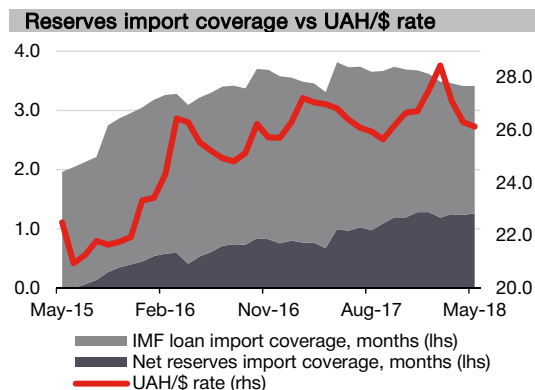


Weekly Digest

- Foreign currency reserves of the NBU in May decreased by \$0.3bln MoM to \$18.1bln
- Consumer inflation dropped to zero MoM in May, decreasing the YoY figure to 11.7%
- The Parliament has passed an IMF required anti-corruption court bill

Foreign currency reserves of the NBU in May decreased by \$0.3bln MoM to \$18.1bln. Outflows were caused primarily by \$670mln of state debt interest and amortization payments (including \$460mln to the IMF) as well as a \$160mln loss on revaluation of financial instruments. Inflows came on the back of local FX bond placements by the government that raised \$0.3bln, and the regulator's interventions totaling \$0.2bln.

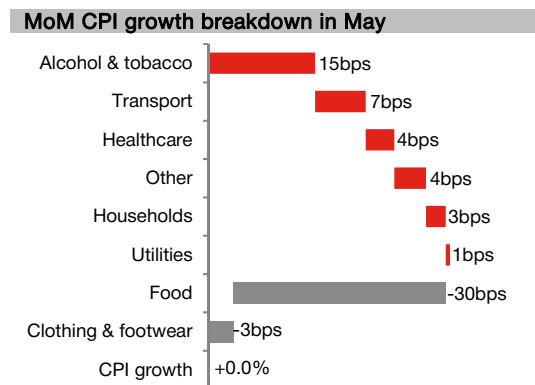
Our view: The resulting figure turned out to be slightly lower than we anticipated due to an unexpected revaluation of financial instruments and \$70mln worth of non-classified amortization payments (related neither to the IMF nor to state bonds). Based on the new data, we estimate the private sector's impact on the BoP in May at \$0.4bln (practically equal to that of the previous month), which is broadly in line with our current annual forecast for this indicator of \$2.0bln (though the LTM amount stands at \$2.7bln). With this in mind, we retain our end-of-year reserves estimate unaltered at \$20.8bln. We note additionally that this week's positive shift in fulfilment of IMF requirements (approval of the ACC bill by Parliament) is in line with our base case scenario, which envisages the reception of \$2.0bln from the IMF, EUR0.5bln from the EU, \$0.5bln from the World Bank, and \$1.0bln worth of net Eurobond placements this year.



Source: NBU, Adamant Capital estimates

Consumer inflation dropped to zero MoM in May, decreasing the YoY figure to 11.7%. Deceleration occurred primarily on the back of cheaper food (contributed -30bps to the headline figure, with eggs, vegetables, milk and sugar having the largest negative impact) and clothing. Other categories demonstrated moderate price growth (predominantly, alcohol and transportation), partially offsetting the decline. Core inflation stood at 0.2% MoM.

Our view: MoM CPI growth came in below our estimate of 0.4%, as the seasonal decrease in food prices (concerns largely vegetables and dairy) occurred earlier than we expected and was strong enough to mask demand-side shocks. Since disposable income still continues to rise (at least judging by data from April), we expect inflationary pressures to continue, though less remarkably so than over the past year (the average monthly spread between local food and the FAO index stood at 0.8%). Other factors that should push the index upwards include the gas tariff hike required by the IMF (may materialize in August) and a bump to railway services for passengers (+12% both in July and October). Our YoY CPI forecast for the end of the year remains at 10.1%.

