

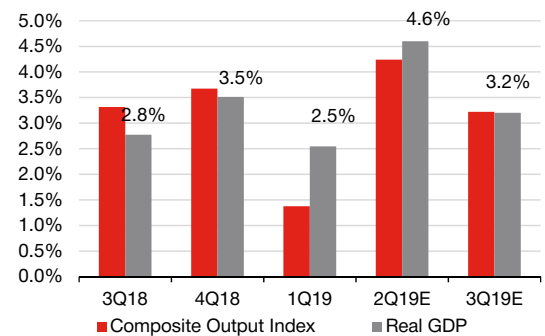
Weekly Digest

- Output of key economic sectors in July increased by 7.5% YoY
- The consolidated budget over 7m19 demonstrated a UAH23bln surplus (1.1% of GDP)

Output of key economic sectors in July increased by 7.5% YoY, as measured by our COI indicator. Industrial production declined by 0.2% (1.1% in seasonally adjusted terms), demonstrating a moderate acceleration from June (-2.3% and -1.3% YoY, respectively). Agriculture was up by 18.3%, with the monthly harvest of grains and oilseeds increasing by c. 38% YoY. According to our estimates, transportation and construction gained 2.3% and 15.5% YoY, respectively. Domestic trade grew by just 3.2%, despite an 9.0% increase in retail volumes (wholesale was down by 5.2%).

Our view: The increase in the consolidated output of observable sectors (measured by the COI) surpassed our estimate by c. 150bps due to surprisingly strong results in construction and even better than anticipated figures for agriculture (we budgeted a 15% bump YoY). We believe that the former suggests that the slowdown in infrastructure and residential works in June may have been caused by a collection of one-off events, which opens up possibilities for growth over 2H19 (we set our projection for August at 10% YoY). Crop production, on the other hand, is likely to reverse next month due to a higher base (we calculate -35% YoY in volume for grains) despite beating expectations, and may end up dragging the COI into negative territory. Industrial output somewhat differed from our estimates, but did not have a material impact on the consolidated figure given a practically flat dynamic YoY. We expect roughly the same trend to continue until the end of 2019. Overall, we feel that the data allows for a slight upward correction of our real GDP guidance for 3Q19 to 3.2% from 2.9% previously, which also bumps the FY19 figure by 0.1ppt to 3.3%.

Real GDP growth vs the COI indicator



Note: The Composite Output Index represents the weighted average growth of industrial production, retail sales, wholesale sales, transportation, and agricultural output
 Source: SSSU, Adamant Capital estimates

The consolidated budget over 7m19 demonstrated an UAH23bln surplus (1.1% of GDP). Revenue and expenditure growth for July stood at 20% and 14% YoY, respectively.

Our view: Total consolidated income for the month came in above expectations on the back of two factors: a sudden drop in VAT refunds to the lowest level so far this year (UAH10.4bln) and a higher than anticipated profit contribution from state-owned companies. The former may have been a result of delays in compensations – according to our estimates funds that were disbursed to business in July took an average of 59 days (weighted by amount) to arrive. Of note, however, is that these included some claims that originated in 2017 and went through a long process of verifications. The unaccounted-for transfers are likely to be simply timing-related. The growth of PIT collections demonstrated an unusual acceleration that is somewhat at odds with the slowdown in household income dynamics. On the whole, the collection of, likely temporary, factors led to 10.7% YoY surge in 7M19 revenues before NBU transfers, which stand comfortably above the 9.6% increase planned for the year. Preliminary data for August suggests that the same indicator is currently at 22.7% (VAT refunds are down by c. 50%). Consolidated expenditures in July also came in somewhat above expectations. Key deviations were spending on capex and grants to businesses. Inflexible items such as wages, debt servicing, and social protection mostly matched our estimates. Total outlays for 7M19 were up by 14% and thus on par with the annual plan. All in all, we find that July data suggests that, given political will, a budget deficit of 2.3-2.7% of nominal GDP for 2019 remains entirely realistic.

