

Trends

Ukrainian sovereign Eurobonds started the new year in negative territory, with the long-term benchmark yield touching 11% for the first time since the 2015 restructuring, amid a global trend for yields to move higher based on views of the US Treasury curve and higher inflation. In Ukraine-related news, there was a batch of macroeconomic data which did not inspire investors. The country's overall steel production declined by 2% YoY to 21.1mn tonnes in 2018, failing to rebound from 2017's big 12% slide (which had been related to the loss of steel output from separatist-controlled territory). Another unpleasant fact was that Russian natural gas volumes piped via Ukraine to European consumers fell by 7% YoY in 2018 to 86.8 billion cubic meters. A complete halt to Russian gas transit could expose Ukraine to further disruptive activities by the Kremlin. Currently more than a third of Russia's gas exports to the EU cross Ukraine, but Moscow has said it wants to bypass Ukraine by building new pipelines.

Ukraine's benchmark 10-year Eurobonds lost 1.1% last week to close at 92.5/93.2 (11.0%/10.9%), and medium-term Ukraine-24s fell 0.9% to 87.4/88.4 (10.8%/10.5%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 0.8% to close at 57.3/58.3 cents on the dollar.

In corporate debt papers, agro issues MHP-24s and Kernel-22s were unchanged at 94.8/95.3 (9.0%/8.9%) and 95.8/96.4 (10.4%/10.1%) respectively, while Metinvest-26s edged down 0.4% to 89.7/90.3 (10.6%/10.4%). At the end of December, Moody's upgraded the corporate ratings of three of Ukraine's largest industrial groups: iron ore producer Ferrexpo, steel holding Metinvest, and poultry producer MHP. The outlook on the ratings for all of these companies has been changed to stable from positive. The rating action follows Moody's upgrade of Ukraine's government bond rating to Caa1 from Caa2.

Quasi-sovereign issue OschadBank-25s inched down by 0.3% to close at 94.6/95.0 (10.8%/10.7%).

Quotes for the government's 1-year UAH-denominated treasuries remained at bid/ask of 21.00%/19.25%. The Finance Ministry reported that there were UAH 740bn (26.6bn) of outstanding domestic bonds as of 30 Nov 2018.

On the interbank currency market, the hryvnia opened the year notably lower against the dollar amid the official start of the presidential campaign, giving up 1.2% to finish at 27.80 UAH/USD.

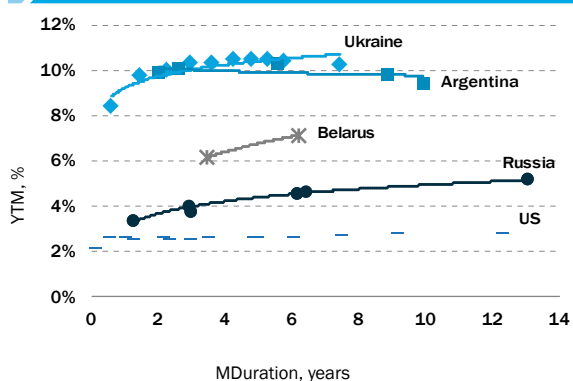
You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at sales@eavex.com.ua.

UKRAINE 10-YEAR BOND YIELD



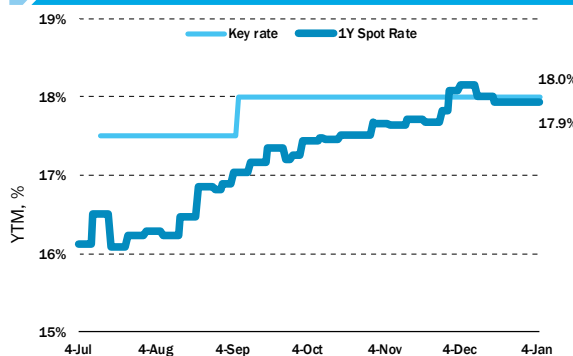
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



