

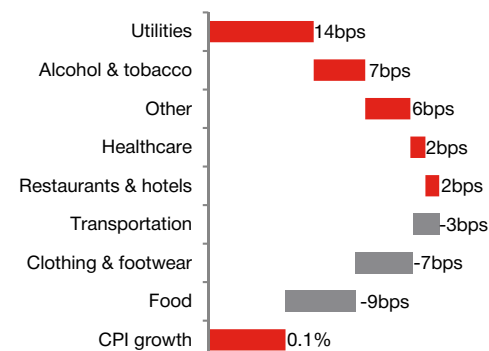
Weekly Digest

- Consumer inflation in November amounted to 0.1% MoM and 5.1% YoY
- Ukraine's foreign currency reserves increased over November by \$0.5bln to \$21.9bln
- Ukraine has reached a staff-level agreement with the IMF
- Normandy summit results: another attempt at a ceasefire

Consumer inflation in November amounted to 0.1% MoM and 5.1% YoY. Key categories contributing to growth versus October were utilities (14bps) and alcohol & tobacco (7bps). Prices of food and clothing demonstrated a decrease by 0.2% and 1.4% MoM respectively (-16bps impact on the topline figure).

Our view: Headline CPI turned out to be even lower than our forecast, which already looked rather optimistic versus that of the NBU. In contrast to our projections, food prices actually contracted MoM, with meat and fruit driving this dynamic the most. Vegetables, which we expected to push ahead in a similar fashion to last year were up by just 1.5%. Taking into account a further strengthening of the hryvnia and a likely absence of shocks in December, we now think that inflation in annual terms will land at just 4.5% at year-end, which is 100bps below our previous estimate. Given such figures, we believe that the NBU is likely to cut the key rate by 150bps to 14.0% during its next decision date scheduled for December 12. Looking ahead into 2020, we continue to see end of period CPI at around 5.0%, but expect it to dip below this level at certain periods, depending on how quickly monetary policy is softened.

MoM CPI growth contributions by category

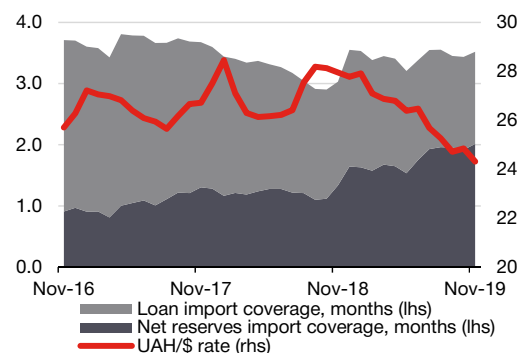


Source: SSSU, Adamant Capital estimates

Ukraine's foreign currency reserves increased over November by \$0.5bln to \$21.9bln. Outflows came primarily on the back of debt servicing and amortizations of \$0.6bln. Inflows were generated by \$0.3bln worth of local FX bond placements and interventions, which totaled \$0.9bln.

Our view: The figure for November came in significantly above our forecasts (made at the beginning of the month) due to a surprisingly large foreign currency surplus on the interbank exchange, which occurred despite relatively low non-resident inflows into local hryvnia bonds (just \$0.2bln). We believe that this may have been created by high export volumes of agricultural goods, elevated levels of trade financing that covered a sizeable amount of imports, and, possibly, unofficial cash currency sales by the population. Taking into account that the NBU was already able to acquire \$0.4bln via interventions during the first week of December, we set our estimate for this indicator for the month as a whole at \$0.8bln. Together with the actual data for November, this assumption allows us to upgrade our end-of-year reserves projection by \$0.4bln to \$22.5bln. Given that Ukraine has already reached a staff-level agreement with the IMF with regard to a new 3-year \$5.5bln program, in 2020 we expect to see two tranches from the Fund totaling \$2.0bln, a \$0.5bln loan from the World Bank, and two more disbursements from the EU via the MFA IV (EUR0.5bln each). We also think that the FinMin should be able to raise some \$2.5bln via new eurobond issues. Assuming further that the NBU's interventions amount at c. \$3.5bln (the average of 2018 and 2019), we calculate that reserves should end 2020 at a level of c. \$25.0bln.