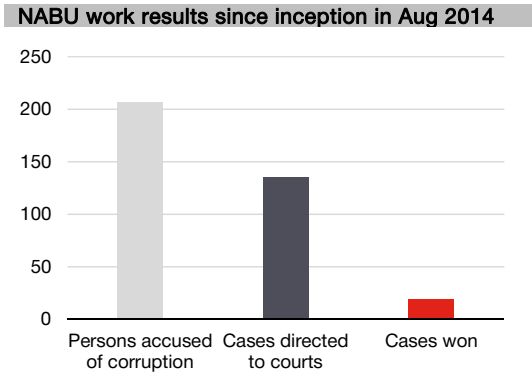


Source: SSSU, Adamant Capital estimates

The Parliament has passed an IMF required anti-corruption court bill.

The new institution, which should become operational within a year, will consist of at least 35 judges that will go through a rigorous selection process monitored by a special committee of international experts with veto power (appointed by the ‘High Qualification Commission of Judges of Ukraine’ from a pool of candidates offered by international organizations). According IMF representatives, authorities will still need to increase natural gas tariffs for the population to market levels and submit amendments to the 2018 state budget (to prevent overspending) in order for Ukraine to become eligible for the next tranche.

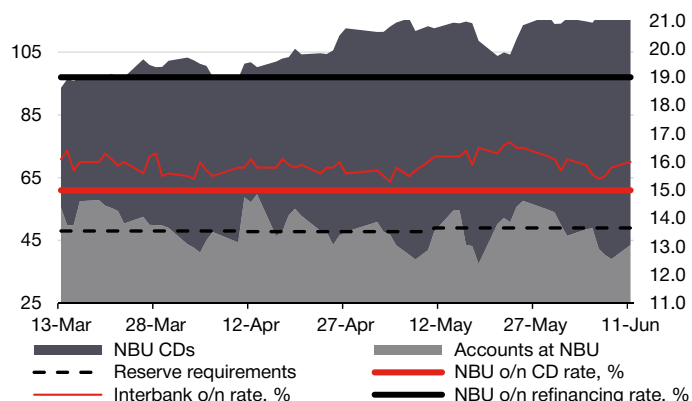
Our view: The new legislation marks a landmark victory in the country’s battle against corruption and should eventually allow the recently established prosecution offices (such as the NABU) to bring their cases to a court free from political influence. Though there is little doubt that implementation will face major resistance in the country’s power circles, we think that as long as Ukraine continues to work together with international donors, the institution can eventually be established. With that, we note that the approval of such a law by Parliament (despite its potential to substantially hurt vested interests) demonstrates willingness of the ruling elite to stay on track with the IMF, despite a lack of an apparent resolution to the gas price tariff deadlock (a very difficult decision for Poroshenko politically, but something the Fund cannot back down on), which increases the probability of our base-case scenario materializing (receiving the next tranche by this fall).



