

Weekly Digest July 1-7

- CA in May stays balanced, FA surplus reaches \$0.3bln
- Ukraine begins principal to principal negotiations with ad hoc creditor committee; IMF announces agreement on first review
- June consumer inflation slows to 57.5% YoY
- Ferrexpo 2Q15 pellet production up 15% YoY; bondholders agree to swap out of 2016 bonds

The Current Account (CA) in May stayed largely balanced, while Financial Account (FA) surplus reached \$0.3bln. Average daily exports and imports of goods and services have both decreased by 6-9% MoM dropping some 40% below last year's levels. FA gains came in on the back of Ukraine's \$1bln U.S. guaranteed bond placement, while losses emerged from repayment of some \$420mn worth of local FX notes. Overall, Ukraine's BoP flow stood at \$0.3bln, up \$0.5bln from April.

Our view: We believe the decrease in exports and imports can largely be explained by seasonal factors (i.e. holidays in May) and expect exports to somewhat ramp up in June given that steel production in May is up 12% MoM (highest level since Aug 2014). Based on FA data we do not see evidence of substantial capital flight.

Ukraine's Ministry of Finance has begun principal to principal negotiations with creditors; the IMF has announced a staff-level agreement on first review criteria for the EFF. According to the ministry's press release, talks have begun on July 6 and confidentiality arrangements have already been made.

Our view: After many months of stagnation restructuring negotiations between Ukraine and its creditors are finally showing signs of progress. While there are no indications for the time being that any sort of deal is actually going to be reached, we think that the likelihood of default has decreased. The IMF's announcement demonstrates the Fund's readiness to disburse the second tranche of the EFF program independently of negotiation results. Sovereign and quasi sovereign bonds have gained 0.5-2ppts in par value on the news.

June consumer inflation has slowed to 57.5% YoY, as measured by the SSSU CPI Index. On MoM basis consumer prices have increased by just 0.4%, with the food basket staying at the same price level as last month. Fruits and vegetables, which together make up 7.5% of the CPI, have on average decreased in price by 2.5% as compared to May.

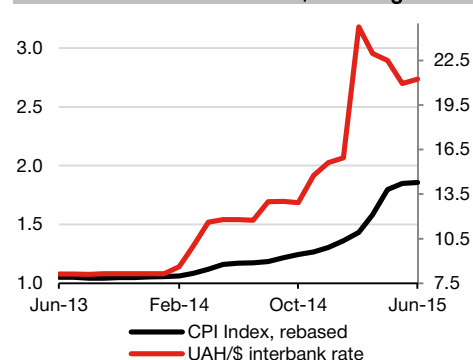
Our view: While consumer price growth in June seems to have come to a complete stop, we do not expect this trend to continue until the end of the year, given that the gap between devaluation of local currency and inflation is still too great. Seasonal factors, such as decreased prices for fruits and vegetables, are likely to constrict CPI index growth during the third quarter.

Ukraine May BoP summary, \$bln

	May-15	May-14	Apr-15	MoM	YoY
Exports	3.6	5.9	3.8	-6%	-39%
Imports	3.7	6.3	3.8	-3%	-42%
Trade balance	-0.1	-0.4	0.1	-0.1	0.4
CA flow	0.0	-0.4	0.1	-0.1	0.4
FA flow	0.3	1.4	0.3	0.0	-1.1
BoP flow	0.3	1.0	-0.2	0.5	-0.7
Reserves	9.9	17.9	9.6	3%	-45%

Source: NBU

Ukraine CPI index vs UAH/\$ exchange rate



Source: SSSU, NBU

Konstantin Fastovets

fks@adamant-capital.com

+38 044 206 04 60

Ferrexpo's 2Q15 total pellet production up 15% YoY; bondholders agree on consent solicitation to restructure 2016 notes. Compared to 2Q14 the company has reduced production of 62% Fe pellets by c. 1mlnt and has increased output of 65% Fe ones by even more than that amount. In MoM terms pellet output increased by 2%, while prices dropped by 6%. Following Ferrexpo's restructuring, holders of 2016 notes will be swapped into the ones maturing in 2019 (already trade).