7m19 state budget performance, UAHbln					
	Jul-19	YoY	7M19	YoY	AP YoY
Revenues	102	20%	745	14%	9%
VAT	34	12%	208	1%	16%
Net local VAT	8	52%	43	-12%	20%
Import VAT	26	3%	165	6%	15%
CIT ¹	1	-53%	59	0%	-1%
Excise tax	12	1%	73	13%	13%
PIT ²	25	27%	154	22%	16%
Royalties	3	-6%	31	27%	26%
Import duties	3	18%	17	21%	16%
Local taxes	8	26%	42	24%	9%
Non-tax revenues	15	90%	150	28%	-11%
NBU transfers	0	nm	65	71%	7%
Other	1	18%	11	30%	-6%
Expenditures	99	14%	721	12%	12%
Operational	87	15%	671	12%	13%
Wages	29	18%	220	19%	22%
R&D	11	-10%	75	-10%	-2%
Debt servicing	5	-1%	66	8%	25%
Grants to business	7	45%	37	81%	18%
Social protection	22	15%	188	1%	5%
Pensions	14	26%	115	37%	17%
Subsidies	1	-56%	31	-41%	-39%
Other operational	14	29%	85	28%	16%
Capex	12	7%	50	17%	-14%
Purchases	7	5%	31	14%	-33%
Transfers	4	12%	19	22%	15%
Net loans	1	84%	1	nm	137%
Deficit³	-2	nm	-23	nm	60%
as % of GDP	nm	nm	-1.1%	nm	0.8pp
Central budget	77	20%	579	14%	11%
Central budget	59	19%	425	25%	20%
Net transfers	18	5%	157	-15%	-4%
Local budget revenues	25	22%	166	16%	5%
Local budget expenses	40	7%	297	-3%	2%
Nominal GDP used	na	nm	2,137	16%	14%

Note: AP stands for the annual plan

(1) Corporate income tax

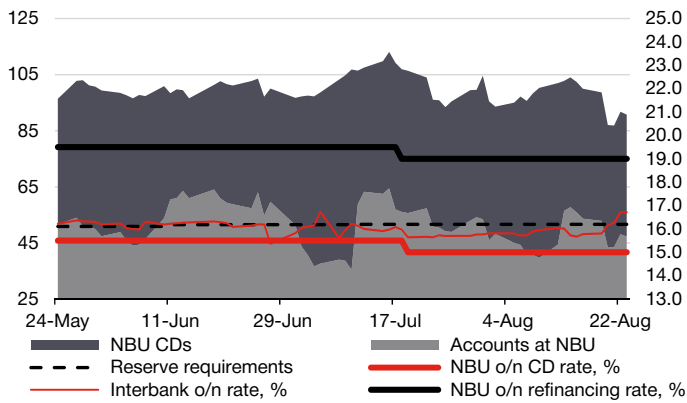
(2) Personal income tax

(3) Revenues less expenditures and net loans of the consolidated budget. Equivalent to the IMF's "general government overall balance" term

