

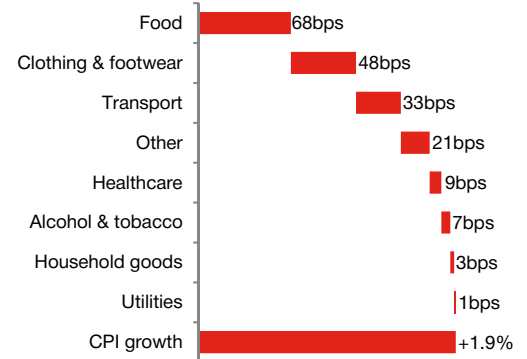
## Weekly Digest

- Consumer inflation landed at 1.9% MoM and 8.9% YoY in September
- MHP has received creditor approval to amend the terms of its 2020 notes

**Consumer inflation landed at 1.9% MoM and 8.9% YoY in September.** As usual, the index was driven forward primarily by more expensive food (contributed 68bps to the headline figure, with meat, eggs and bread categories having the largest impact). Other notable factors included price growth of clothing and transportation. Core inflation also stood at 1.9% MoM.

**Our view:** MoM CPI growth came in somewhat above expectations largely due to higher than anticipated food prices (which were partially affected by shortages of milling wheat) and a 2.3% devaluation of the hryvnia. Supply-side pressure was also exacerbated by more expensive fuel, which was propelled forward by global oil indexes (WTI was up 5% MoM). Looking ahead, we continue to expect the IMF-required gas tariff hike to be the primary driver of inflation in the coming months (a delay until November, however, is likely), though further currency weakness could also become an important contributor. Planned price increases for passenger railway tickets (by 12% in October) and alcohol (floor level only) should have a moderate impact. All in all, we upgrade our YoY inflation forecast for the end of the year just slightly: to 10.0% from 9.5% previously.

### MoM CPI growth breakdown in September



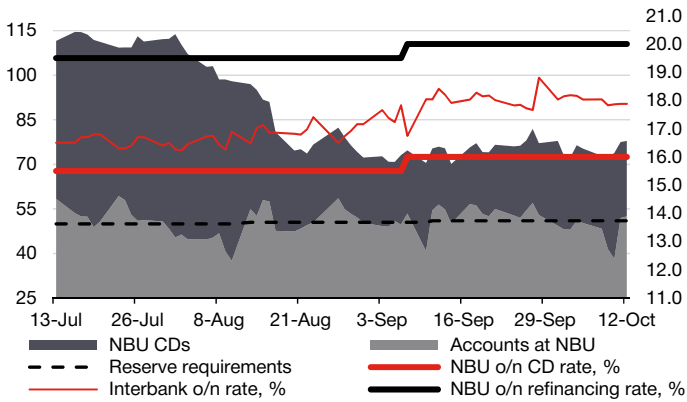
Source: SSSU, Adamant Capital estimates

**MHP has received creditor approval to amend the terms of its 2020 notes.** The original consent solicitation sent out on September 20 was revised on October 5 to extend the deadline and to double the payout for supporting investors to 10bps. Changes to the loan agreement include an expansion to the list of permitted trade credit transactions when leverage is above 3.0x (from a limit of \$50mIn just for buying sunflower seed to an unspecified amount that can be directed to most business-related needs), as well as modifications to the definition of “Permitted Liens” and “IFRS” (to include an updated treatment of operating leases).

**Our view:** Taking into account that the updated terms have already been approved by the majority of the company’s debt investors (those holding 2024 and 2026 notes), we find it entirely unsurprising that MHP was able to secure the required votes. Of interest is only the fact that creditors were able to pressure the issuer into offering a higher consent fee than initially announced, suggesting consolidated holdings.