Reserves import coverage vs UAH/\$ rate



Source: NBU, Adamant Capital estimates

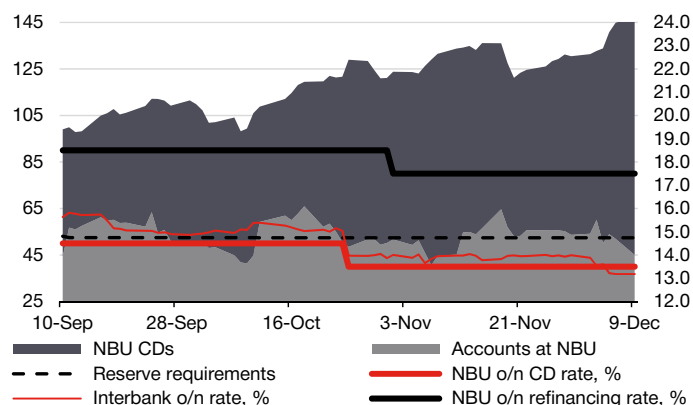
Ukraine has reached a staff-level agreement with the IMF. According to the institution's official press release, the arrangement was reached during a phone call between the Fund's Managing Director Kristalina Georgieva and President Zelenskyi.

Our view: Taking into account that an IMF mission visited Kyiv just two weeks ago and left without any tangible results, the timing of the announcement came to us as a somewhat of a surprise. That said, we still think that Executive Board Approval is unlikely to happen before the end of the year (a meeting on Ukraine has not been added to the official calendar so far), which means that funds will only be disbursed in 1Q20 (in line with our earlier logic). While prior actions listed in the new memorandum have not been disclosed to date, we think that subjects discussed during the call strongly hint at measures that will prevent ex-shareholders of Privatbank from regaining ownership via local court disputes. Emphasis has also been made on strengthening the rule of law and the integrity of the judiciary, suggesting that the program may include a heavy focus on these topics.

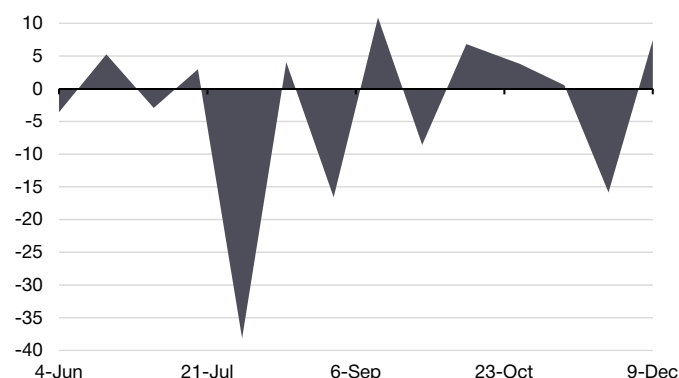
Normandy summit results: another attempt at a ceasefire. On December 10 president Zelensky has met with his Russian, French, and German counterparts in Paris to discuss the possibility of reaching a peace deal with regard to the war that has been enduring in eastern Ukraine since 2014. According to the official common statement (the Common Agreed Conclusions) the parties have concurred to implement immediate measures to stabilize the situation in the conflict zone and to exchange prisoners on an "all for all" basis, expressed their interest in reaching an accord on all legal aspects of a special status for the Donbas region, and have decided to hold another meeting within four months. As per an interview given by Zelensky to local mass media, the talks also brought Russia and Ukraine closer to a gas transit deal.

Our view: Though on the whole the summit did not actually yield any tangible results, negotiations did seem to progress, albeit mildly, towards reaching an agreement on how to end the war and on what terms to transit Russian gas over Ukraine's territory in the coming years (both of which are of high importance). With regard to the latter, we believe that a deal will be reached relatively soon, given that Nord Stream 2 is likely to only come online in mid-2020 and Gazprom will require Ukraine's infrastructure until this date. Talks on the former may drag on for much longer, in our view, as geopolitically Russia is likely to continue pushing for options that leave Ukraine in a weakened state (i.e. an active conflict rather than one that is resolved on Zelensky's terms).