Source: Bloomberg, Eavex Capital

Highlights

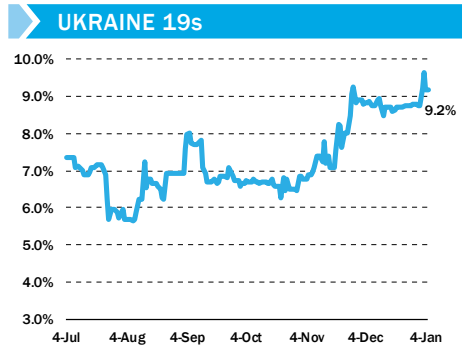
- > Ukraine Loses Important Ally With Mattis Departure
- > Privatization Brought in Only 1% of Planned Revenue in 2018

CURRENCY

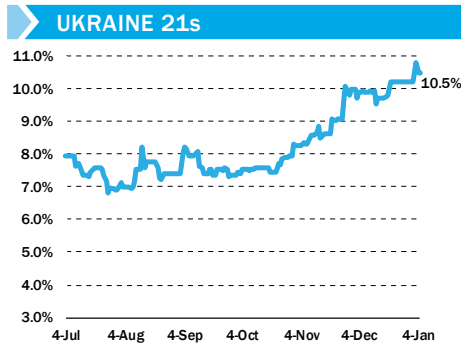
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	27.79	0.3%	-0.5%	-1.1%
EUR/UAH	31.68	-0.1%	0.0%	-5.9%
EUR/USD	1.14	-0.4%	0.4%	-5.1%

Source: Bloomberg, Eavex Capital

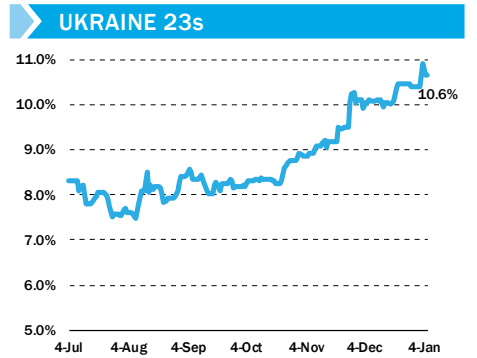
Selected Sovereign Issues



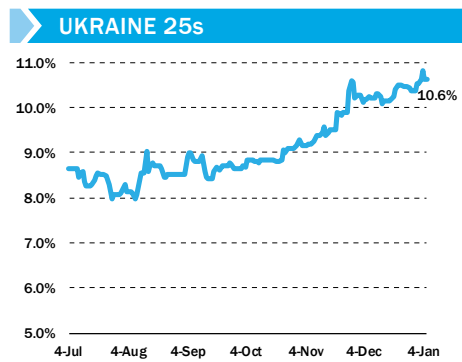
Source: Bloomberg, Eavex Research



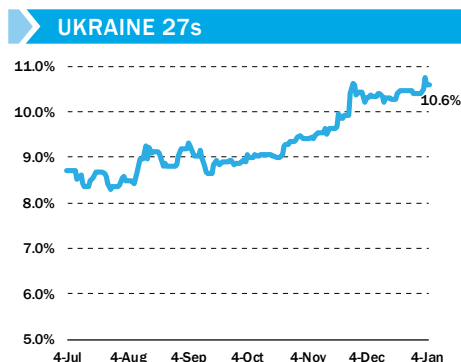
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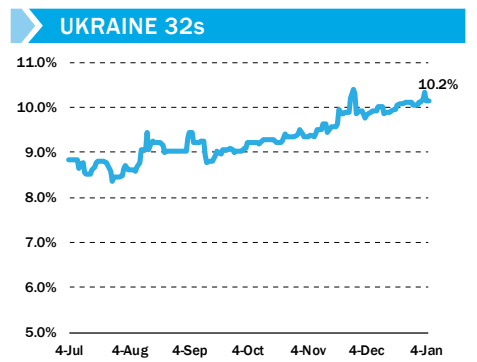
Source: Bloomberg, Eavex Research



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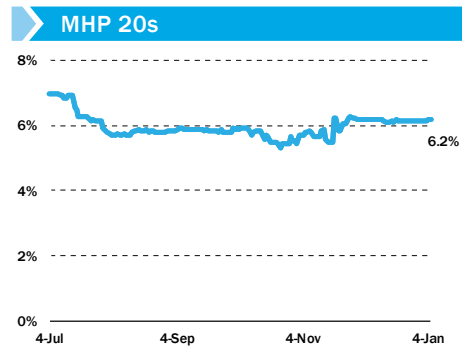