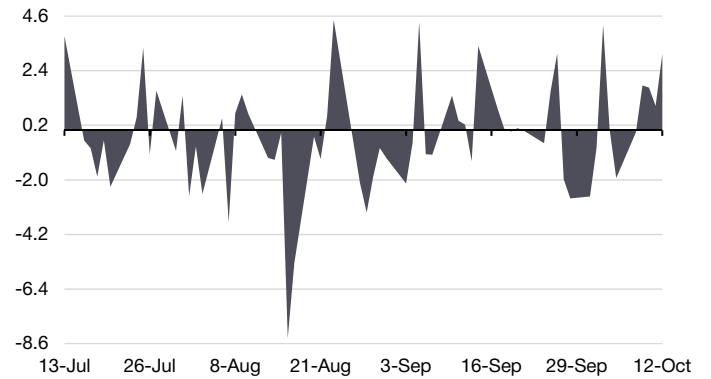
## Appendix

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



Source: NBU, Adamant Capital estimates

Banking system inflows from the state treasury and the DGF

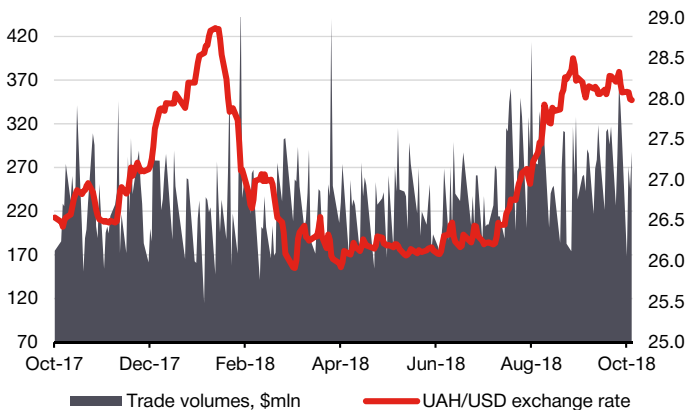


Note: in UAHbln  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 2.6bln to UAH 72.8bln over the last week. On October 16 the Ministry of Finance conducted local hryvnia denominated placement maturing in February 2019 with yield of 19.0% and USD denominated placement maturing in June 2019, January 2020, May 2020 and October 2020 with yields of 7.0%, 7.5%, 7.5% and 7.5%, respectively. A total of UAH 57.6mln and \$217.2mln was raised as a result (including the auction conducted on October 11).

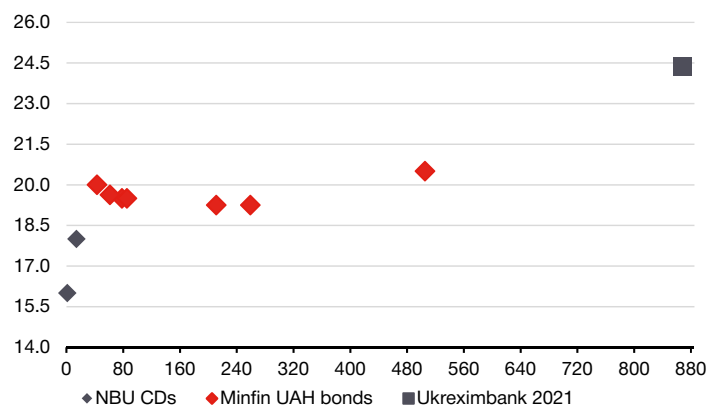
The UAH/USD interbank rate appreciated by 0.5% over the week starting out with 28.08 and ending at 27.93.

