

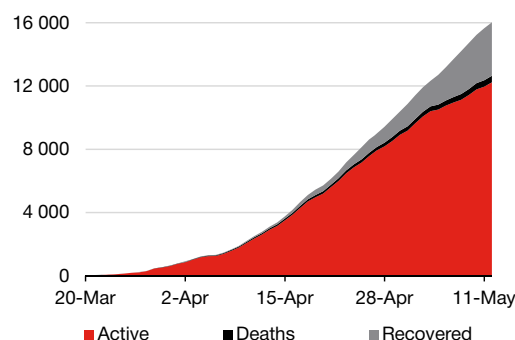
Weekly Digest

- Ukraine has eased some COVID-19 lockdown restrictions as of May 12, end date unclear
- Consumer inflation in April amounted to 0.8% MoM and 2.1% YoY
- Ukraine's foreign currency reserves increased over April by \$0.8bln to \$25.7bln

Ukraine has eased some COVID-19 lockdown restrictions as of May 12, end date unclear. According to the updated regulations, most stores, restaurants serving people outside, and a number of services including dentist and lawyer offices, as well as hair and nail salons can resume operations. Additionally, the state has identified criteria for further liberalization. The next phase, which will permit some schools and hotels to reopen, will start as soon as the number of cases (expressed as a percentage of those tested) drops over 10 consecutive days and daily recoveries remain flat or increase. According to PM Smyhal, this is unlikely to occur before May 22.

Our view: Though it now seems that some form of lockdown will persist for longer than we previously modelled (possibly until end of June or even later), the partial relaxation of measures suggests a lighter economic effect over this extra period. Taking into account that March data for both output and budget revenues came in better than anticipated (which means that our April estimates may be too pessimistic), we feel that our annual real GDP projection of -3.0% remains sound even in light of these latest developments.

COVID-19 cases in Ukraine as of March 20

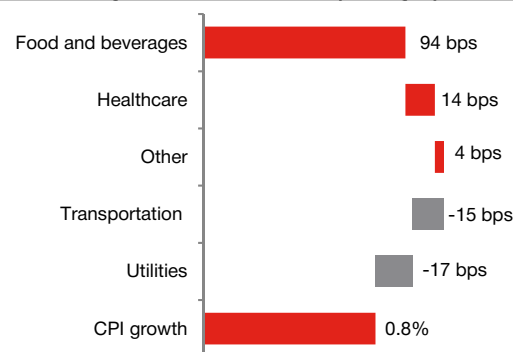


Source: Ministry of Health, minfin.com.ua, Adamant Capital estimates

Consumer inflation in April amounted to 0.8% MoM and 2.1% YoY. Key categories contributing to the CPI increase relative to February were food (impact of 94 bps) and healthcare (14 bps). Prices declined primarily in the utilities and transportation categories, owing mostly to cheaper natural gas and fuel (-12% and -9% MoM, respectively).

Our view: Headline CPI came in substantially below expectations, as the surge in local demand for consumer goods (seems to have indeed spilled over from March) and devaluation effects look to have been counterbalanced by cheaper commodities and food globally (the FAO index dropped by another 3.4% MoM). As the latter two trends are likely to persist in May, we now expect the next inflation reading to demonstrate another deceleration in annual terms (to 1.4%), before starting to come back up due to a lower comparison base. The reported data also suggests that, in the absence of additional shocks, the year-end figure is more likely to be closer to 4.0% rather than 5.8% that we predicted previously. Deviations from this scenario are possible if budget expenditures surge to higher levels than anticipated (our deficit projection stands 4.5% of GDP), the NBU's 5-year refinancing program leads to a substantial increase in hryvnia liquidity, or if energy prices sharply recover.

