

Weekly Digest

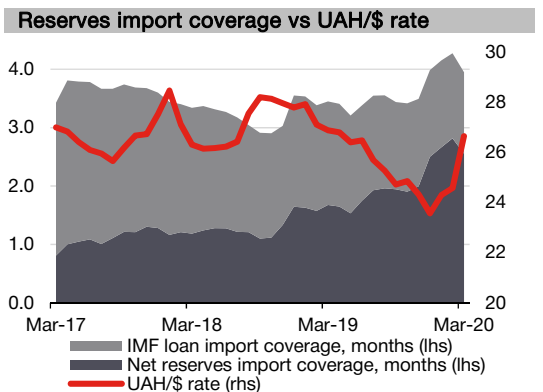
- IMF update: aid in 2020 may total \$5.0bln, but bank law and amended budget need to be voted
- Ukraine's foreign currency reserves decreased over March by \$2.1bln to \$24.9bln
- Ukraine's CA deficit in February amounted to \$0.2bln

IMF update: aid in 2020 may total \$5.0bln, but bank law and amended budget need to be voted. According to the new FinMin head Marchenko, talks with the Fund are ongoing, but agreement on key figures has already been reached. In addition to the much-discussed bank law, the final voting on which is currently under threat of derailment by MPs that have submitted a record-setting number of amendments for review (16,000), the IMF is asking the parliament to pass the revised version of the annual state budget. As per the preliminary version of the document available on the official website of the Rada, the latter envisions a c. UAH298bln deficit, which is equivalent to roughly 7.0% of nominal GDP.

Our view: Though the second reading of the bank law in parliament will apparently take longer than previously expected, we continue to believe that this piece of legislation will eventually be passed (most likely within the next two weeks), given that both political will and the required votes are present. As the budget amendments hurt a smaller amount of vested interests, this bill is unlikely to be met with as much resistance. All in all, we find Marchenko's assessment of the timeframe for the next IMF disbursement (May) to be realistic.

Ukraine's foreign currency reserves decreased over March by \$2.1bln to \$24.9bln. Outflows stemmed primarily from interventions on the interbank market totaling \$2.2bln (net) as well as debt servicing and amortizations amounting \$1.1bln (out of which \$0.4bln went towards the IMF). Inflows resulted mostly from \$1.2bln worth of local bond placements by the FinMin.

Our view: March end-of-period reserves came in substantially lower than projected at the beginning of the month, primarily due to elevated intervention volumes, which were used by the NBU to stabilize the interbank foreign exchange market in the wake of the COVID 19 lockdown. A portion of this outflow was counteracted by the FinMin's surprisingly successful FX fundraising initiatives on the local market, though some \$0.8bln of the received amount will need to be rolled over in just 90 days. Taking into account that the regulator was able to buy back c. \$0.4bln from market over the past week and relatively minor state debt amortizations, we estimate that reserves in April will inch up just slightly to \$25.2bln. For the rest of the year, we currently model that Ukraine will receive two tranches from the IMF totaling \$5.0bln, one EUR0.5bln payment from the EU, and one \$0.5bln disbursement from the World Bank. We also assume that the state will be able to place another \$2.0bln eurobond in the fourth quarter. Under these conditions we calculate that end-of-year reserves should amount to some \$29.2bln (up \$3.9bln YoY).



*Note: import coverage is calculated using average LTM imports
 Source: NBU, Adamant Capital estimates*

Ukraine's CA deficit in February amounted to \$0.2bln, down \$0.1bln YoY. The LTM figure landed at \$1.1bln vs \$4.0bln a year ago. The monthly trade balance (of goods and services) improved by \$0.4bln YoY to -\$0.6bln. The FA demonstrated a \$0.9bln inflow.

Our view: The reported CA deficit figure came in lower than anticipated on the back more balanced trade flows, despite unexpectedly high private sector interest payments (at \$450mln vs \$300mln in January and \$180mln last year). Exports benefited from larger sales volumes of agricultural produce, especially of corn and sunflower oil, and of iron ore (3.3mlnt, which is a 16% increase YoY). Imports were characterized by a sharp recoil in purchases of machinery, which dropped by 13% YoY, partially stemming from a high comparison base in the personal vehicle category (in 2018 the government launched an initiative to force unregistered car owners that crossed the Ukrainian border illegally to pay customs duties).