Source: SSSU, State Treasury, Adamant Capital estimates

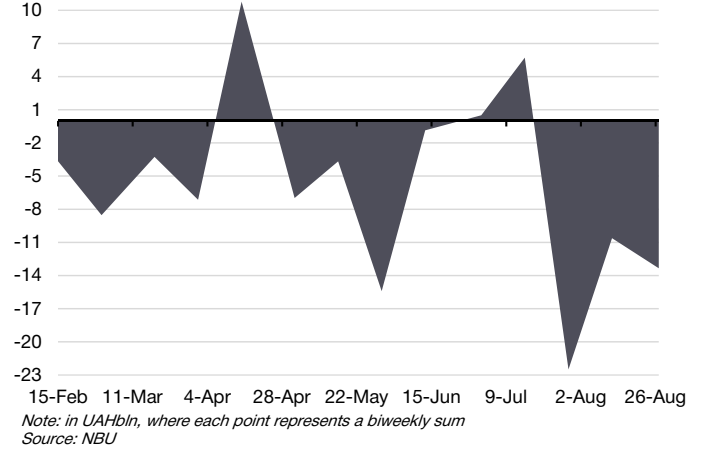
Appendix

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

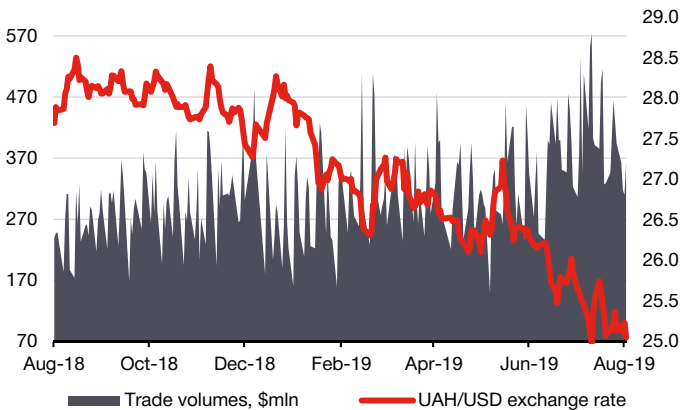


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 9,2bln to UAH 90.7bln over the last week. On August 27 the Ministry of Finance conducted local hryvnia denominated placement maturing in February 2020, August 2020, January 2022 and February 2025 with yields of 16.30%, 16.00%, 16.30% and 15.30% respectively. A total of UAH 1.77bln was raised as a result.

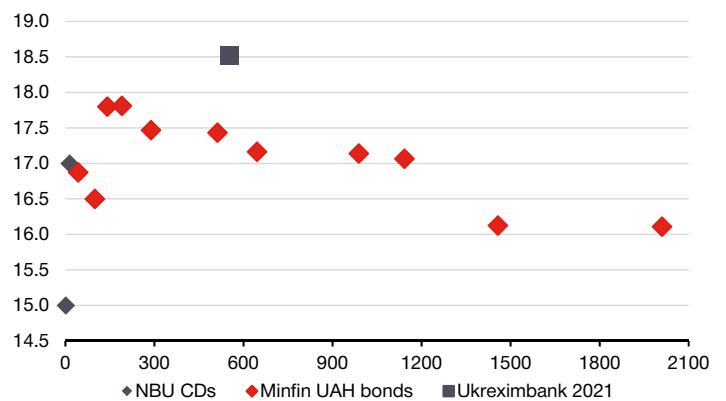
The UAH/USD interbank rate over the last week depreciated by 0.18%, starting out with 25.12 and ending at 25.17.