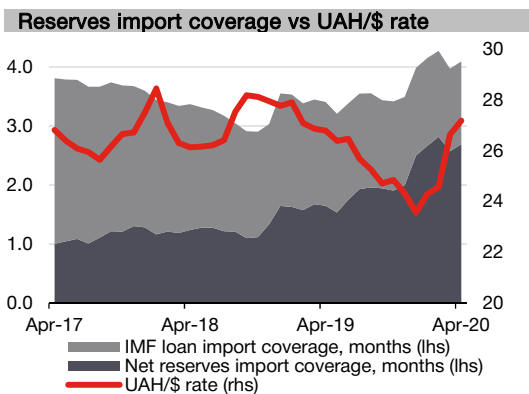
MoM CPI growth contributions by category



Source: SSSU, Adamant Capital estimates

Ukraine's foreign currency reserves increased over April by \$0.8bln to \$25.7bln. Outflows stemmed primarily from debt servicing and amortizations amounting to \$0.3bln. Inflows resulted from \$0.7bln worth of NBU intervention purchases on the interbank market, a \$0.2bln local T-bill placement, and a \$0.2bln revaluation effect.

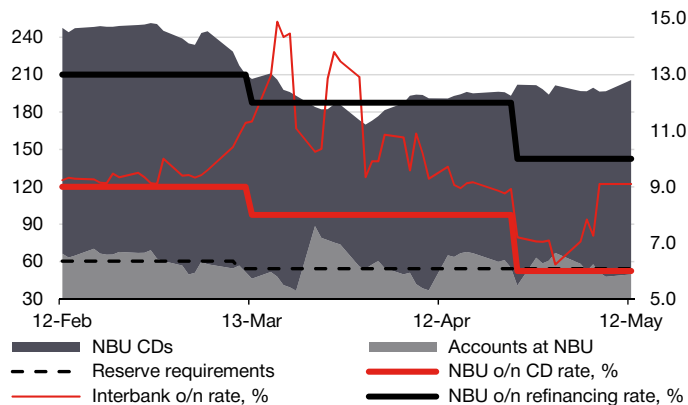
Our view: The reported reserves figure came in slightly above our projections due a higher amount of NBU intervention purchases. Given that the exchange rate has also appreciated by c. 3% over the month, this suggests that the FX market was marginally oversupplied after experiencing a substantial deficit in March. As the IMF is no longer likely to disburse its first tranche to Ukraine in May (the bank law is yet to be voted), we think that reserves will dip by roughly \$1.0bln (equal to the size of the US-guarantee eurobond that comes due) in the next reading, before rebounding over June and July. Taking into account that the EU has recently approved an additional EUR1.2bln COVID-19 aid package for Zelensky's government (the first payment is unconditional), we increase our end-of-year reserves projection by a similar amount - to \$30.3bln.