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

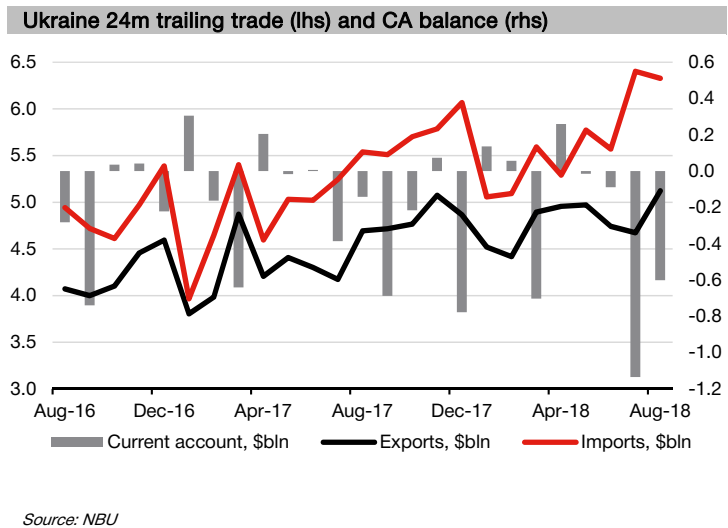
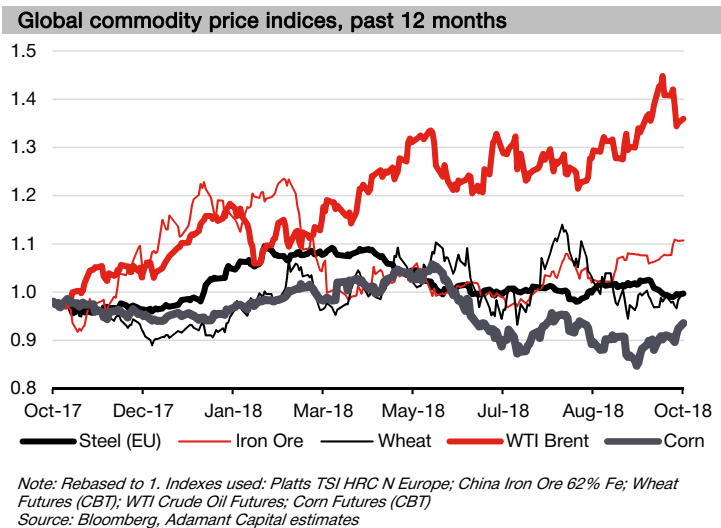
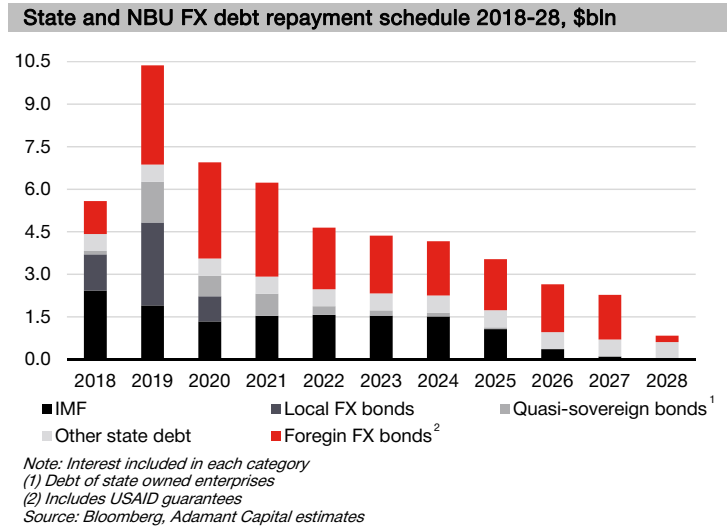
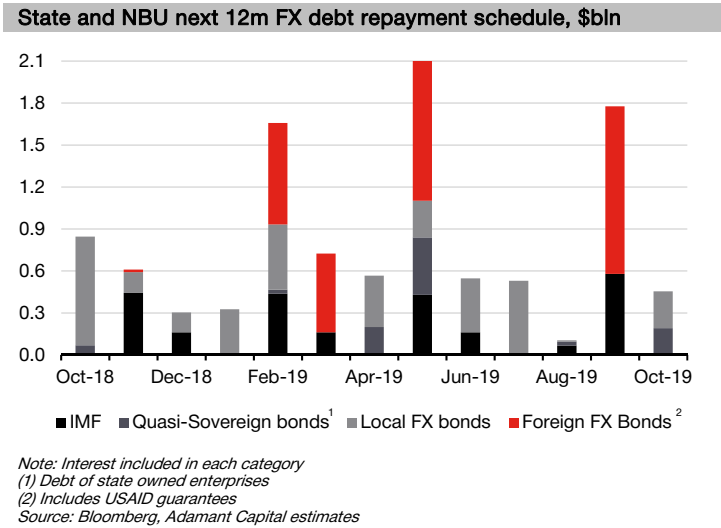
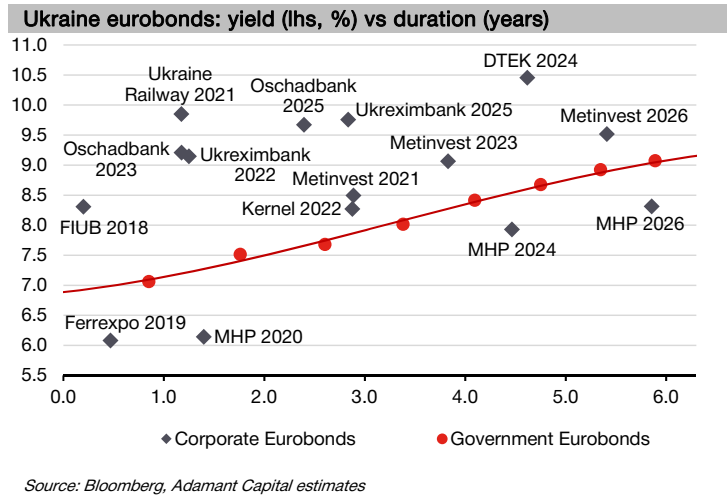
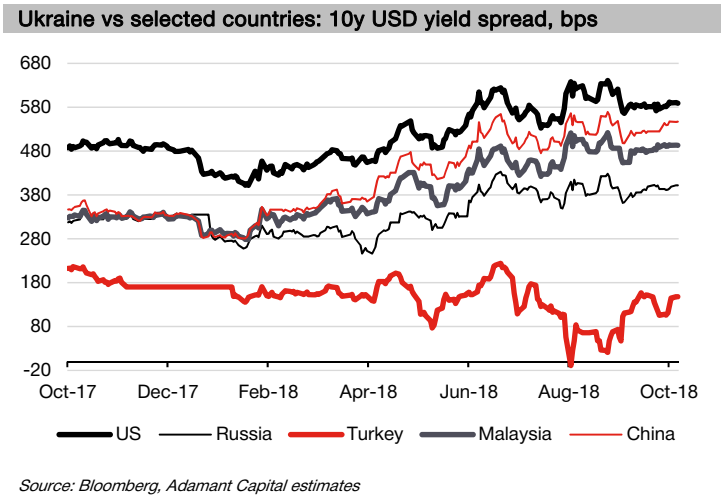