Appendix

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


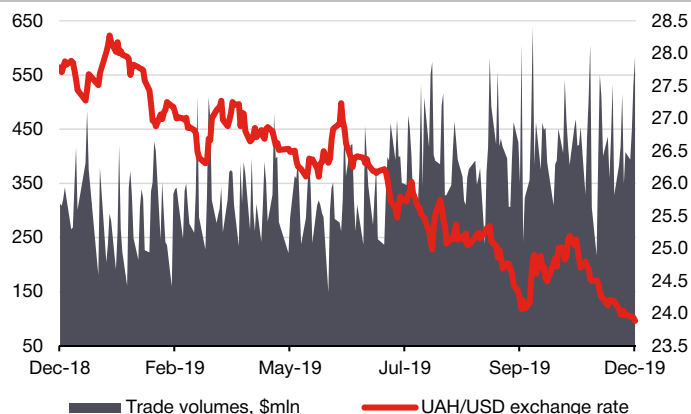
Source: NBU, Adamant Capital estimates

Banking system 6m inflows from the state treasury and the DGF


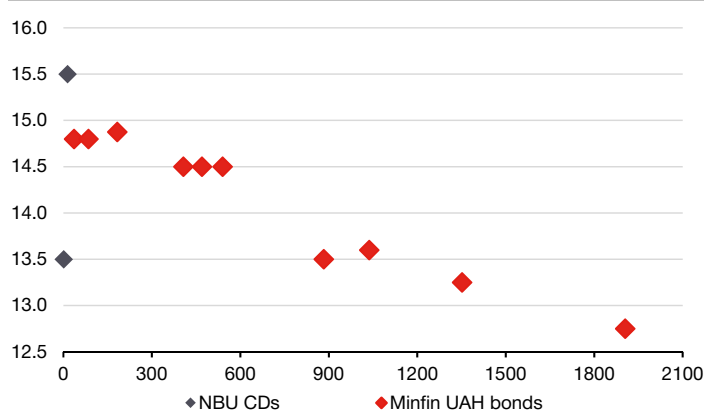
Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 16.2bln to UAH 147.5bln over the last week. On December 10 the Ministry of Finance conducted local hryvnia denominated placement maturing in September 2020, August 2022 and November 2023 with yields of 13.00%, 12.01% and 11.67% respectively. A total of UAH 4.4bln was raised as a result. Demand for the 4-year notes exceeded supply by almost four times.

The **UAH/USD interbank rate** over the last week appreciated by 1.9%, starting out with 23.96 and ending at 23.68.

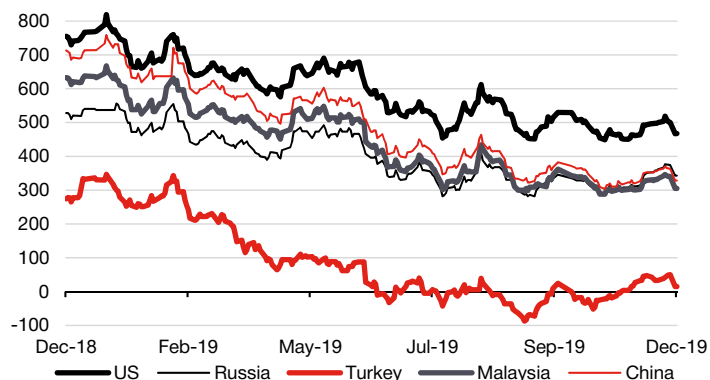
FX interbank trade volume (lhs) and FX rate (rhs), past 12 months