Source: Bloomberg, Eavex Research

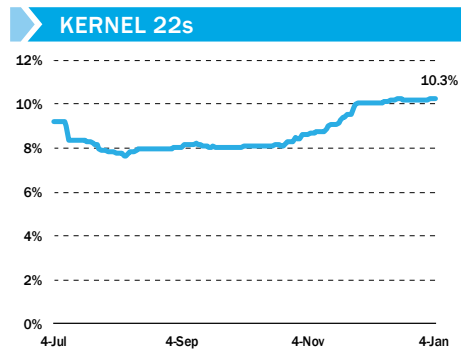


Source: Bloomberg, Eavex Research

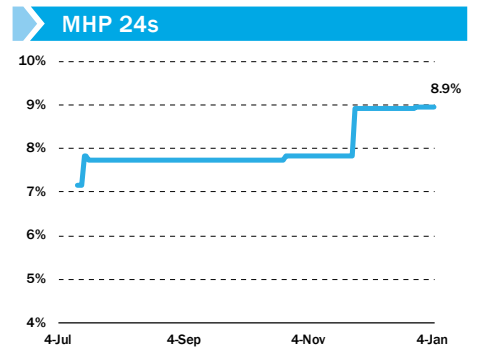
Selected Corporate Issues



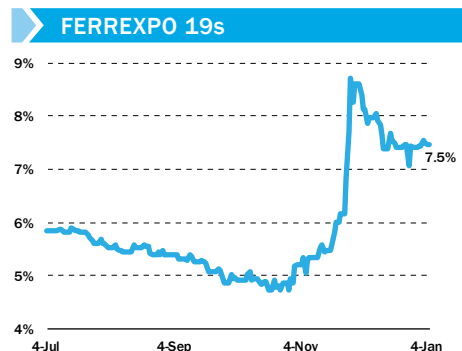
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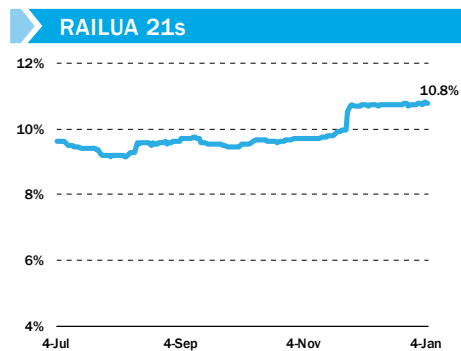
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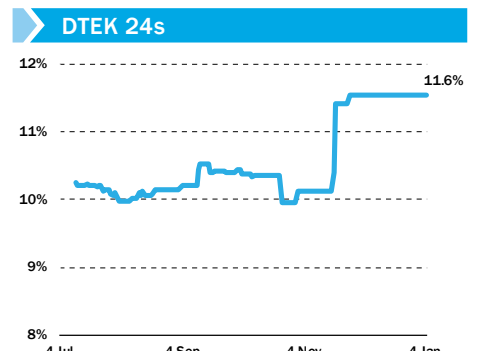
Source: Bloomberg, Eavex Research



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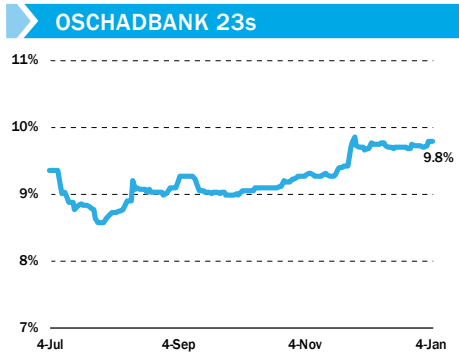


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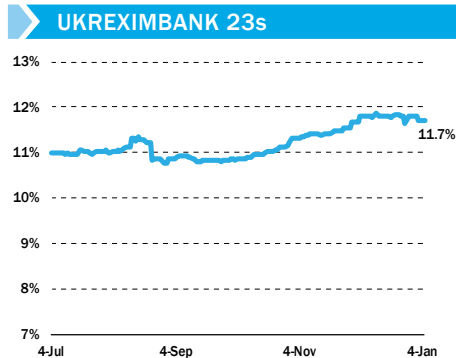