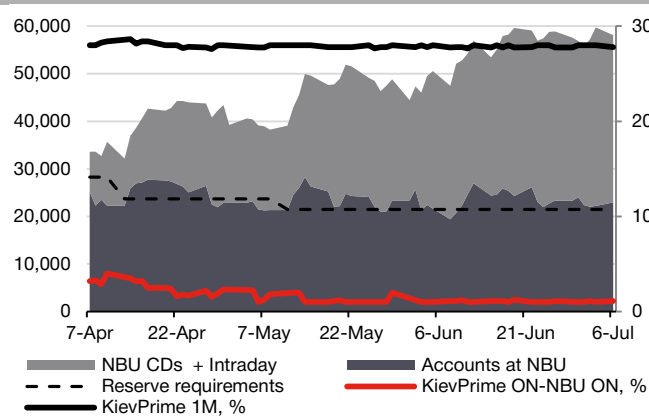
Our view: Taking into account Ferrexpo's production results, the average price of iron ore, and the UAH/USD exchange rate, we expect 2Q15 EBITDA to stand at c. \$90mln (results to be published on Aug 5), which is somewhat below that of last quarter, but overall above market consensus (the current Bloomberg consensus implies 2Q and 2H15 combined EBITDA to stand at just \$122mln). The bondholder restructuring approval does not come to us as a surprise.

Ferrexpo 2Q15 pellet production summary, kt

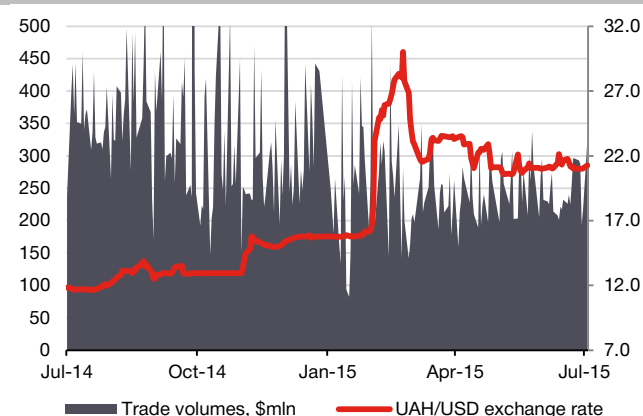
	2Q15	2Q14	YoY	1Q15	MoM
62% Fe	323	1,279	-75%	433	-25%
65% Fe	2,608	1,273	105%	2,452	6%
Total	2,931	2,553	15%	2,885	2%
Price ⁽¹⁾ , \$/t	58.5	105	-44%	62.4	-6%

(1) 62% Fe content iron ore CFR China
Source: Company data, Bloomberg

Appendix

Banking system 3m liquidity (lhs, UAHmln) vs KievPrime rates


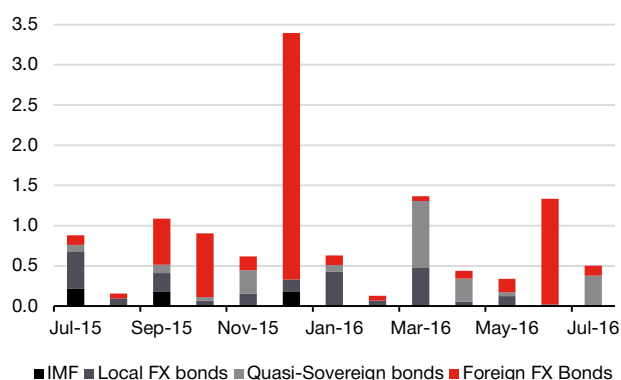
Note: as of March 3, 2015 100% of cash can be counted towards reserve requirements
Source: NBU, Adamant Capital estimates

FX interbank trade volume and FX rate, past 12 months


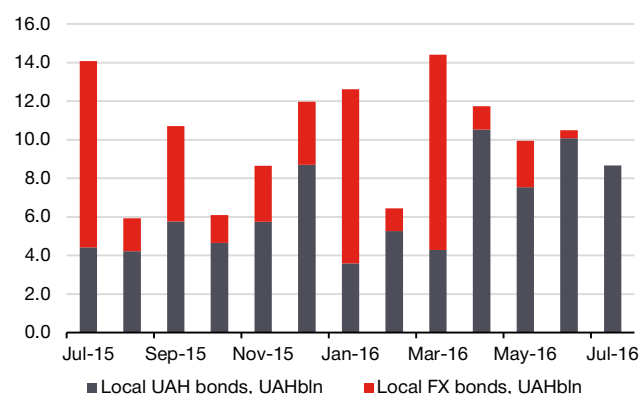
Note: Exchange rate figures are from official interbank data
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts, investment CDs, and other intraday changes) has stayed roughly flat at UAH57bln. According to our data, bids and offers for local currency VAT bonds slightly decreased over the week from 25/22 to 24/21.5. Of note is that the Ministry of Finance has announced that it is planning to place 1 year USD denominated bonds on July 21.