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

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


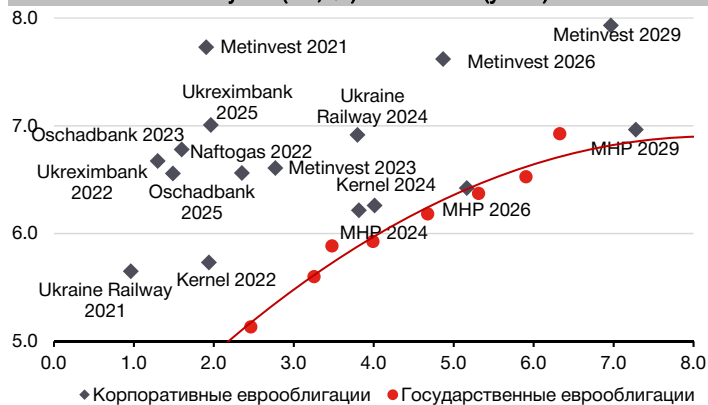
Source: NBU, Bloomberg, Adamant Capital estimates

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



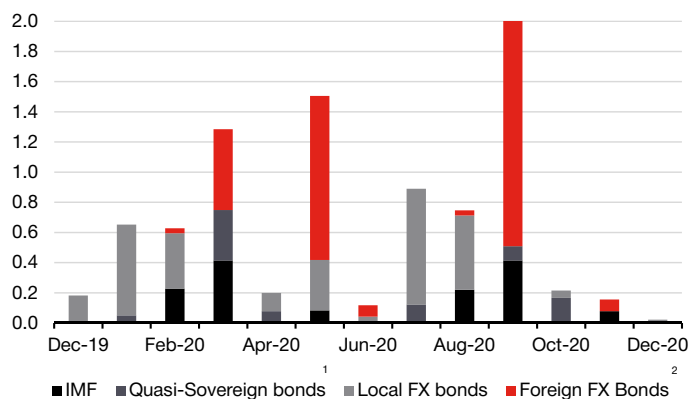
Source: Bloomberg, Adamant Capital estimates

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



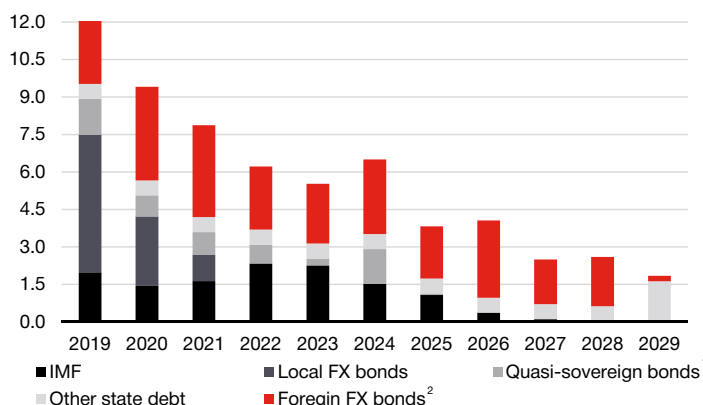
Source: Bloomberg, Adamant Capital estimates

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



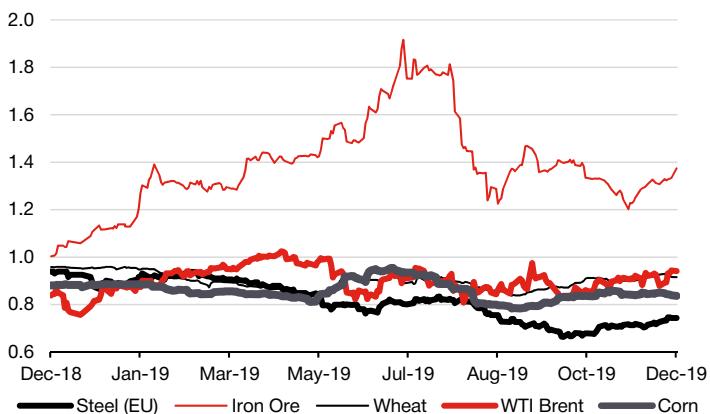
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2019-29, \$bln