Given that the effect of the worldwide coronavirus lock-down on the domestic economy is yet to be observed statistically, our forward-looking projections are largely based on conjecture. From the one hand, the CA is likely to benefit from the recent plunge in oil prices (by 50% YTD) and from the fact that Ukraine is a net importer of travel-related services. On the other hand, the volume of remittances may shrink quite significantly as worker migrants face unemployment abroad and the inability to bring cash over the border (most transfers are unofficial). The degree to which demand for imports such as equipment and consumer goods corrects are further unknowns, just as the impact on the domestic IT industry, which is highly dependent on foreign clients. All in all, however, given that steel, iron, and soft commodity prices are currently holding up and performance in February exceeded expectations, we feel that our prior deficit projection of \$5.0bln for the year (3.0% of GDP) remains plausible. The FA this month was characterized primarily the \$0.5bln eurobond placement by Vodafone Ukraine, though these funds probably remained abroad, as the domestic banking system saw only a \$0.1bln increase in net assets despite a \$0.2bln net T-bill amortization. FDIs amounted to \$0.2bln, though roughly a third of these was due to reinvested income. Net retail FX cash purchases dropped to practically zero.

BoP summary for February, \$mln					
	Feb-20	Jan-20	Dec-19	LTM	LTM-1
Exports:	4,933	5,116	5,455	63,677	59,972
MoM	-4%	-6%	0%		
YoY	3%	2%	3%	6%	9%
Imports:	5,555	5,084	6,686	75,517	71,196
MoM	9%	-24%	5%		
YoY	-5%	0%	10%	6%	11%
TB:	-622	32	-1,231	-11,840	-11,224
MoM	-654	1,263	-319		
YoY	428	115	-434	-616	-2,207
CA:	-159	722	2,351	-1,135	-4,023
MoM	-881	-1,629	2,311		
YoY	90	2,513	2,446	2,888	-1,551
FA:	-890	-183	-938	-9,026	-6,746
MoM	-707	755	-377		
YoY	-891	-401	968	-2,280	-1,666
BoP:	733	906	3,290	7,935	2,757
MoM	-173	-2,384	2,689		
YoY	981	2,905	1,480	5,178	158
Funding flow ¹ :	953	-202	1,376	8,582	4,846

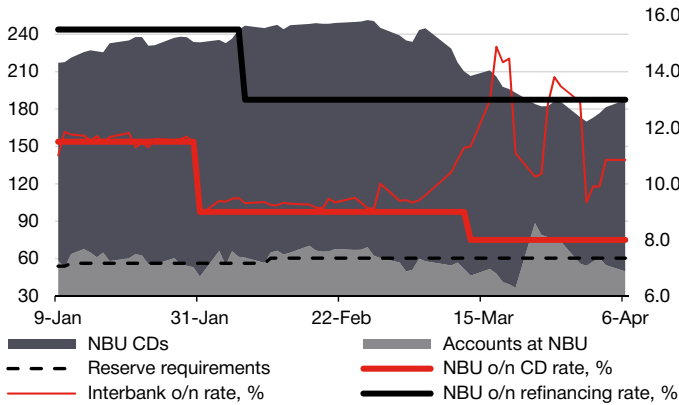
Note: LTM and LTM -1 stand for last twelve months and last twelve months a year ago, respectively

(1) Private sector financing: an estimated amount of capital flowing into the private sector (including banks) via lending and investment

Source: NBU, Adamant Capital estimates

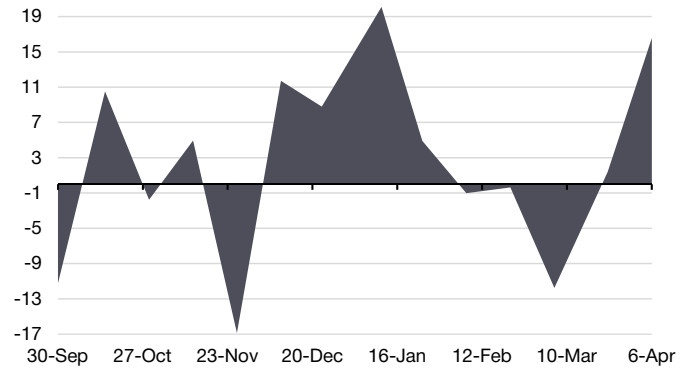
Appendix

Banking system 3m liquidity (lhs, UAHbln) vs NBU CD rates (%)