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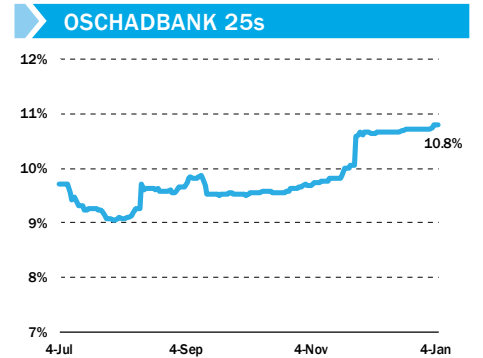
Selected Banking Issues



Source: Bloomberg, Eavex Research

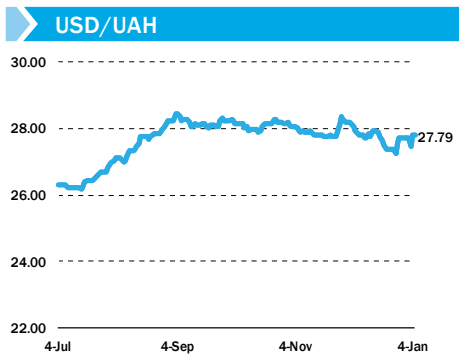


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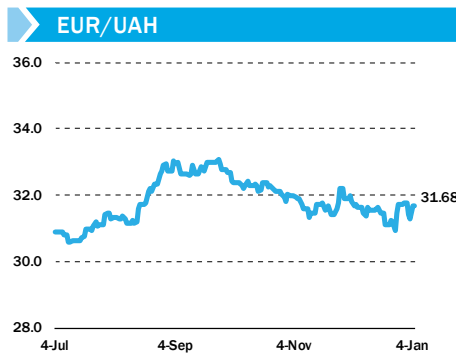


Source: Bloomberg, Eavex Research

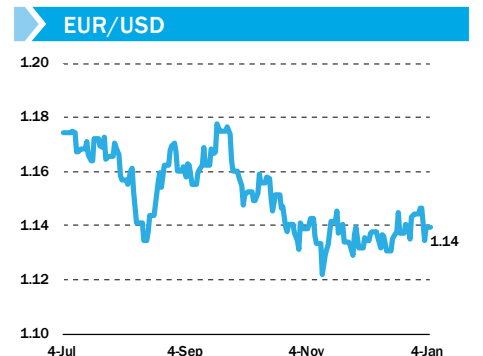
Currency



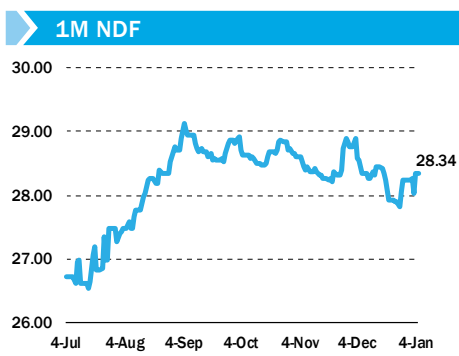
Source: Bloomberg, Eavex Research



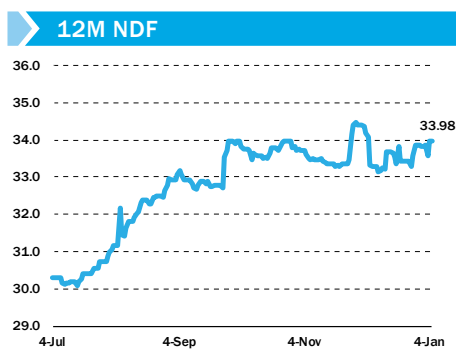
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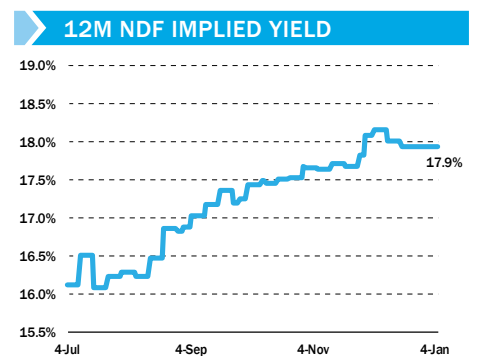
Source: Bloomberg, Eavex Research