Source: NABU

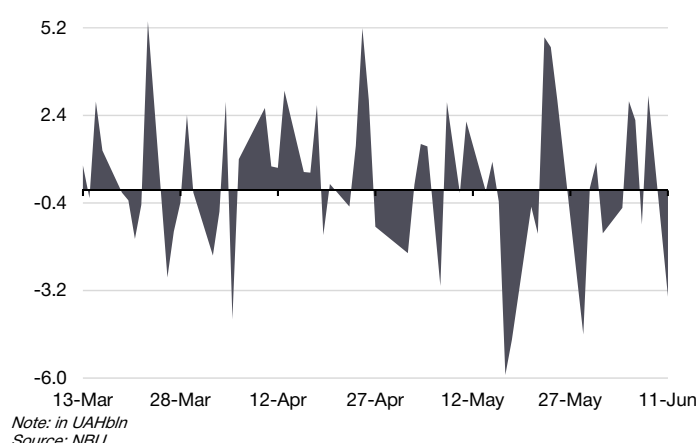
Appendix

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

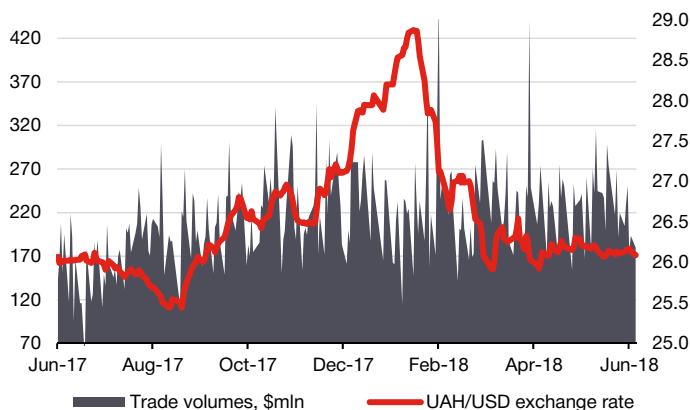


Note: in UAHbln
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 2.82bln to UAH 117.59bln over the last week. On June 12 the Ministry of Finance conducted local hryvnia denominated placements maturing in August 2018, November 2018, April 2019, June 2019 and June 2021 with yields of 17.44%, 17.25%, 17.30%, 17.25% and 16.15% respectively, and dollar denominated placement with maturity in January 2020 and yield of 5.62%. A total of UAH 1.25bln and \$0.23bln was raised as a result.

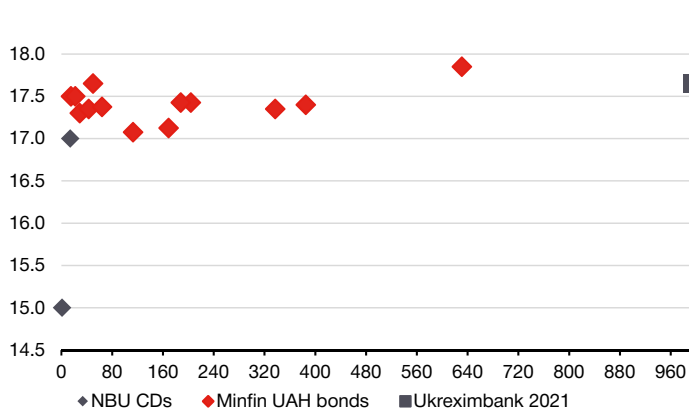
The UAH/USD interbank rate appreciated by 0.3% over the week, starting out with 26.16 and closing at 26.09.

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)



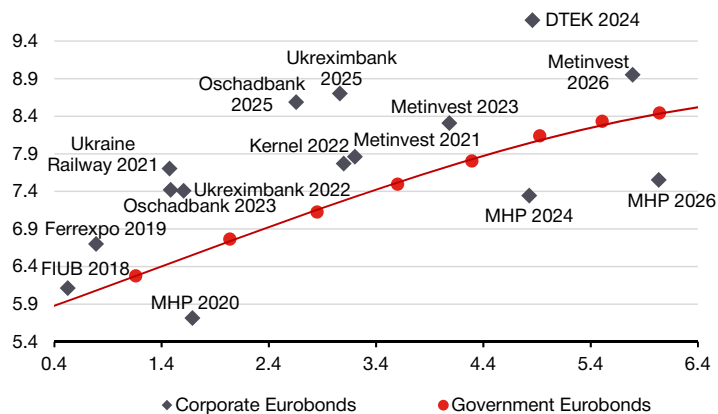
Source: NBU, Bloomberg, Adamant Capital estimates

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



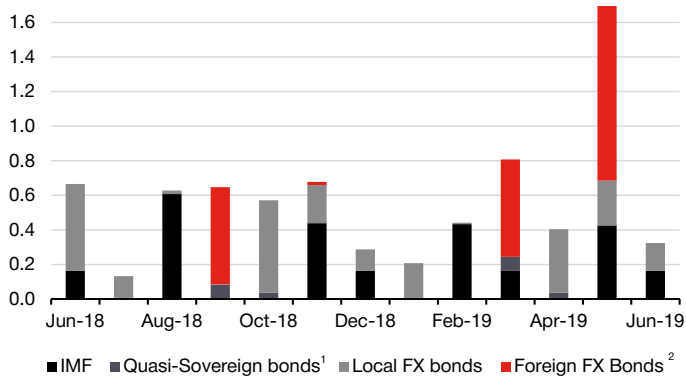
Source: Bloomberg, Adamant Capital estimates