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

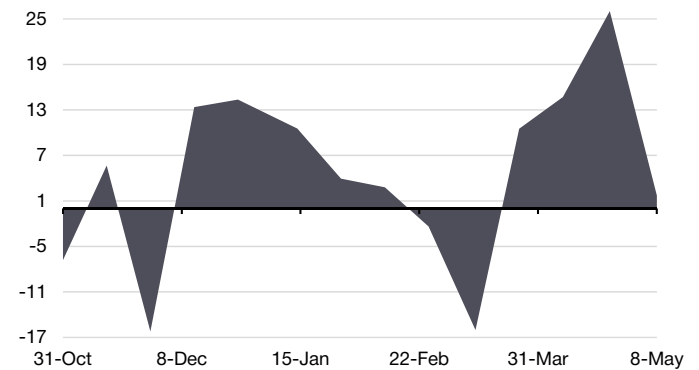
Appendix

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

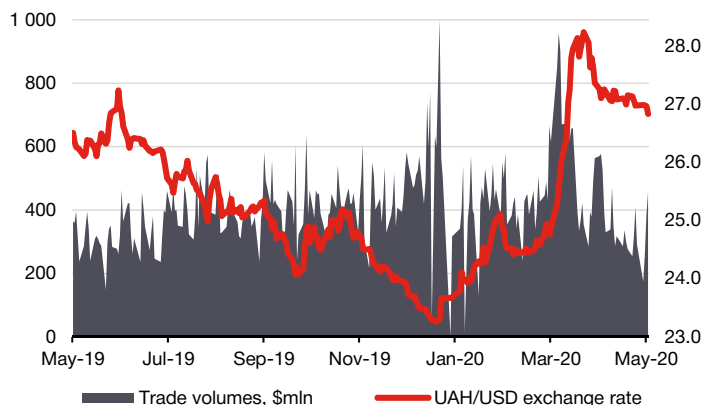


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 8.9bln to UAH 205.6bln over the last week. On May 12 the Ministry of Finance conducted local hryvnia denominated placement maturing in July 2020 and November 2020 with yields of 11.26% and 11.28% respectively. A total of UAH 19.4bln was raised as a result.

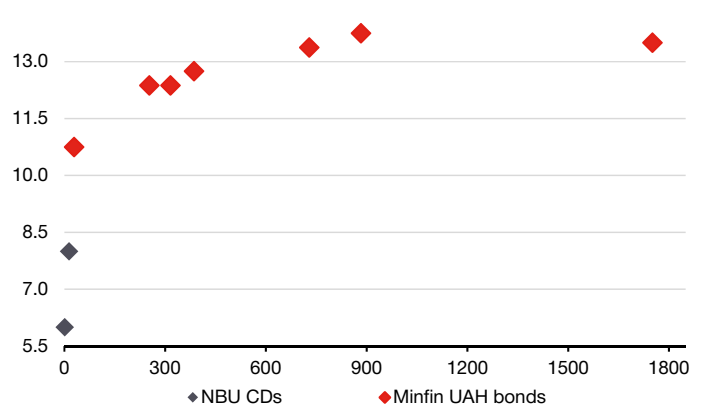
The UAH/USD interbank rate over the last week appreciated by 0.62%, starting out with 26.98 and ending at 26.81.

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



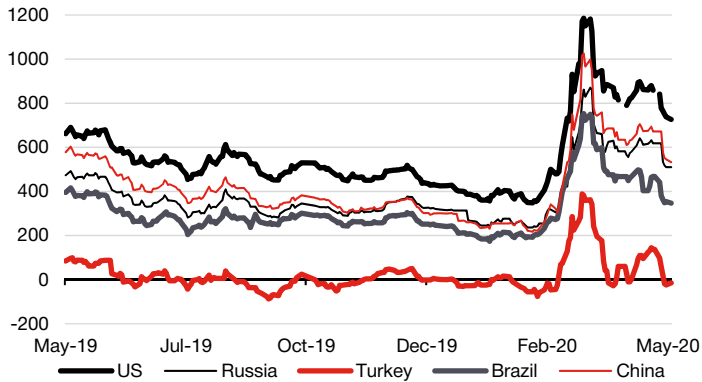
Note: Exchange rate figures are from official interbank data
Source: NBU

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



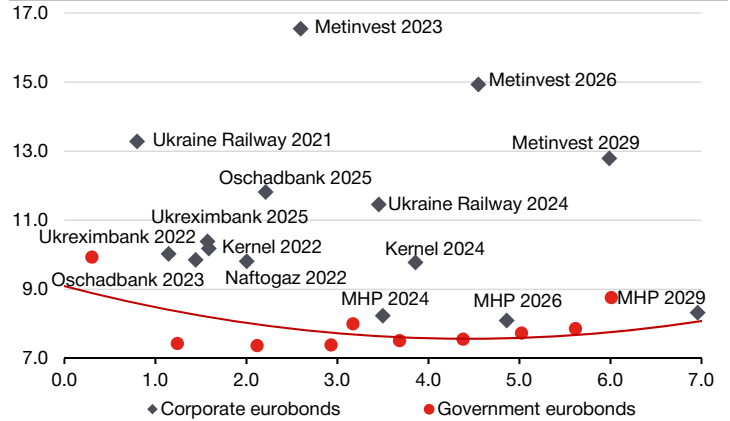
Source: NBU, Bloomberg, Adamant Capital estimates

