

## Weekly Digest

- Ukraine's CA deficit in June amounted to \$0.4bln
- The S&P has upgraded the IDR of Ukrainian Railways to a 'B-'
- Ukraine's foreign currency reserves increased by \$1.2bln over July to \$21.8bln

**Ukraine's CA deficit in June amounted to \$0.4bln**, up \$0.3bln YoY. The LTM figure landed at \$3.8bln vs \$2.7bln a year ago. Monthly trade balance (of goods and services) deteriorated by \$0.4bln YoY to -\$0.5bln. The FA demonstrated a \$1.6bln outflow.

**Our view:** This month's CA somewhat underperformed expectations on the back of a higher actual demand for imports than anticipated. Machinery, where growth accelerated to 28% YoY from 17% in May, was a key driver, with standout items being electrical equipment and cars. Larger purchases of natural gas also had an effect, as these doubled compared to 2018 to an estimated 1.9bln m<sup>3</sup>. Whereas we treat the latter mostly as a temporary deviation (we still expect total shipments at 9.5bln m<sup>3</sup> for the year), the former did have an impact on our forward-looking figures. Of even more importance, however, were changes experienced by global commodity price indexes since our last review. The iron ore 62% Fe CFR China benchmark lost 16% MoM, Black Sea wheat and HRC steel (Europe) decreased by 4% and 2% MoM, respectively. Combining the data together, we decrease our CA deficit outlook for the year to \$4.5bln (2.9% of GDP) from \$3.0bln previously. The FA primarily reflected sales of sovereign debt issues to nonresidents: EUR1.0bln worth of eurobonds and c. \$0.5bln of local hryvnia notes. Funding flow to the private sector doubled compared to May with main sources being trade financing and borrowing.

BoP summary for June, \$mln					
	Jun-19	May-19	Apr-19	LTM	LTM-1
Exports:	4,686	5,640	5,134	61,161	56,789
MoM	-17%	10%	-3%		
YoY	-1%	13%	4%	8%	12%
Imports:	5,873	6,288	5,836	72,940	66,213
MoM	-7%	8%	-2%		
YoY	6%	9%	10%	10%	15%
TB:	-1,187	-648	-702	-11,779	-9,424
MoM	-539	54	-32		
YoY	-373	158	-350	-2,355	-2,222
CA:	-432	249	33	-3,810	-2,789
MoM	-681	216	495		
YoY	-306	328	-161	-1,021	-1,101
FA:	-1,640	1,004	79	-7,088	-4,621
MoM	-2,644	925	1,194		
YoY	-1,491	1,349	179	-2,467	-996
BoP:	1,210	-750	-45	3,314	1,824
MoM	1,960	-705	-690		
YoY	1,187	-1,016	-335	1,490	-164
Funding flow <sup>1</sup> :	988	467	78	4,867	3,108

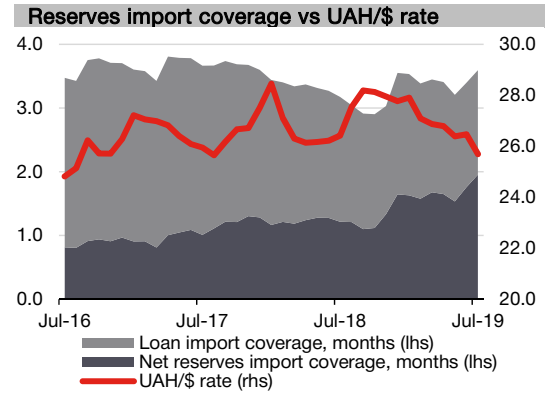
Note: LTM and LTM -1 stand for last twelve months and last twelve months a year ago, respectively  
 (1) Private sector financing: an estimated amount of capital flowing into the private sector (including banks) via lending and investment  
 Source: NBU, Adamant Capital estimates

**The S&P has upgraded the IDR of Ukrainian Railways to a 'B-'** with a stable outlook. According to the agency's press release, the change primarily reflects an improvement in the issuer's liquidity position and maturity profile following its recent \$500mln LPN placement.

**Our view:** Taking into account the issuer's most recent leverage metrics (net debt to EBITDA at just 1.9x) and government ownership, the upgrade looks long overdue (Fitch has already increased its rating to the same level back in November). Although the company did have \$600mln of outstanding short-term debt on its balance sheet at the beginning of the year, which the new placement will indeed help to manage, the Railway was never in danger of a true liquidity crisis, in our view, given its access to other state-owned enterprises (especially banks) and support of the state itself.