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



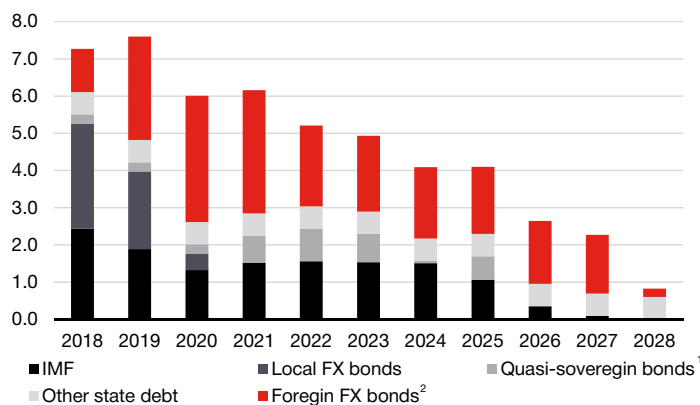
Source: Bloomberg, Adamant Capital estimates

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



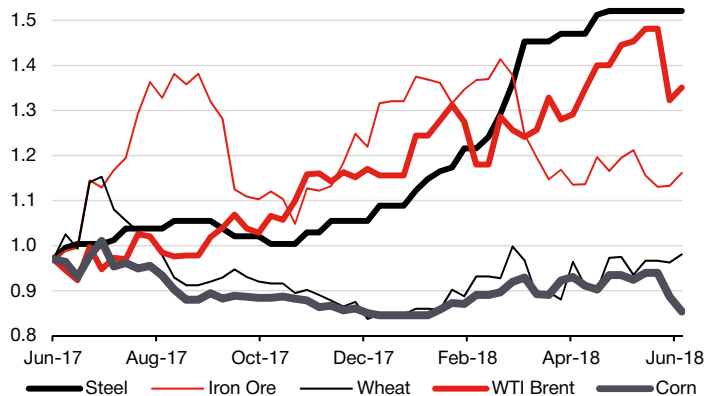
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2018-28, \$bln



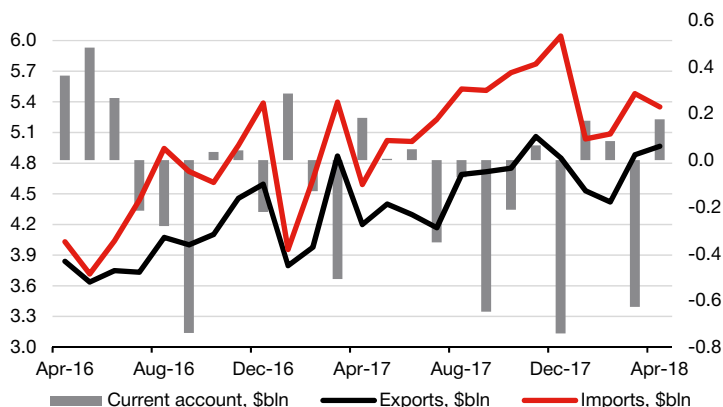
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: North America HRC Spot; China Iron Ore 62% Fe; Wheat Futures (CBT); WTI Crude Oil Futures; Corn Futures (CBT)
 Source: Bloomberg, Adamant Capital estimates

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



Source: NBU

Key macroeconomic indicators								
	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2018E
Real GDP growth, YoY	2.4%	2.8%	2.6%	2.4%	2.2%	2.5%	3.1%	3.1%
Nominal GDP, UAHbln	2,385	591	665	833	894	2,983	713	3,567
Nominal GDP, \$bln	93	22	26	32	33	112	26	130
GDP deflator growth YoY, %	17.1%	26.2%	20.9%	21.1%	20.9%	22.0%	17.0%	16.0%
Period average CPI YoY, %	14.9%	14.0%	13.8%	16.1%	14.0%	14.5%	13.8%	12.2%
End of period CPI YoY, %	12.4%	15.1%	15.6%	16.4%	13.7%	13.7%	13.2%	10.1%
Consolidated budget deficit, % of GDP ¹	2.3%	-0.7%	-7.2%	1.3%	9.4%	1.4%	0.4%	3.0%
Broad public sector deficit, % of GDP ²	8.6%	3.8%	-7.2%	4.0%	12.7%	4.1%	0.4%	3.0%
Public debt as % of LTM GDP, UAH	80.8%	77.4%	73.9%	72.7%	71.8%	71.8%	66.1%	63.2%
Public external debt as % of LTM GDP, \$ ³	48.9%	46.9%	47.4%	46.5%	43.7%	43.7%	41.5%	38.7%
Total external debt, \$bln	114	114	115	117	117	117	117	117
Export of goods and services, \$bln	46.0	12.6	12.9	13.6	14.9	60.8	13.8	58.2
Import of goods and services, \$bln	51.5	13.7	14.2	15.9	17.0	54.0	15.5	65.4
Trade balance, \$bln	-5.5	-1.1	-1.3	-2.3	-2.1	6.8	-1.7	-7.2
Current account, \$bln	-3.5	-0.8	-0.3	-1.7	-1.0	-3.8	-0.6	-2.2
Financial account, \$bln ⁴	-4.7	-0.2	-1.9	-2.5	-1.7	-6.4	-0.3	-2.9
End of period NBU reserves, \$bln	15.5	15.1	18.0	18.6	18.8	18.8	18.2	20.8
Average interbank exchange rate, UAH/\$ ⁵	25.6	27.1	26.0	25.9	26.9	26.6	27.3	27.5
EOP interbank exchange rate, UAH/\$	27.2	27.0	26.0	26.6	28.1	28.1	26.3	28.0
EOP key policy rate NBU, %	14.0%	14.0%	12.5%	12.5%	14.5%	14.5%	17.0%	17.0%