Ukraine vs selected countries: 10y USD yield spread, bps



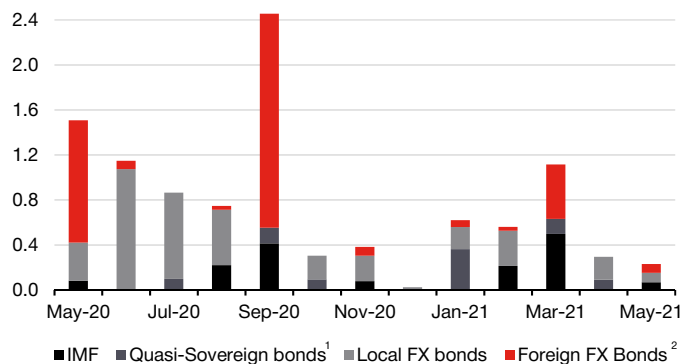
Source: Bloomberg, Adamant Capital estimates

Ukraine eurobonds: yield (lhs, %) vs duration (years)



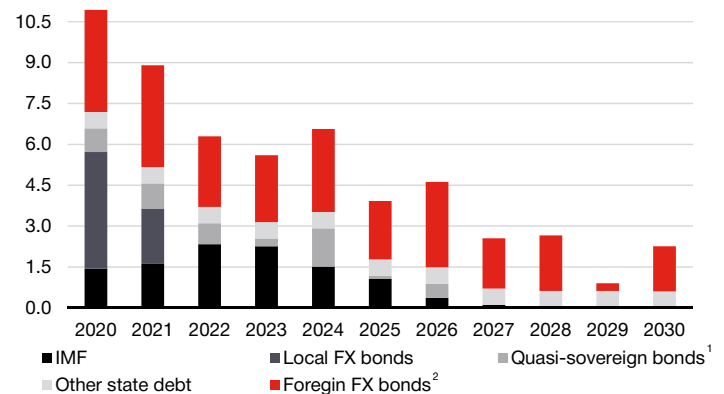
Source: Bloomberg, Adamant Capital estimates

State and NBU next 12m FX debt repayment schedule, \$bln



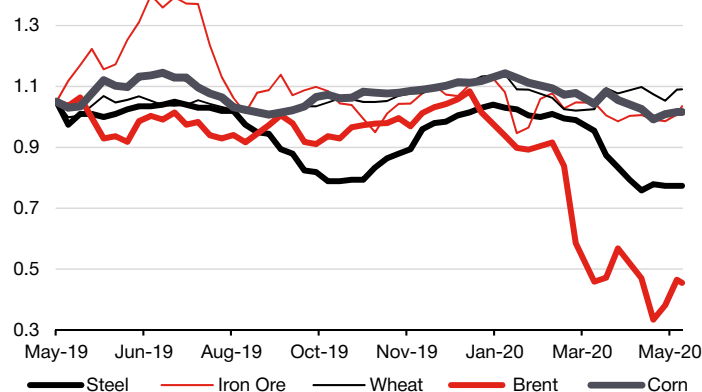
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2020-30, \$bln