The **UAH/USD rate** has on average remained practically unchanged over the past week.

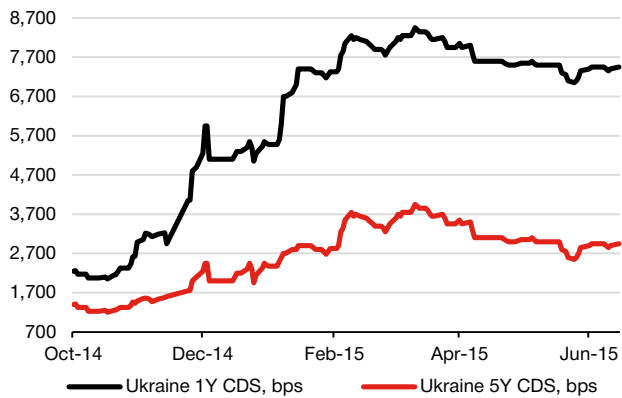
Government 12m FX debt⁽¹⁾ repayment schedule, \$mln


(1) Quasi-sovereign debt includes state banks, Ukrzaliznytsya, and municipal bonds
Source: Bloomberg, Adamant Capital estimates

Government 12m local debt repayment schedule


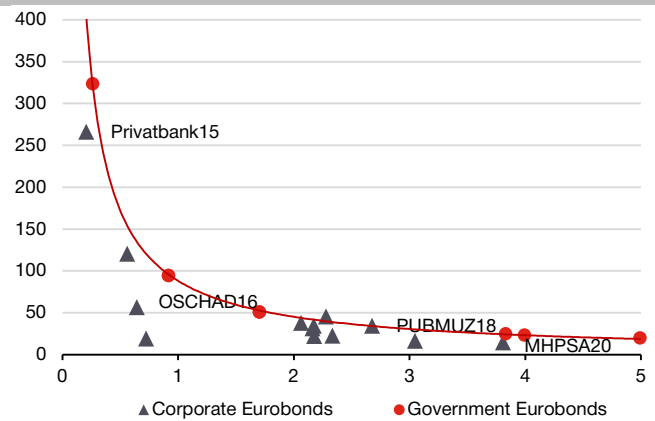
Note: UAH/\$ exchange rate set at 28; EUR/USD exchange rate set at 1.12
Source: Cbonds

Ukraine 12m trailing 1 year vs 5 year CDS spread



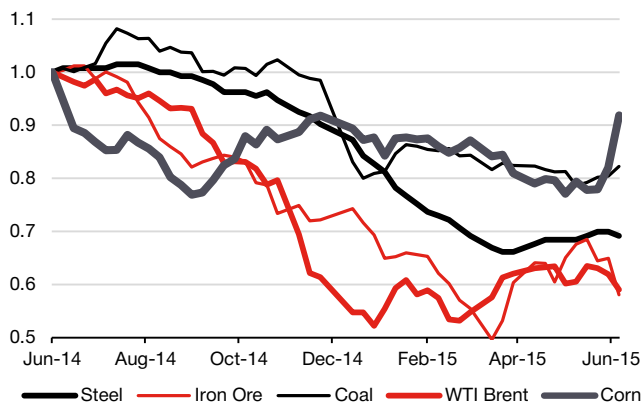
Source: Bloomberg

Eurobond YTM vs duration



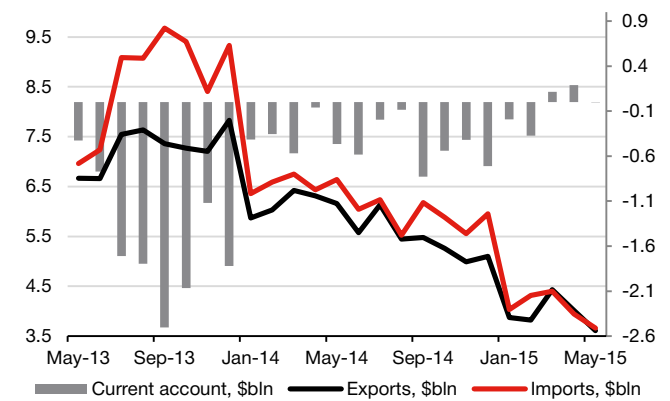
Source: Bloomberg, Adamant Capital estimates