Source: NBU, Adamant Capital estimates

Banking system 6m inflows from the state treasury and the DGF

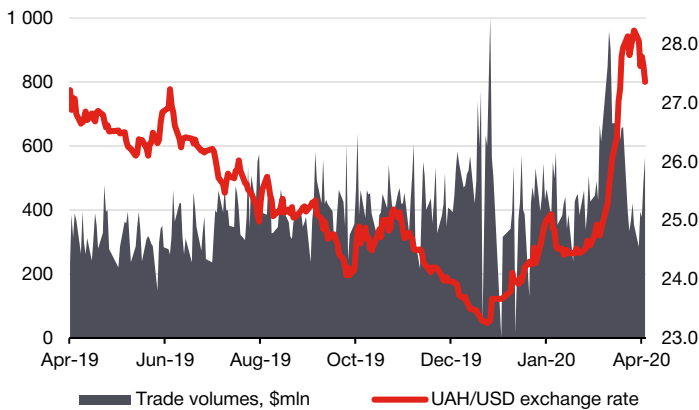


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 13.5bln to UAH 187.1bln over the last week. The FinMin's government bond auctions were cancelled.

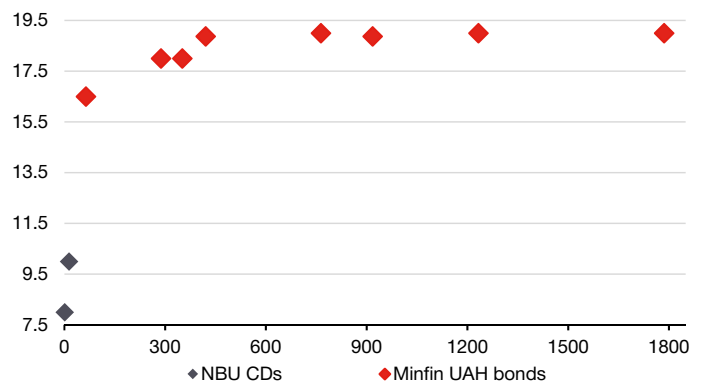
The UAH/USD interbank rate over the last week appreciated by 2.84%, starting out with 28.06 and ending at 27.26.