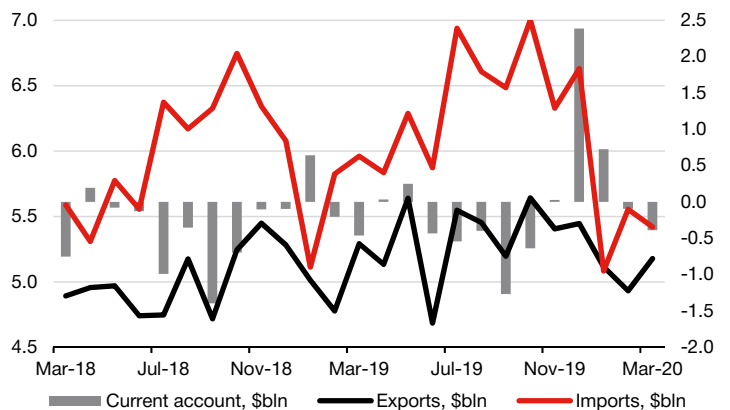
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: HRC spot (FOB Black Sea); China Iron Ore 62% Fe; Wheat Futures (Black Sea); Brent Crude Oil Futures; Corn Futures (Black Sea)
 Source: Bloomberg, Adamant Capital estimates

Ukraine 24m trailing trade (lhs) and CA balance (rhs)



Source: NBU

Key macroeconomic indicators								
	1Q19	2Q19	3Q19	4Q19	2019	1Q20E	2Q20E	2020E
Real GDP growth, YoY	2.9%	4.7%	3.9%	1.5%	3.2%	-2.2%	-13.0%	-3.0%
Nominal GDP, UAHbln	815	933	1,112	1,115	3,975	821	832	4,010
Nominal GDP, \$bln	30	35	44	46	154	33	31	151
GDP deflator growth YoY, %	12.2%	9.9%	7.6%	4.7%	8.1%	3.0%	2.5%	4.0%
Period average CPI YoY, %	8.9%	9.1%	8.5%	5.2%	7.9%	2.6%	1.9%	2.6%
End of period CPI YoY, %	8.6%	9.0%	7.5%	4.1%	4.1%	2.3%	2.1%	4.0%
Consolidated budget deficit, % of GDP ¹	2.0%	2.5%	2.4%	2.1%	2.1%	2.3%	3.8%	4.5%
Broad public sector deficit, % of GDP ²	2.3%	2.7%	2.5%	2.1%	2.2%	2.3%	4.3%	5.2%
Public debt as % of LTM GDP, UAH	58.5%	55.4%	51.1%	50.3%	50.3%	56.7%	58.2%	55.5%
Public external debt as % of LTM GDP, \$ ³	37.4%	36.0%	32.9%	31.6%	31.6%	31.6%	32.2%	35.7%
Total external debt, \$bln	114	116	118	122	122	123	127	130
Export of goods and services, \$bln	15.1	15.5	16.3	16.5	63.4	15.3	13.4	59.2
Import of goods and services, \$bln	16.9	18.3	20.3	20.0	75.5	16.2	14.1	66.8
Trade balance, \$bln	-1.8	-2.8	-4.0	-3.5	-12.1	-0.9	-0.6	-7.6
Current account, \$bln	-0.2	-0.5	-2.2	1.8	-1.1	0.2	0.0	-3.3
Financial account, \$bln ⁴	-0.5	-0.9	-3.8	-2.1	-7.3	0.4	-4.9	-4.7
End of period NBU reserves, \$bln	20.6	20.6	20.1	25.3	25.3	24.9	27.9	30.3
Average interbank exchange rate, UAH/\$ ⁵	27.3	26.6	25.2	24.2	25.8	25.2	26.7	26.5
EOP interbank exchange rate, UAH/\$	27.2	26.2	24.2	23.7	23.7	27.6	26.5	26.5
EOP key policy rate NBU, %	17.5%	17.5%	16.5%	13.5%	13.5%	10.0%	8.0%	7.0%