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Ukraine Loses Important Ally With Mattis Departure

by Will Ritter
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NEWS

US Secretary of Defense James Mattis was forced by US President Trump to leave his post ahead of schedule on Jan 1 after he wrote a letter of resignation criticizing Trump's approach to foreign affairs. Mattis had previously planned to stay on until the end of February in order to attend a key NATO defense ministers' meeting. The move that prompted Mattis's resignation was reportedly Trump's sudden decision to withdraw all US forces from the Syrian conflict, thus ceding control of the security situation in that country to Russia and Turkey. The US Defense Department is currently being headed by former defense industry executive Patrick Shanahan until a replacement is appointed and confirmed.

COMMENTARY

Trump had longed viewed Mattis, who is far more popular with the US security & foreign policy establishment than the president himself, as a rival, and his departure had been rumored for several months. Mattis was a strong advocate of supporting Ukraine against Russian aggression, and he visited Kyiv to attend Ukraine's military parade and meet with President Poroshenko on Independence Day in August of this year; the news of his ouster was widely celebrated in the Russian media. Indeed, Mattis was viewed as an important check against Trump's irresponsibility in foreign policy and his tendency to attack traditional US allies while flattering and appeasing foreign dictators. We think that Trump will try to leave the acting secretary of defense in place for as long as possible, as he sees a weakened US defense & security establishment as benefiting his own interests. This situation is significant for Ukraine because Trump can surely not be counted on to come to Ukraine's aid in case of a security crisis, making Kyiv dependent on support from other key members of the US administration, with Mattis up to now having been the strongest link. Trump previously complained that Mattis is "sort of a Democrat", and we would not be at all surprised to see Mattis returning to head the Pentagon again under a hypothetical Democratic administration two years from now.

Privatization Brought in Only 1% of Planned Revenue in 2018

by Dmitry Churin
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NEWS

The Ukrainian government executed its privatization plan at 1.4% of expected revenue in 2018, according to a statement from the Finance Ministry published on Jan 3. The Ministry said that privatization proceeds brought in some UAH 300mn (USD 11mn), compared to the budgeted figure (at the start of 2018) of UAH 22.5bn. MinFin said it had covered the revenue shortfall by issuing additional domestic bonds. The government's total borrowings in 2018 amounted to UAH 277bn, including UAH 103bn (USD 3.8bn) of external borrowings, which was 29% above the planned target. According to preliminary estimates, Ukraine's national budget deficit for the year amounted to UAH 168bn (USD 6.2bn), which is equivalent of 5.0% of GDP, i.e. far above the targeted figure of 2.5%. One of the primary reasons for the higher-than-expected budget deficit was additional transfers of money to the State Pension Fund.

COMMENTARY

The tiny proceeds from privatization in 2018 were the result of a failure to sell any large state-owned enterprises, which cannot be viewed as surprising in the current climate of major political uncertainty heading into Ukraine's election year. The most notable failed privatization was the cancelled auction for a 78% stake in electricity generation company CentrEnergO, which was scheduled in December with the starting price of UAH 6.0bn (USD 214mn). The new support program between Ukraine and the IMF contains a specific call for the government to sell CentrEnergO in the first half of 2019. Other enterprises on this "urgent" privatization list are state coal mine KrasnoLimanska, pharmaceutical producer Indar, and the President Hotel in Kyiv. The IMF also demanded a reduction of the list of Ukrainian companies prohibited from privatization. Importantly, Ukraine has significantly improved its legal framework for privatization, in particular by adopting the necessary secondary legislation last June, which has enabled the launch of sales of small companies and assets through an electronic platform - ProZorro.Sale. In the absence of successful large-scale privatizations, starting the sale of smaller state assets - in particular government-owned real estate - is an important signal for investors of the intention of the state to reduce its influence over the economy and to attract additional investment.