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

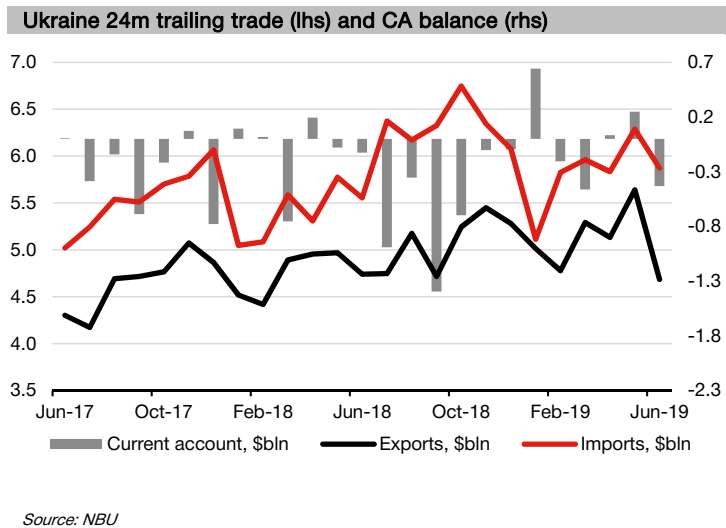
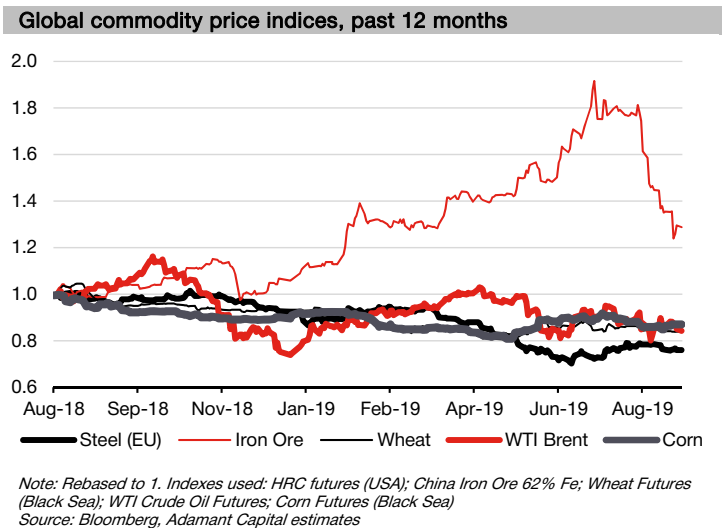
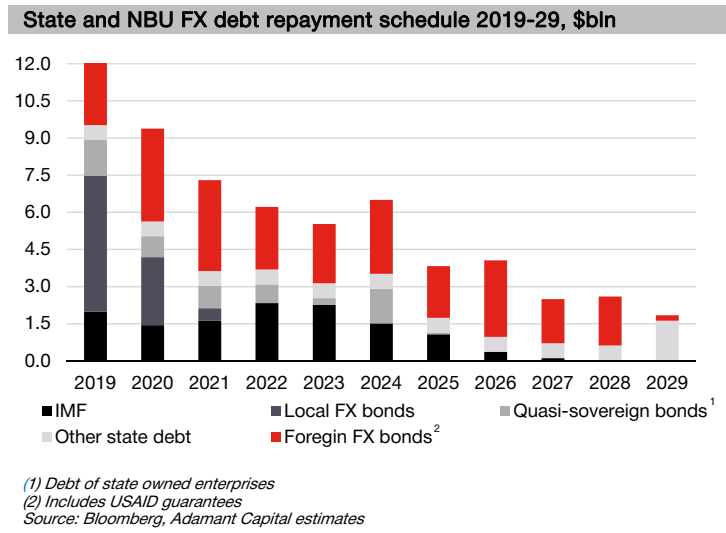
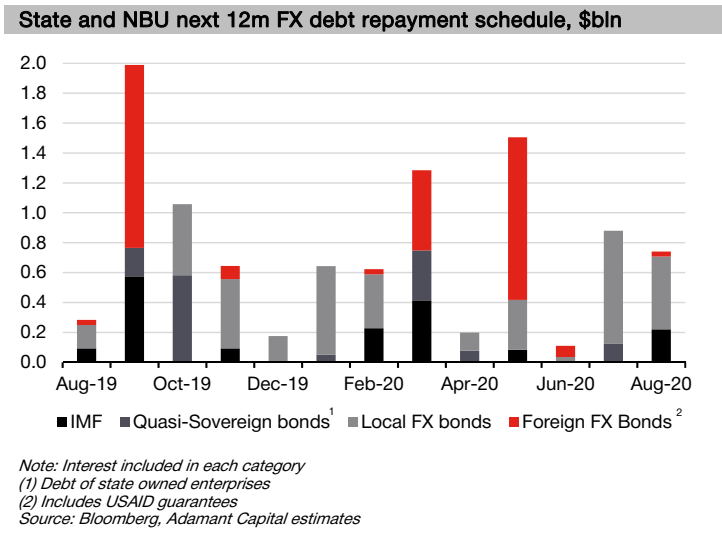
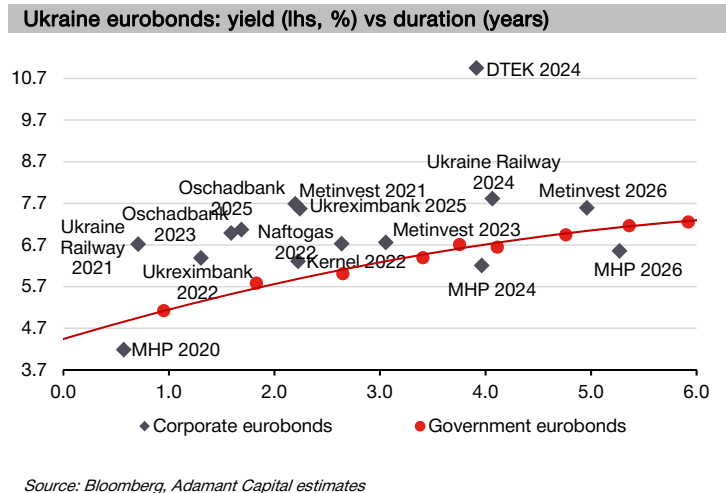
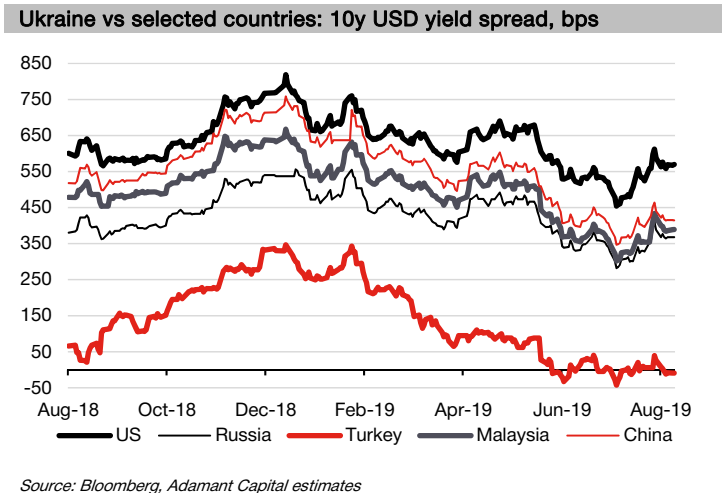