**Ukraine’s foreign currency reserves increased by \$1.2bln over July to \$21.8bln.** Outflows came primarily on the back of debt servicing and amortizations of \$1.0bln. Inflows were generated by the FinMin’s \$1.0bln worth of note sales on the local market and NBU interventions totaling \$1.2bln.

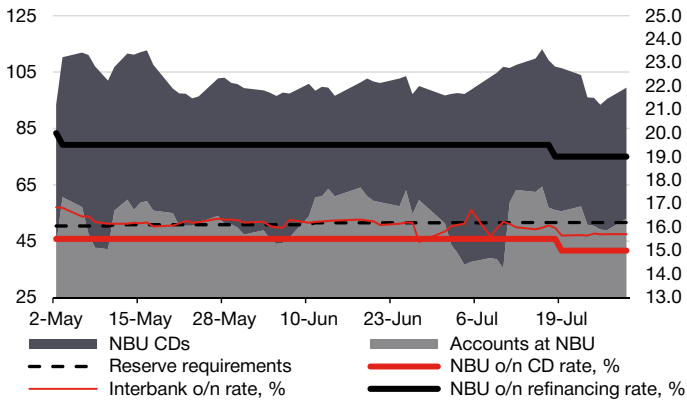
**Our view:** This month’s figure came in substantially above expectations due to a surprisingly high amount of foreign currency purchase operations conducted by the National Bank. These were, in turn, made possible by a surge in external investor interest towards local hryvnia debt (non-residents holdings in state notes increased by \$1.1bln). Demand for local FX bonds was also high, which allowed the FinMin to achieve an estimated rollover rate of 133%. Attempting to incorporate this new factor into our model, we increase our end of period reserves estimate to \$22.3bln from \$20.2bln previously (our projection for August stands at \$21.9bln), but note that the flow of foreign funds is highly unpredictable, especially given the upcoming change in the country’s key officials. As mentioned previously, our base case macroeconomic scenario assumes that Ukraine will be able to secure one \$1.3bln tranche from the IMF and a EUR0.5bln disbursement from the EU in 4Q19.



Source: NBU, Adamant Capital estimates

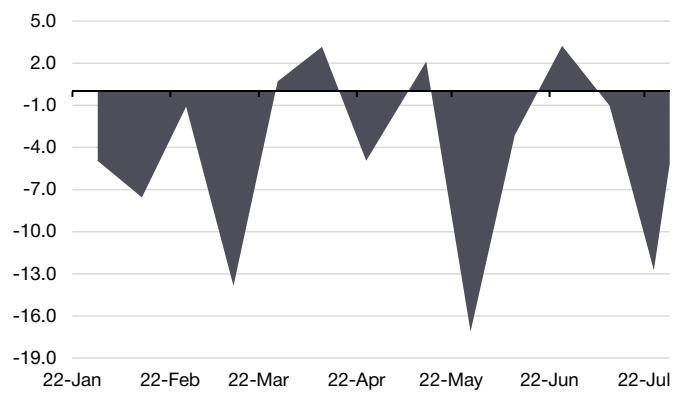
## Appendix

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

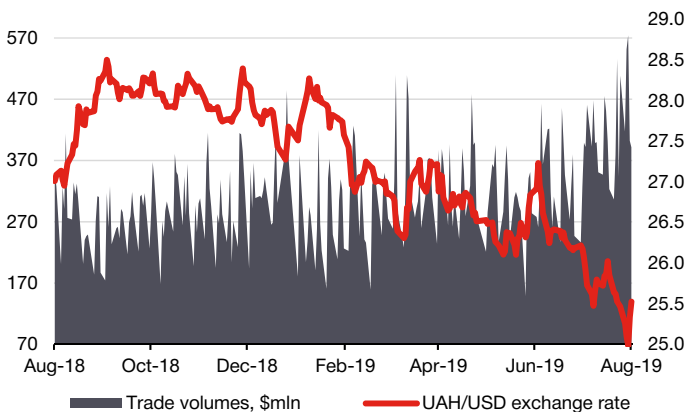


Note: in UAHbln, where each point represents a biweekly sum  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 4.5bln to UAH 99.4bln over the last week. On August 6 the Ministry of Finance conducted local hryvnia denominated placement maturing in October 2019, July 2020, and August 2022 with yields of 16.50%, 16.28%, and 16.19% respectively. A total of UAH 2.7bln was raised as a result.