Global commodity price indices



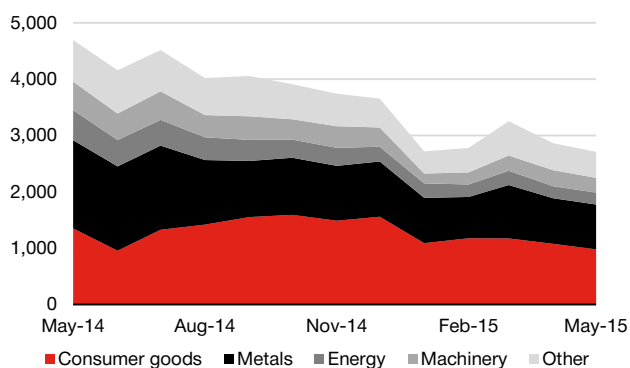
Source: NBU, Adamant Capital estimates

Ukraine 24m trailing trade and CA balance



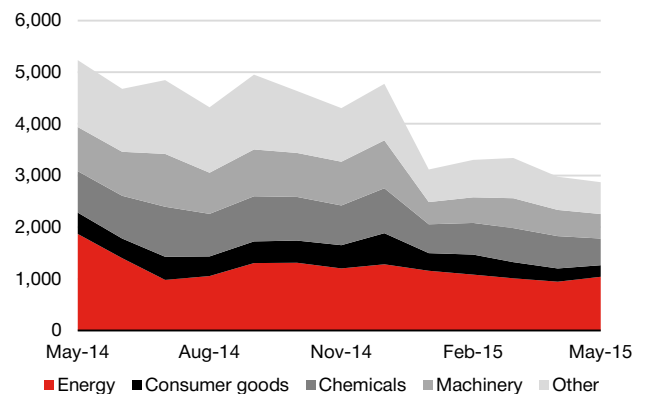
Source: NBU

Ukraine 12m trailing monthly export breakdown, \$mIn



Source: NBU

Ukraine 12m trailing monthly import breakdown, \$mIn



Source: NBU

Key macroeconomic indicators									
	2011	2012	2013	1Q14	2Q14	3Q14	4Q14	2014	2015E
Real GDP growth, YoY	5.5%	0.2%	0.2%	-1.2%	-4.5%	-5.4%	-14.8%	-6.8%	-9.0%
Nominal GDP, UAHbln	1,300	1,405	1,449	314	376	434	443	1,567	1,925
Nominal GDP, \$bln	163	174	178	35	32	35	31	132	84
GDP deflator growth YoY ⁽¹⁾ , %	14.2%	7.8%	4.3%	4.5%	11.0%	15.4%	27.2%	14.8%	35.0%
Period average CPI YoY, %	8.0%	0.3%	-0.3%	1.7%	9.9%	14.8%	22.2%	12.1%	51.0%
End of period CPI YoY, %	4.6%	-0.2%	0.5%	3.4%	12.0%	17.5%	24.8%	24.9%	49.4%
Budget deficit, % of nominal GDP ⁽¹⁾⁽²⁾	-1.8%	-3.6%	-4.4%	0.2%	-5.7%	-2.8%	-8.8%	-4.6%	-0.6%
Public sector broad deficit, % of GDP ⁽³⁾	-4.4%	-9.5%	-6.8%	na	na	na	na	-13.6%	-6.5%
Public debt as % of nominal GDP, UAH	36%	37%	40%	49%	55%	53%	70%	70%	UR
Public external debt as % of nominal GDP, \$ ⁽⁴⁾	23%	22%	21%	21%	25%	28%	29%	29%	UR
Total external debt, \$bln	85.7	96.0	104.5	100.4	95.9	94.2	na	na	UR
Export of goods and services, \$bln	88.8	90.0	85.5	18.3	18.1	17.1	15.3	68.8	46.1
Import of goods and services, \$bln	-99.0	-104.4	-101.1	-19.7	-19.1	-17.9	-17.4	-74.1	-47.1
Trade balance, \$bln	-10.2	-14.3	-15.6	-1.4	-1.1	-0.9	-2.0	-5.4	-1.0
Current account, \$bln	-10.2	-14.3	-16.5	-1.3	-1.1	-1.1	-1.7	-5.2	-2.6
Capital account, \$bln	7.8	10.1	18.5	-2.9	1.1	0.4	-6.7	-8.1	UR
End of period NBU reserves, \$bln	31.8	24.5	20.4	15.1	17.1	16.4	7.5	7.5	UR
Average interbank exchange rate, UAH/\$ ⁽⁵⁾	8.0	8.1	8.1	8.9	11.7	12.6	14.4	11.9	22.0