Note: Exchange rate figures are from official interbank data  
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	2018E
Real GDP growth, YoY	2.8%	2.6%	2.4%	2.2%	2.5%	3.1%	3.8%	3.4%
Nominal GDP, UAHbln	591	665	833	894	2,983	700	807	3,533
Nominal GDP, \$bln	22	26	32	33	112	26	31	129
GDP deflator growth YoY, %	26.2%	20.9%	21.1%	20.9%	22.0%	14.9%	17.0%	14.6%
Period average CPI YoY, %	14.0%	13.8%	16.1%	14.0%	14.5%	13.8%	11.6%	11.0%
End of period CPI YoY, %	15.1%	15.6%	16.4%	13.7%	13.7%	13.2%	9.9%	10.0%
Consolidated budget deficit, % of GDP <sup>1</sup>	-0.7%	-7.2%	1.3%	9.4%	1.4%	0.4%	-1.6%	2.5%
Broad public sector deficit, % of GDP <sup>2</sup>	3.8%	-7.2%	4.0%	12.7%	4.1%	0.4%	-1.2%	2.6%
Public debt as % of LTM GDP, UAH	77.4%	73.9%	72.7%	71.8%	71.8%	66.4%	61.8%	63.3%
Public external debt as % of LTM GDP, \$ <sup>3</sup>	46.9%	47.4%	46.5%	43.7%	43.7%	41.7%	38.7%	39.0%
Total external debt, \$bln	114	115	116	115	115	115	114	117
Export of goods and services, \$bln	12.6	12.9	13.6	14.9	60.8	13.8	14.6	54.8
Import of goods and services, \$bln	13.7	14.2	15.9	17.0	54.0	15.7	16.6	65.1
Trade balance, \$bln	-1.1	-1.3	-2.3	-2.1	6.8	-1.9	-2.0	-10.3
Current account, \$bln	-0.8	-0.3	-1.7	-1.0	-3.8	-0.7	0.0	-3.5
Financial account, \$bln <sup>4</sup>	-0.2	-1.9	-2.5	-1.7	-6.4	-0.4	-0.5	-3.5
End of period NBU reserves, \$bln	15.1	18.0	18.6	18.8	18.8	18.2	18.0	17.4
Average interbank exchange rate, UAH/\$ <sup>5</sup>	27.1	26.0	25.9	26.9	26.6	27.3	26.2	27.5
EOP interbank exchange rate, UAH/\$	27.0	26.0	26.6	28.1	28.1	26.3	26.3	29.0
EOP key policy rate NBU, %	14.0%	12.5%	12.5%	14.5%	14.5%	17.0%	17.0%	19.0%