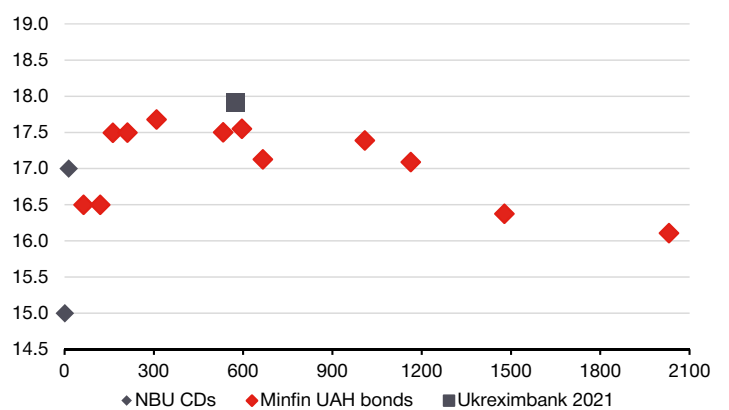
The **UAH/USD interbank rate** over the last week depreciated by 2.1%, starting out with 25.09 and ending at 25.62.

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

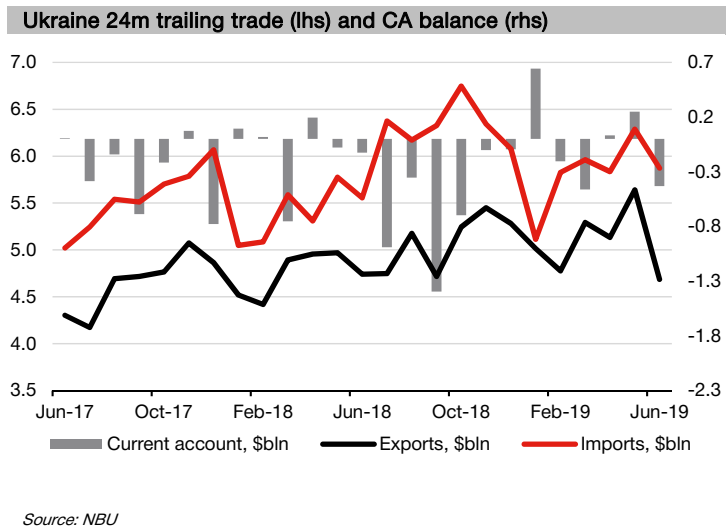
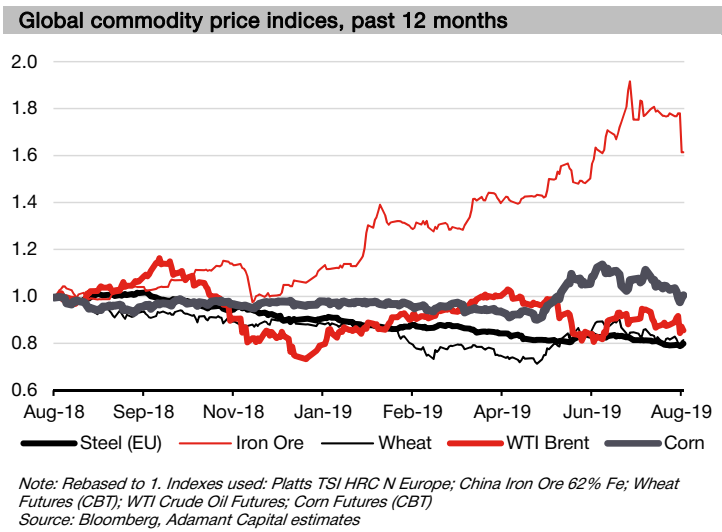
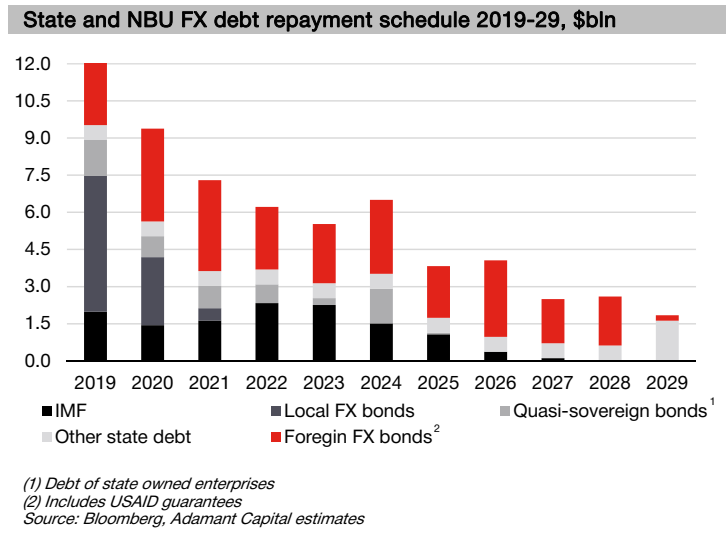
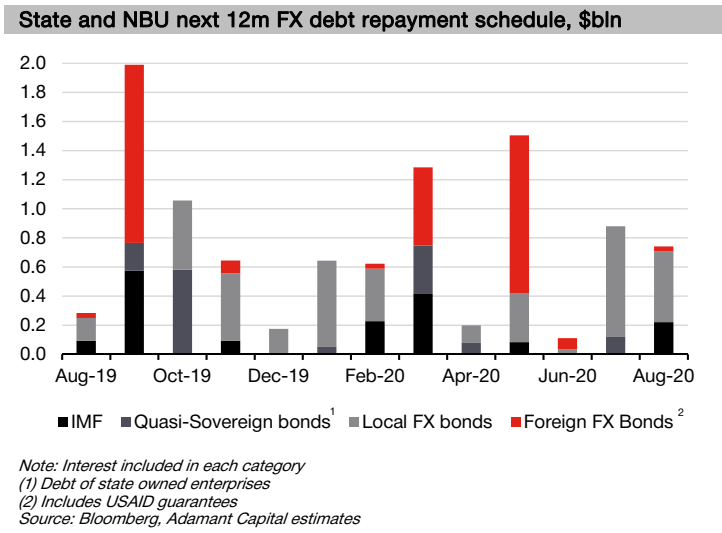
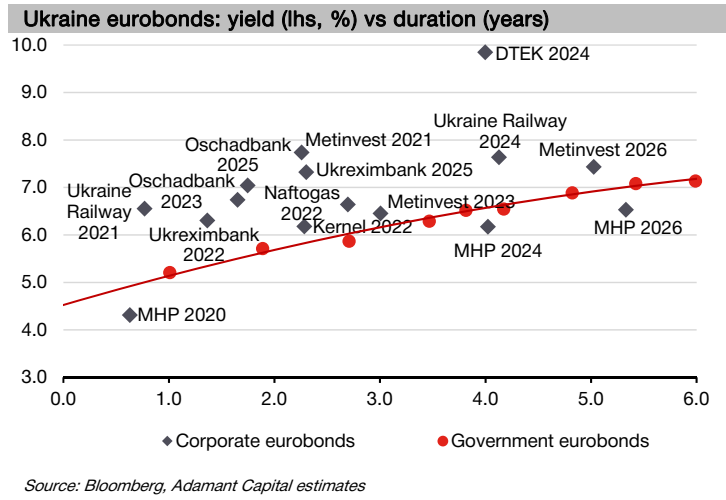
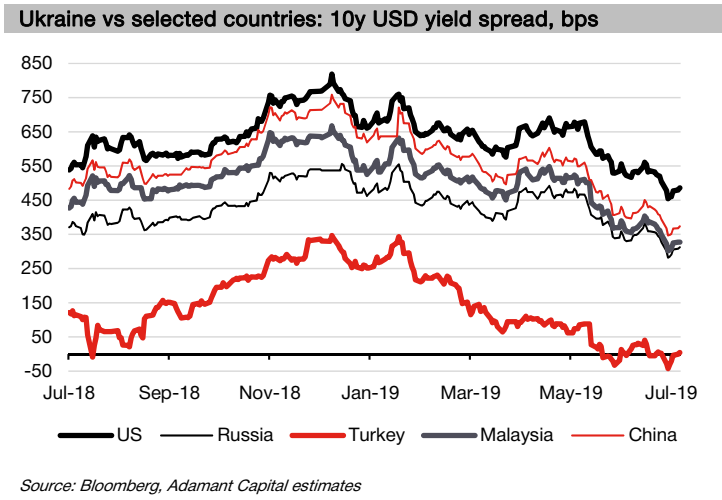