The final 5.0% budget deficit figure for 2018 is clearly a serious matter of concern, although it is hardly surprising. The government managed to hide the problem for most of the year by postponing the disclosure of some transfers to the Pension Fund, which is an enormous multi-billion dollar burden for the state, until the end of the year. The new IMF program has a target to keep the deficit at 2.25% of GDP in 2019. Unfortunately we have to say that we view this goal as not realistic or serious, given the 2018 final budget result and especially taking into account the election cycle this year. On the positive side, Ukraine is an open society where elections are held freely and largely in line with international standards. New members of the Central Electoral Commission have been appointed after some of the mandates lapsed in 2014 and 2017, and the initial round of presidential voting is set for Mar 31.

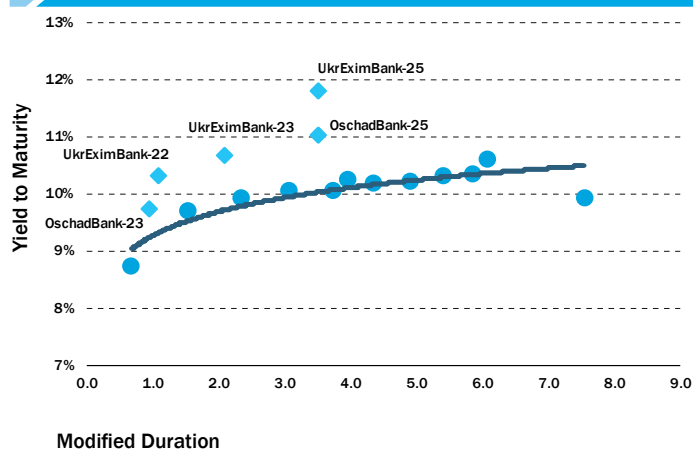
UKRAINIAN EUROBONDS

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	Rating ¹
Sovereign Eurobonds												
Ukraine, 2019	98.6	99.6	-0.2%	10.0%	8.3%	36.8	0.6	7.75%	1 Sept 2019	1,744	USD	Caa1/B-/B-
Ukraine, 2020	96.0	96.5	-0.7%	10.5%	10.1%	49.2	1.5	7.75%	1 Sept 2020	1,780	USD	Caa1/B-/B-
Ukraine, 2021	93.2	94.2	-0.7%	10.7%	10.3%	31.7	2.3	7.75%	1 Sept 2021	1,409	USD	Caa1/B-/B-
Ukraine, 2022	90.9	91.9	-0.8%	10.8%	10.5%	28.9	3.0	7.75%	1 Sept 2022	1,384	USD	Caa1/B-/B-
Ukraine, 2023	89.0	90.0	-0.9%	10.8%	10.5%	26.3	3.6	7.75%	1 Sept 2023	1,355	USD	Caa1/B-/B-
Ukraine, 2024	87.4	88.4	-0.9%	10.8%	10.5%	20.2	4.3	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2024-2	92.6	93.6	-0.7%	10.9%	10.7%	19.3	3.9	8.99%	1 Feb 2024	750	USD	/B-/B-
Ukraine, 2025	86.0	87.0	-1.1%	10.7%	10.5%	23.5	4.8	7.75%	1 Sept 2025	1,329	USD	Caa1/B-/B-
Ukraine, 2026	84.6	85.6	-0.6%	10.7%	10.5%	10.9	5.3	7.75%	1 Sept 2026	1,318	USD	Caa1/B-/B-
Ukraine, 2027	83.7	84.7	-1.0%	10.7%	10.5%	16.9	5.8	7.75%	1 Sept 2027	1,307	USD	Caa1/B-/B-
Ukraine, 2028	93.0	93.8	-0.9%	10.9%	10.8%	14.5	6.0	9.75%	1 Nov 2018	1,250	USD	Caa1/B-/B-
Ukraine, 2032	79.1	80.1	-0.8%	10.2%	10.1%	9.8	7.5	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	57.3	58.3	-0.8%	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	0.1	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	95.6	96.6	-0.1%	10.5%	10.0%	5	2.5	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	101.8	103.0	-0.1%	6.7%	5.7%	7.3	1.1	8.25%	2 Apr 2020	750	USD	B3/B-/B-