(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 2019	Hold	1-Dec-16	7.8	Sep-19	6.3	101.7	-0.5	1.2	661
Ukraine 2023	Hold	1-Dec-16	7.8	Sep-23	7.8	99.8	-1.3	4.3	1,355
Ukraine 2027	Hold	1-Dec-16	7.8	Sep-27	8.5	95.4	-2.0	6.5	1,307
Ukraine 2032	Hold	1-Dec-16	7.4	Sep-32	8.7	89.7	-2.7	8.3	3,000
MHP 2024	Hold	22-May-18	7.8	May-24	7.3	101.9	-0.3	4.8	500
MHP 2026	Hold	22-May-18	7.0	Apr-26	7.6	96.5	-0.2	6.0	550
DTEK 2024	Buy	5-Jun-18	10.8	Dec-24	9.7	105.3	-0.1	4.9	1,344
Ferrexpo 2019	Buy	27-Mar-18	10.4	Apr-19	6.7	102.8	0.0	0.8	346
Metinvest 2023	Hold	5-Jun-18	7.8	Apr-23	8.3	97.8	-0.2	4.1	945
Metinvest 2026	Hold	5-Jun-18	8.5	Apr-26	8.9	97.5	-0.3	5.8	648
Ukrlandfarming 2018	Sell	17-Jun-17	10.9	Mar-18	52.7	20.7	-0.2	2.4	543
Avangard 2018	Sell	5-Jun-18	10.0	Oct-18	nm	20.0	0.1	0.4	214
FUIB 2018	Buy	15-May-18	11.0	Dec-18	6.1	102.6	-0.2	0.5	59
Privatbank in default (10.250)	Not rated	15-May-18	10.3	Jan-18	nm	20.4	0.0	2.5	160
Privatbank in default (10.875)	Not rated	15-May-18	10.9	Feb-18	nm	29.0	0.0	3.2	175
Oschadbank 2023	Buy	15-May-18	9.4	Mar-23	7.4	102.8	-0.3	1.5	700
Oschadbank 2025	Buy	15-May-18	9.6	Mar-25	8.6	102.7	-0.4	2.7	500
Ukreximbank 2021 (UAH)	Buy	15-May-18	16.5	Mar-21	17.8	97.1	-2.1	2.2	150
Ukreximbank 2022	Buy	15-May-18	9.6	Apr-22	7.4	103.5	0.1	1.6	750
Ukreximbank 2025	Buy	15-May-18	9.8	Jan-25	8.7	103.2	-0.2	3.1	600
Ukrainian Railway 2021	Buy	17-Apr-18	9.9	Sep-21	7.7	103.1	-0.3	1.5	500
Mriya 2018	Hold	14-Nov-17	9.5	Apr-18	nm	7.7	-0.2	1.3	400
Kernel 2022	Buy	29-May-18	8.8	Jan-22	7.8	103.0	-0.1	3.1	500

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
SSSU - Agricultural production monthly data	Exact	13-Jun
SSSU - Q1 2018 GDP	Exact	19-Jun
SSSU - Wholesale and retail turnover monthly data	Exact	20-Jun
SSSU - Transportation monthly data	Exact	20-Jun
SSSU - Industrial production monthly data	Exact	22-Jun

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