FX interbank trade volume (lhs) and FX rate (rhs), past 12 months

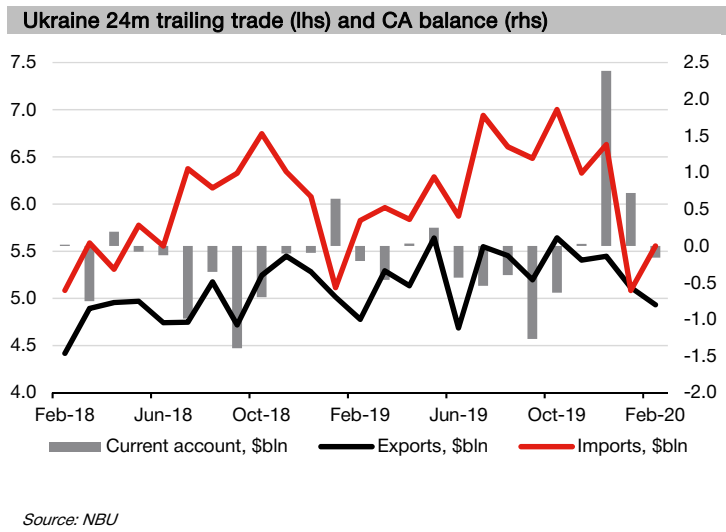
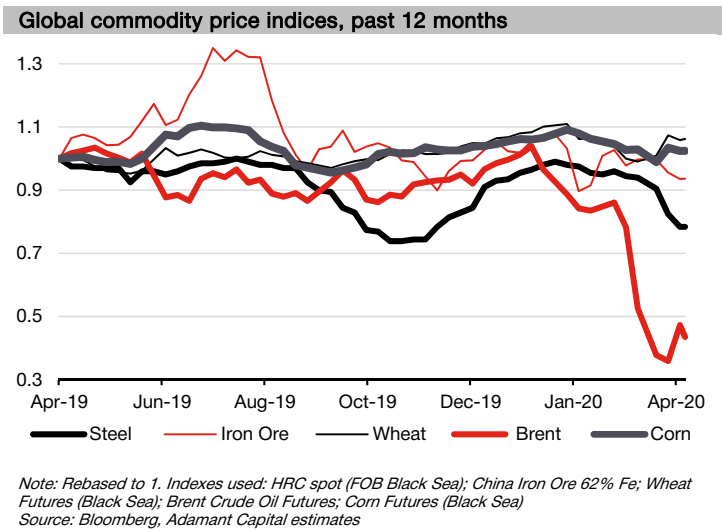
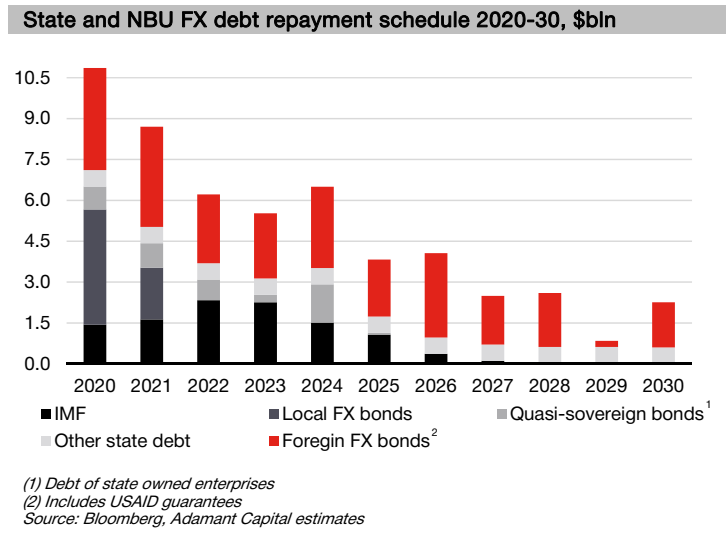
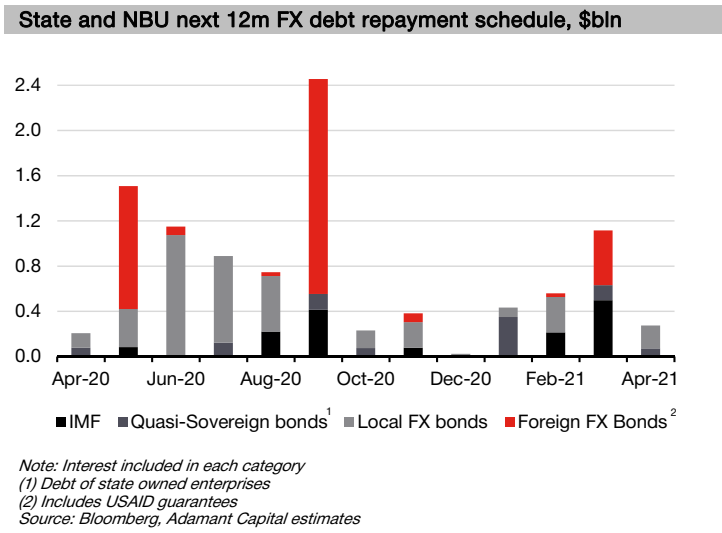
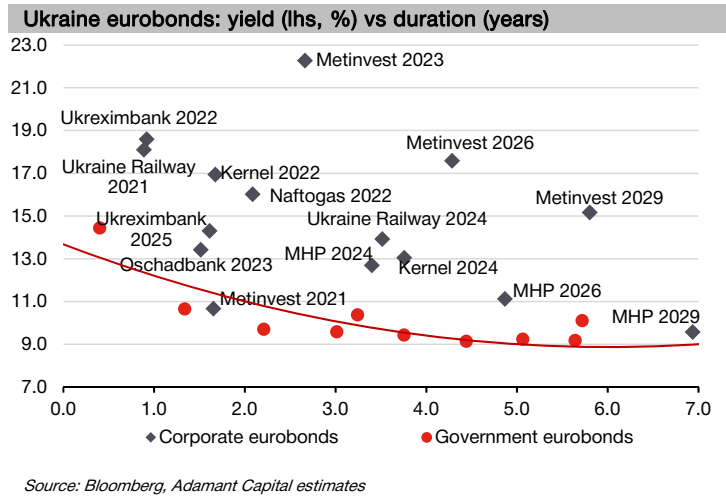
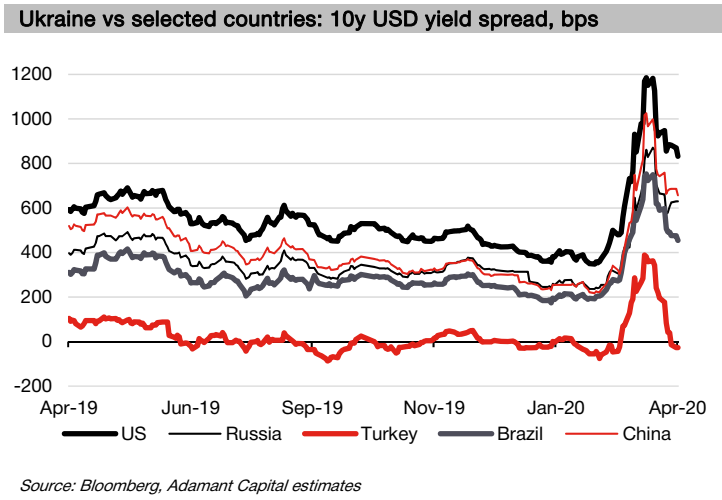