MHP, 2024	94.8	95.3	0.0%	9.0%	8.9%	0.3	4.2	7.75%	10 May 2024	500	USD	B3//
MHP, 2026	85.6	86.8	-0.3%	9.8%	9.5%	6.9	5.3	6.95%	4 Apr 2026	550	USD	B3/B/B
Avangardco, 2018	20.3	23.0	1.2%	n/a	n/a	n/a	n/a	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	13.2	14.7	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	96.2	97.2	0.0%	11.7%	11.4%	0.1	4.2	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	100.0	102.0	0.0%	7.4%	6.7%	-0.3	n/a	7.50%	31 Dec 2021	1,197	USD	B3//B
Metinvest, 2023	90.3	91.4	-0.4%	10.6%	10.3%	13.4	3.4	7.75%	23 Apr 2023	945	USD	B3//B
Metinvest, 2026	89.4	90.6	-0.3%	10.6%	10.4%	6.1	5.1	8.50%	23 Apr 2026	648	USD	B3//B
Ferrexpo, 2019	100.2	100.9	-0.2%	9.5%	6.4%	67.3	0.2	10.38%	07 Apr 2019	186	USD	B3/CCC/CC
Ferrexpo, 2019	100.3	101.1	-0.1%	9.1%	5.9%	4.8	0.2	10.38%	07 Apr 2019	161	USD	B3/CCC/CC
UZ Rail, 2018	97.4	98.4	-0.1%	11.0%	10.6%	3.4	0.9	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	28.7	33.8	0.0%	n/a	n/a	126.2	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JXX Oil&Gas, 2020	78.0	85.0	0.0%	40.3%	30.8%	31.9	0.9	14.00%	19 Feb 2020	16	USD	//
Bank Eurobonds												
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	10.0	0.0%	n/a	n/a	n/a	0.8	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	21.0	23.6	2.0%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	97.4	98.2	-0.2%	10.6%	10.3%	8.1	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	92.7	95.5	0.3%	12.2%	11.2%	-9.2	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	93.4	94.3	-0.2%	11.3%	11.1%	5.3	2.4	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	98.1	99.0	-0.3%	9.9%	9.7%	7.5	0.9	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	94.3	95.3	-0.3%	10.9%	10.7%	7.8	2.0	9.63%	20 Mar 2025	500	USD	Caa3//CCC
Municipal Eurobonds												
City of Kyiv, 2022	90.3	91.0	-0.9%	10.6%	10.3%	n/a	n/a	7.50%	15 Dec 2022	115	USD	Caa2/B-/B-

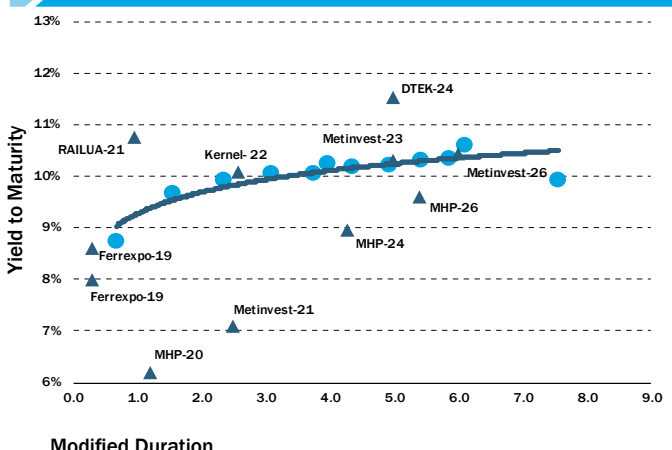
¹ Moody's/S&P/Fitch

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			19.75%	18.00%	n/a	n/a	S/A	10 Apr 2019	n/a
UA4000196620			20.50%	18.50%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			20.50%	18.50%	n/a	n/a	S/A	20 Jan 2021	n/a
VAT Bonds									
UA4000185151			21.00%	19.25%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			21.00%	19.25%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			21.00%	19.25%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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