(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	7.4	101.0	3.3	2.9	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	8.0	103.1	3.2	3.2	750
Ukraine 2027	Hold	-	7.8	Sep-27	7.9	99.4	3.6	5.6	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	8.8	105.8	4.0	6.0	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	7.8	96.4	5.2	7.8	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	3.7	0.1	nm	214
DTEK 2024 in default	Hold	31-Mar-20	10.8	Dec-24	39.3	44.3	1.7	2.8	1,344
Kernel 2022	Buy	28-Apr-20	8.8	Jan-22	10.2	97.8	1.6	1.6	500
Kernel 2024	Buy	28-Apr-20	6.5	Oct-24	9.8	88.4	3.0	3.9	300
Metinvest 2023	Hold	28-Apr-20	7.8	Apr-23	16.5	80.1	8.5	2.6	505
Metinvest 2025 (EUR)	Hold	28-Apr-20	5.6	Jun-25	14.1	70.0	6.0	4.2	333
Metinvest 2026	Hold	28-Apr-20	8.5	Apr-26	14.9	75.2	7.7	4.5	648
Metinvest 2029	Hold	28-Apr-20	7.8	Oct-29	12.8	72.8	7.8	6.0	500
MHP 2024	Hold	28-Apr-20	7.8	May-24	8.2	98.4	1.1	3.5	500
MHP 2026	Hold	28-Apr-20	7.0	Apr-26	8.1	94.7	2.4	4.9	550
MHP 2029	Hold	28-Apr-20	6.25	Sep-29	8.3	86.7	2.1	7.0	350
Naftogaz 2022	Hold	5-May-20	7.4	Jul-22	9.8	95.3	4.9	2.0	335
Naftogaz 2024 (EUR)	Hold	5-May-20	7.1	Jul-24	10.0	90.4	2.9	3.5	672
Oschadbank 2023	Buy	18-Feb-20	9.4	Mar-23	9.9	99.3	3.0	1.4	245
Oschadbank 2025	Buy	18-Feb-20	9.6	Mar-25	11.8	95.4	-1.2	2.2	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	30.8	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	30.3	0.0	nm	175
Ukraine Railway 2021	Buy	5-May-20	9.9	Sep-21	13.3	97.4	1.7	0.8	200
Ukraine Railway 2024	Buy	5-May-20	8.3	Jul-24	11.5	89.6	4.5	3.5	595
Ukreximbank 2021 (UAH)	Buy	18-Feb-20	16.5	Mar-21	25.1	94.0	0.6	0.8	150
Ukreximbank 2022	Buy	18-Feb-20	9.6	Apr-22	10.0	99.6	3.3	1.1	313
Ukreximbank 2025	Buy	18-Feb-20	9.8	Jan-25	10.4	99.0	0.9	1.6	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	5.0	-0.2	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 - Preliminary estimate of 1Q20 real GDP	Exact	15-May
SSSU - Agricultural production monthly data	Exact	19-May

Contacts

Adamant Capital

5-B Volodymyrska Street, 2nd floor
01001 Kyiv, Ukraine
+380 44 585 52 36

Portfolio Management

Yuriy Sozinov | urs@adamant-capital.com

Research

Konstantin Fastovets | fks@adamant-capital.com

PR

Inna Zvyagintseva | zin@adamant-capital.com

Disclaimer

This report has been prepared solely for information purposes and is not intended to be an offer, or a solicitation of an offer, to buy or sell any securities. Descriptions of any company or companies or/and their securities, or markets, or developments mentioned herein are not represented to be complete. There is no responsibility on our part to revise or update any information or correct any inaccuracies contained in this report on an on-going basis. Although the information in this material has been obtained from sources that Adamant Capital believes to be reliable, we do not guarantee its completeness or accuracy. In making their investment decisions investors are expected to rely on their own analysis of all risks associated with investing in securities. Adamant Capital, its top executives, representatives and employees accept no liability whatsoever for any direct or consequential loss arising from the use of the material or its contents. Adamant Capital, third parties related to it, its directors and/or employees, and/or any persons connected with them, may have interests in the companies or provide services to one or more companies discussed herein and/or intend to acquire such interests and/or to provide any such services in the future. All estimates and opinions expressed in this report reflect the judgment of each research analyst, who is fully or partially responsible for the contents of the document, and may differ from the opinions of Adamant Capital. This document, or any part hereof, may not be reproduced or copies circulated without the prior express consent of Adamant Capital.