(1) Quarterly figures use 12m trailing data

(2) Excludes any deficit not included in the official figure, but includes net budget loans given to state enterprises

(3) Estimated figures. Includes such below the line budget expenditures as recapitalization of Naftogaz and state banks, state guarantees given, etc

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

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

Source: NBU, SSSU, Minfin, IMF, Adamant Capital estimates

Indicative Eurobond prices and yields								
Bond name	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur, yrs	Out, \$mln	Cur
Ukraine 2015	6.9	Sep-15	419%	53.5	2.2	0.2	500	USD
Ukraine 2017	9.3	Jul-17	51%	50.8	2.3	1.7	2,600	USD
Ukraine 2022	7.8	Nov-22	20%	54.7	2.7	5.0	2,250	USD
MHP 2020	8.3	Apr-20	14%	80.3	0.3	3.8	750	USD
DTEK 2018	7.9	Apr-18	45%	44.3	-1.7	2.3	750	USD
DTEK 2018 - restructured	10.4	Mar-18	46%	47.3	0.0	2.2	160	USD
Ferrexpo 2016	7.9	Apr-16	19%	92.7	2.2	0.7	0	USD
Ferrexpo 2019 - restructured	10.4	Apr-19	16%	84.3	0.3	3.0	161	USD
Metinvest 2015	10.3	Jan-16	14%	75.7	3.2	7.7	85	USD
Metinvest 2017	10.5	Nov-17	38%	59.6	2.2	2.1	290	USD
Metinvest 2018	8.8	Feb-18	34%	58.3	3.3	2.2	750	USD
Avangard 2015	10.0	Oct-15	399%	45.3	-0.2	0.3	200	USD
Ukrlandfarming 2018	10.9	Mar-18	51%	44.0	-4.3	2.1	500	USD
FIUB 2018	11.0	Dec-18	34%	54.0	0.0	2.7	208	USD
Oschadbank 2016	8.3	Mar-16	56%	75.8	2.4	0.6	700	USD
Oschadbank 2018	8.9	Mar-18	22%	74.2	1.3	2.3	500	USD
Privatbank 2015	9.4	Sep-15	266%	64.9	3.9	0.2	200	USD
Privatbank 2016	5.8	Feb-16	120%	59.8	12.5	0.6	150	USD
Privatbank 2018	10.9	Feb-18	31%	65.3	1.1	2.2	175	USD
Ukreximbank 2015	8.4	Jul-15	541%	78.7	1.9	0.1	750	USD
Ukreximbank 2018	8.8	Jan-18	22%	75.5	1.5	2.2	600	USD

Note: data as of July 7, 2015

Source: Bloomberg

Fixed Income 2 week event calendar		
Event	Type	Date
NBU Monetary/FX Statistic	Indicative	9-Jul
City of Kyiv 2016 coupon payment	Exact	11-Jul
Agroton 2019 coupon payment	Exact	14-Jul
SSSU agricultural output	Exact	15-Jul
SSSU retail trade statistic	Exact	16-Jul
MHP 2Q15 operating results	Exact	16-Jul
SSSU construction works statistic	Exact	17-Jul
SSSU industrial production statistic	Exact	17-Jul

Source: NBU, SSSU, Adamant Capital estimates

Contacts

Adamant Capital

56-A Bohdana Khmel'nyts'koho, 3rd floor
03150 Kyiv, Ukraine
+380 44 206 04 60

Client Management

Irina Tkachenko | iat@adamant-capital.com

Portfolio Management

Kostiantyn Viushynskyi | vka@adamant-capital.com
Yuriy Sozinov | urs@adamant-capital.com

Research

Konstantin Fastovets | fks@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.