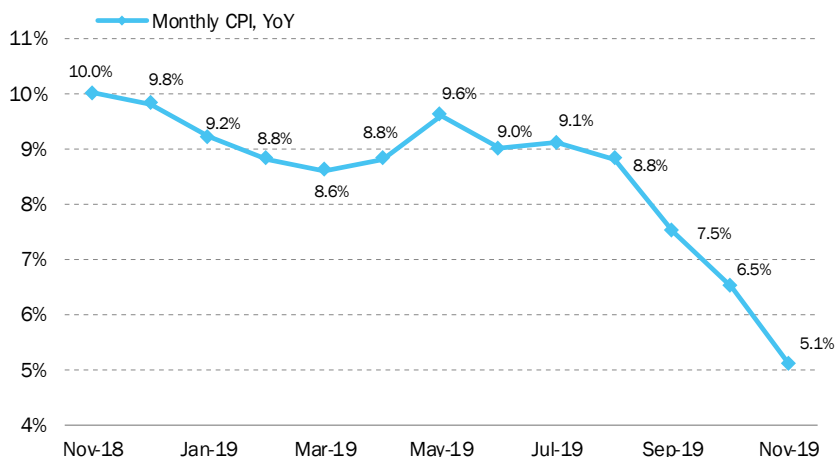
Ukraine's Headline Inflation Slows to 5-Year Low of 5.1% in November

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month inflation slowed to 5.1% in November from 6.5% in October and 7.5% in September, according to data released on Dec 9. On a monthly basis, the consumer price index inched up by 0.1% while food prices declined by 0.2% amid a strengthening hryvnia in the period. For the 11M19 period (the average measurement of full-year inflation) the CPI index growth was at 8.3% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

November's headline inflation figure was the lowest since March 2014, when the 12-month CPI growth was at 3.4% YoY. Among individual consumer price basket categories, there was a 6.8% YoY increase in food prices, while the utility service prices showed an aggregate growth of just 1.1% YoY. One of the major factors behind slow price growth in the utility sector was a notable 19.7% YoY drop in the household natural gas tariffs. On the other hand, the household gas price rose by 12.7% MoM in November due to the start of the heating season.

Industrial output prices in Ukraine in November decreased by 3.0% MoM, after falling by 1.2% MoM in October and 1.5% MoM in September. On a yearly basis, the industrial prices index have dropped by 4.5% amid a 17.2% slide in raw materials prices in Ukraine. In particular, coal prices were down by 21.7% YoY in November. The steel sector's aggregate price index decreased by 18.8% YoY in UAH terms in November, due both to lower global steel prices and revaluation of the hryvnia. Meanwhile, the largest price growth among individual sectors in November was registered in the pharmaceutical sector (+11.3% YoY).

SELECTED UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds										
Ukraine, 2020	100.3	100.8	-0.1%	7.4%	6.6%	7.75%	1 Sept 2020	1,365	USD	Caa1/B/B
Ukraine, 2024	108.2	109.0	2.0%	6.8%	6.6%	7.75%	1 Sept 2024	1,339	USD	Caa1/B/B
Ukraine, 2028	118.2	118.9	2.7%	7.1%	7.0%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	103.3	104.0	3.7%	7.0%	6.9%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	93.6	94.6	4.0%			0.00%	31 May 2040	3,214	USD	/B/
Corporate Eurobonds										
Kernel, 2022	102.8	103.8	0.5%	7.4%	6.9%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	101.5	102.5	0.2%	6.8%	6.6%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	93.8	94.8	0.2%	7.3%	7.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	99.5	100.5	-0.1%	9.8%	9.5%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	103.3	104.3	1.0%	8.0%	7.8%	8.50%	23 Apr 2026	648	USD	B3//B
NaftoGaz, 2024	101.3	102.3	0.0%	6.8%	6.5%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds										
UkrEximBank, 2022	102.3	103.3	0.0%	8.0%	7.2%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	97.6	98.6	0.4%	9.8%	8.7%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	101.7	102.7	0.3%	9.0%	8.5%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	101.9	102.9	0.1%	8.3%	7.7%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	102.3	103.3	0.0%	8.2%	7.5%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

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									
UA4000202469			14.70%	13.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			14.70%	13.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			14.55%	12.85%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			14.20%	--	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			14.10%	--	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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