Note: Exchange rate figures are from official interbank data
Source: NBU

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%	4.6%	3.3%
Nominal GDP, UAHbln	705	811	995	1,048	3,559	807	950	4,078
Nominal GDP, \$bln	26	31	36	37	131	30	36	154
GDP deflator growth YoY, %	15.1%	17.4%	16.0%	13.5%	15.0%	11.7%	12.0%	10.9%
Period average CPI YoY, %	13.8%	11.6%	8.9%	9.7%	11.0%	8.9%	9.1%	8.3%
End of period CPI YoY, %	13.2%	9.9%	8.9%	9.8%	9.8%	8.6%	9.0%	6.0%
Consolidated budget deficit, % of GDP ¹	0.4%	-1.7%	-0.4%	7.9%	1.9%	1.1%	1.0%	2.3%
Broad public sector deficit, % of GDP ²	0.4%	-1.2%	-0.4%	8.3%	2.2%	1.1%	1.0%	2.3%
Public debt as % of LTM GDP, UAH	66.3%	61.6%	62.1%	60.9%	60.9%	58.6%	55.3%	53.9%
Public external debt as % of LTM GDP, \$ ³	41.6%	38.6%	37.6%	38.6%	38.6%	37.5%	35.9%	33.3%
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 ⁴	-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/\$ ⁵	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 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	-	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	13-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
Metinvest - Monthly report for May	Indicative	28-Aug
NBU - Balance of payments monthly data	Exact	30-Aug
Metinvest - Monthly report for June	Indicative	30-Aug
MHP - Financial results for Q2 2019	Exact	3-Sep

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