Note: Exchange rate figures are from official interbank data
Source: NBU

Local market yield curve: yield (lhs, %) and maturity (rhs, days)



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20E	2020E
Real GDP growth, YoY	3.3%	2.9%	4.7%	3.9%	1.5%	3.2%	-3.3%	-0.5%
Nominal GDP, UAHbln	3,559	810	929	1,104	1,108	3,951	807	4,069
Nominal GDP, \$bln	131	30	35	44	46	153	32	160
GDP deflator growth YoY, %	15.0%	11.7%	9.4%	6.8%	4.2%	7.6%	3.0%	3.5%
Period average CPI YoY, %	11.0%	8.9%	9.1%	8.5%	5.2%	7.9%	3.3%	3.3%
End of period CPI YoY, %	9.8%	8.6%	9.0%	7.5%	4.1%	4.1%	3.4%	4.4%
Consolidated budget deficit, % of GDP ¹	1.9%	1.1%	1.0%	-0.9%	8.9%	2.1%	1.1%	7.1%
Broad public sector deficit, % of GDP ²	2.2%	1.1%	1.0%	-0.9%	8.9%	2.1%	1.1%	7.1%
Public debt as % of LTM GDP, UAH	60.9%	58.6%	55.6%	51.3%	50.6%	50.6%	50.6%	51.2%
Public external debt as % of LTM GDP, \$ ³	38.6%	37.4%	36.1%	33.0%	31.8%	31.8%	31.8%	31.9%
Total external debt, \$bln	115	114	116	118	122	122	121	124
Export of goods and services, \$bln	59.1	15.1	15.5	16.3	16.5	63.4	15.1	59.2
Import of goods and services, \$bln	70.4	16.9	18.3	20.3	20.0	75.5	16.2	68.9
Trade balance, \$bln	-11.3	-1.8	-2.8	-4.0	-3.5	-12.1	-1.1	-9.8
Current account, \$bln	-4.3	-0.2	-0.5	-2.2	1.8	-1.1	0.0	-5.0
Financial account, \$bln ⁴	-7.1	-0.5	-0.9	-3.6	-3.5	-6.2	1.0	-5.3
End of period NBU reserves, \$bln	20.8	20.6	20.6	20.1	25.3	25.3	24.9	29.2
Average interbank exchange rate, UAH/\$ ⁵	27.2	27.3	26.6	25.2	24.2	25.8	25.2	25.5
EOP interbank exchange rate, UAH/\$	27.7	27.2	26.2	24.2	23.7	23.7	27.6	26.5
EOP key policy rate NBU, %	18.0%	17.5%	17.5%	16.5%	13.5%	13.5%	10.0%	9.0%

(1) Includes net loans given out to state enterprises from the central budget

(2) Includes quasi-fiscal expenditures such as the recapitalization of Naftogaz, state banks, and the DGF. Also accounts for state guarantees.