Note: Exchange rate figures are from official interbank data  
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19E	2019E
Real GDP growth, YoY	3.3%	3.8%	2.8%	3.5%	3.3%	2.5%	3.5%	3.0%
Nominal GDP, UAHbln	705	811	995	1,048	3,559	807	940	4,086
Nominal GDP, \$bln	26	31	36	37	131	30	35	155
GDP deflator growth YoY, %	15.1%	17.4%	16.0%	13.5%	15.0%	11.7%	12.0%	11.5%
Period average CPI YoY, %	13.8%	11.6%	8.9%	9.7%	11.0%	8.9%	9.1%	8.7%
End of period CPI YoY, %	13.2%	9.9%	8.9%	9.8%	9.8%	8.6%	9.0%	6.5%
Consolidated budget deficit, % of GDP <sup>1</sup>	0.4%	-1.7%	-0.4%	7.9%	1.9%	1.1%	-3.5%	2.3%
Broad public sector deficit, % of GDP <sup>2</sup>	0.4%	-1.2%	-0.4%	8.3%	2.2%	1.1%	-3.5%	2.3%
Public debt as % of LTM GDP, UAH	66.3%	61.6%	62.1%	60.9%	60.9%	58.6%	55.4%	53.8%
Public external debt as % of LTM GDP, \$ <sup>3</sup>	41.6%	38.6%	37.6%	38.6%	38.6%	37.5%	35.9%	33.2%
Total external debt, \$bln	115	114	114	115	115	114	114	113
Export of goods and services, \$bln	13.8	14.7	14.6	16.0	59.1	15.1	15.1	62.2
Import of goods and services, \$bln	15.7	16.6	18.9	19.2	70.4	16.9	17.5	75.0
Trade balance, \$bln	-1.9	-2.0	-4.2	-3.2	-11.3	-1.8	-2.4	-12.8
Current account, \$bln	-0.6	0.0	-2.7	-0.9	-4.3	0.0	0.1	-4.5
Financial account, \$bln <sup>4</sup>	-0.4	-0.6	-2.0	-4.2	-7.1	-0.4	-0.5	-6.7
End of period NBU reserves, \$bln	18.2	18.0	16.6	20.8	20.8	20.6	20.6	22.3
Average interbank exchange rate, UAH/\$ <sup>5</sup>	27.3	26.2	27.4	28.0	27.2	27.3	26.6	26.4
EOP interbank exchange rate, UAH/\$	26.3	26.3	28.3	27.7	27.7	27.2	26.2	26.3
EOP key policy rate NBU, %	17.0%	17.0%	18.0%	18.0%	18.0%	17.5%	17.5%	16.0%

(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	Hold	-	7.8	Sep-19	6.5	100.1	-0.1	0.1	661
Ukraine 2023	Hold	-	7.8	Sep-23	5.6	107.8	2.4	3.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	6.0	111.6	3.1	3.7	750
Ukraine 2027	Hold	-	7.8	Sep-27	6.7	106.5	4.5	6.1	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	7.2	117.0	4.8	6.4	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	7.1	102.5	4.6	8.2	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	8.4	-0.1	nm	214
DTEK 2024	Hold	4-Jun-19	10.8	Dec-24	9.6	104.5	1.5	4.0	1,344
Kernel 2022	Buy	23-Jul-19	8.8	Jan-22	6.0	106.4	0.8	2.2	500
Metinvest 2023	Hold	30-Jul-19	7.8	Apr-23	6.4	104.6	1.4	3.0	945
Metinvest 2026	Hold	30-Jul-19	8.5	Apr-26	7.3	106.2	2.3	5.1	648
MHP 2024	Hold	23-Jul-19	7.8	May-24	6.1	106.6	1.1	4.1	500
MHP 2026	Hold	23-Jul-19	7.0	Apr-26	6.5	102.3	1.9	5.4	550
Naftogas 2022	Not rated	-	7.4	Jul-22	6.5	102.2	1.5	2.7	335
Naftogas 2024 (EUR)	Not rated	-	7.1	Jul-24	6.5	102.8	2.0	4.4	672
Oschadbank 2023	Buy	14-May-19	9.4	Mar-23	6.4	105.1	1.0	1.7	280
Oschadbank 2025	Buy	14-May-19	9.6	Mar-25	6.6	105.4	1.6	1.8	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	29.8	-1.1	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	29.2	-0.4	nm	175
Ukraine Railway 2021	Buy	7-May-19	9.9	Sep-21	6.1	103.0	0.6	0.8	350
Ukraine Railway 2024	Not rated	-	8.3	Jul-24	7.6	102.6	1.7	4.2	500
Ukreximbank 2021 (UAH)	Not rated	-	16.5	Mar-21	18.5	97.2	0.1	1.4	150
Ukreximbank 2022	Buy	14-May-19	9.6	Apr-22	6.1	105.0	0.7	1.4	375
Ukreximbank 2025	Buy	14-May-19	9.8	Jan-25	7.1	106.1	1.4	2.3	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	10.9	-0.9	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-Aug

## 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.