(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 6<sup>th</sup> 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 2019 (bullet)	Not rated	-	0.0	Feb-19	10.7	96.3	0.0	0.4	725
Ukraine 2019	Hold	1-Dec-16	7.8	Sep-19	7.1	100.6	0.0	0.9	661
Ukraine 2023	Hold	1-Dec-16	7.8	Sep-23	8.4	97.4	0.0	4.1	1,355
Ukraine 2027	Hold	1-Dec-16	7.8	Sep-27	9.1	91.8	-0.1	6.4	1,307
Ukraine 2032	Hold	1-Dec-16	7.4	Sep-32	9.3	85.0	-0.4	8.2	3,000
MHP 2024	Hold	24-Jul-18	7.8	May-24	7.9	99.2	-0.1	4.5	500
MHP 2026	Hold	24-Jul-18	7.0	Apr-26	8.3	92.5	-0.2	5.9	550
DTEK 2024	Buy	25-Sep-18	10.8	Dec-24	10.5	101.3	0.0	4.6	1,344
Ferrexpo 2019	Hold	9-Oct-18	10.4	Apr-19	6.1	102.0	-0.1	0.5	346
Metinvest 2023	Hold	9-Oct-18	7.8	Apr-23	9.1	95.2	0.0	3.8	945
Metinvest 2026	Hold	9-Oct-18	8.5	Apr-26	9.5	94.6	0.1	5.4	648
Ukrlandfarming 2018	Sell	13-Jun-17	10.9	Mar-18	nm	21.1	0.0	2.4	543
Avangard 2018	Sell	5-Jun-18	10.0	Oct-18	nm	20.4	0.0	0.0	214
FUIB 2018	Buy	7-Aug-18	11.0	Dec-18	8.3	100.5	0.4	0.2	59
Privatbank in default (10.250)	Not rated	7-Aug-18	10.3	Jan-18	nm	22.3	-0.1	2.7	160
Privatbank in default (10.875)	Not rated	7-Aug-18	10.9	Feb-18	nm	22.5	0.0	2.6	175
Oschadbank 2023	Buy	7-Aug-18	9.4	Mar-23	9.2	100.6	-0.3	1.2	700
Oschadbank 2025	Buy	7-Aug-18	9.6	Mar-25	9.7	99.8	0.0	2.4	500
Ukreximbank 2021 (UAH)	Buy	7-Aug-18	16.5	Mar-21	25.6	84.4	-0.3	2.0	150
Ukreximbank 2022	Buy	7-Aug-18	9.6	Apr-22	9.1	101.4	-0.1	1.3	750
Ukreximbank 2025	Buy	7-Aug-18	9.8	Jan-25	9.8	99.9	-0.2	2.8	600
Ukrainian Railway 2021	Buy	9-Oct-18	9.9	Sep-21	9.8	100.0	0.0	1.2	500
Mriya 2018	Hold	19-Jun-18	9.5	Apr-18	nm	7.2	0.1	1.3	400
Kernel 2022	Buy	17-Jul-18	8.8	Jan-22	8.3	101.3	-0.2	2.9	500

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
MHP - Pre-close trading update for Q3 2018	Exact	18-Oct
Kernel - FY 2018 Financial Report	Exact	22-Oct
SSSU - Industrial production monthly data	Exact	23-Oct
NBU - Decision on the key policy rate	Exact	25-Oct
Treasury - Monthly state budget performance	Indicative	26-Oct
Metinvest - Monthly report for August	Indicative	26-Oct
Banks - Financial results for Q3 2018 IFRS	Indicative	30-Oct
NBU - Balance of payments monthly data	Exact	31-Oct

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