(3) GDP calculated in \$ according to the average UAH/\$ exchange rate for the year

(4) As per the 6th edition of the IMF's Balance of payments and international investment position manual

(5) Based on official NBU data of average daily interbank rates. Not weighted by volume traded

Source: NBU, SSSU, State treasury, Ministry of Finance, IMF, Adamant Capital estimates

Indicative eurobond prices, yields, and recommendations									
Bond name	Recommendation	Rec date	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur, yrs	Out, \$mln
Ukraine 2023	Hold	-	7.8	Sep-23	9.6	94.8	1.3	3.0	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	10.4	95.7	3.1	3.2	750
Ukraine 2027	Hold	-	7.8	Sep-27	9.2	92.5	0.9	5.6	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.1	98.0	0.9	5.7	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	8.6	91.0	0.6	7.8	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	4.1	0.0	nm	214
DTEK 2024 in default	Hold	31-Mar-20	10.8	Dec-24	34.9	47.8	-2.0	3.0	1,344
Kernel 2022	Hold	3-Mar-20	8.8	Jan-22	16.9	87.6	-0.5	1.7	500
Kernel 2024	Hold	3-Mar-20	6.5	Oct-24	13.0	78.2	0.2	3.8	300
Metinvest 2021	Hold	17-Mar-20	7.5	Dec-21	10.7	94.9	0.0	1.7	115
Metinvest 2023	Hold	17-Mar-20	7.8	Apr-23	22.3	69.1	0.0	2.7	505
Metinvest 2025 (EUR)	Hold	17-Mar-20	5.6	Jun-25	15.7	65.0	-0.3	4.3	333
Metinvest 2026	Hold	17-Mar-20	8.5	Apr-26	17.6	67.0	-3.1	4.3	648
Metinvest 2029	Hold	17-Mar-20	7.8	Oct-29	15.2	63.2	-5.4	5.8	500
MHP 2024	Buy	4-Feb-20	7.8	May-24	12.7	84.6	0.4	3.4	500
MHP 2026	Buy	4-Feb-20	7.0	Apr-26	11.1	82.1	1.8	4.9	550
MHP 2029	Buy	4-Feb-20	6.25	Sep-29	9.6	79.6	3.1	6.9	350
Naftogas 2022	Hold	1-Oct-19	7.4	Jul-22	16.0	84.0	-3.0	2.1	335
Naftogas 2024 (EUR)	Hold	1-Oct-19	7.1	Jul-24	11.9	84.6	2.1	3.6	672
Oschadbank 2023	Buy	18-Feb-20	9.4	Mar-23	13.4	94.3	3.9	1.5	245
Oschadbank 2025	Buy	18-Feb-20	9.6	Mar-25	10.9	97.1	0.0	2.3	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	30.6	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	30.3	-0.4	nm	175
Ukraine Railway 2021	Buy	8-Oct-19	9.9	Sep-21	18.1	93.3	-0.2	0.9	200
Ukraine Railway 2024	Buy	8-Oct-19	8.3	Jul-24	13.9	82.2	0.3	3.5	595
Ukreximbank 2021 (UAH)	Buy	18-Feb-20	16.5	Mar-21	24.7	93.7	-0.2	0.9	150
Ukreximbank 2022	Buy	18-Feb-20	9.6	Apr-22	18.6	92.1	-0.1	0.9	313
Ukreximbank 2025	Buy	18-Feb-20	9.8	Jan-25	14.3	93.0	0.3	1.6	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	5.0	-0.1	nm	543

Note: all bonds are rated in relation to the sovereign, which is assumed to have a 'Hold' rating

Source: Bloomberg, Adamant Capital estimates

Fixed Income one-week event calendar		
Event	Type	Date
SSSU - Monthly inflation	Exact	9-Apr
Metinvest - Monthly report for January	Indicative	13-Apr
MHP - Financial results for Q4 2019 and FY 2019	Exact	14-Apr

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