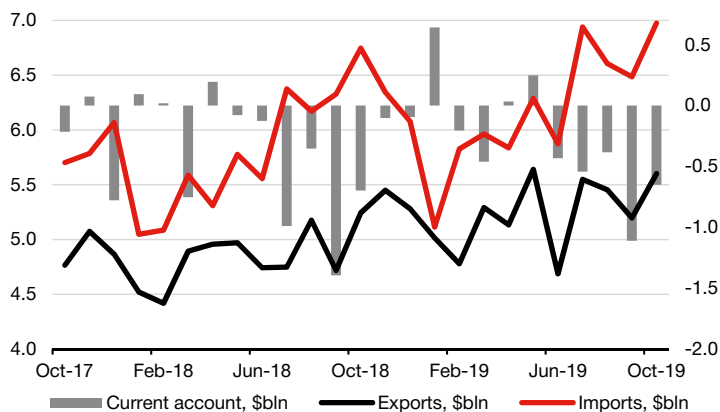
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: HRC futures (USA); China Iron Ore 62% Fe; Wheat Futures (Black Sea); WTI Crude Oil Futures; Corn Futures (Black Sea)
 Source: Bloomberg, Adamant Capital estimates

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



Source: NBU

Key macroeconomic indicators								
	4Q18	2018	1Q19	2Q19	3Q19E	4Q19E	2019E	2020E
Real GDP growth, YoY	3.5%	3.3%	2.5%	4.6%	4.2%	3.0%	3.3%	3.5%
Nominal GDP, UAHbln	1,048	3,559	807	950	1,152	1,161	4,070	4,487
Nominal GDP, \$bln	37	131	30	36	46	47	157	179
GDP deflator growth YoY, %	13.5%	15.0%	11.7%	12.0%	11.2%	7.5%	10.7%	6.5%
Period average CPI YoY, %	9.7%	11.0%	8.9%	9.1%	8.5%	5.7%	8.0%	4.7%
End of period CPI YoY, %	9.8%	9.8%	8.6%	9.0%	7.5%	4.5%	4.5%	5.0%
Consolidated budget deficit, % of GDP ¹	7.9%	1.9%	1.1%	1.0%	-0.9%	8.5%	2.5%	2.1%
Broad public sector deficit, % of GDP ²	8.3%	2.2%	1.1%	1.0%	-0.9%	8.5%	2.5%	2.1%
Public debt as % of LTM GDP, UAH	60.9%	60.9%	58.6%	55.3%	50.5%	48.3%	48.3%	45.4%
Public external debt as % of LTM GDP, \$ ³	38.6%	38.6%	37.5%	36.0%	33.3%	31.2%	31.2%	28.6%
Total external debt, \$bln	115	115	114	116	115	115	115	117
Export of goods and services, \$bln	16.0	59.1	15.1	15.5	16.2	16.2	63.0	62.0
Import of goods and services, \$bln	19.2	70.4	16.9	18.3	20.2	20.0	75.4	75.8
Trade balance, \$bln	-3.2	-11.3	-1.8	-2.8	-3.9	-3.8	-12.4	-13.8
Current account, \$bln	-0.9	-4.3	-0.2	-0.5	-2.1	-1.4	-4.0	-5.4
Financial account, \$bln ⁴	-4.2	-7.1	-0.4	-1.1	-2.2	-3.5	-6.4	-7.3
End of period NBU reserves, \$bln	20.8	20.8	20.6	20.6	20.1	22.1	22.5	25.0
Average interbank exchange rate, UAH/\$ ⁵	28.0	27.2	27.3	26.6	25.2	24.5	25.9	25.0
EOP interbank exchange rate, UAH/\$	27.7	27.7	27.2	26.2	24.2	25.0	25.0	25.0
EOP key policy rate NBU, %	18.0%	18.0%	17.5%	17.5%	16.5%	14.0%	14.0%	8.0%

(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 2023	Hold	-	7.8	Sep-23	5.6	107.1	2.0	3.3	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	5.9	111.3	2.2	3.5	750
Ukraine 2027	Hold	-	7.8	Sep-27	6.5	107.3	2.6	5.9	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	6.9	118.5	3.8	6.3	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	6.9	104.3	3.8	8.1	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	8.0	0.4	nm	214
DTEK 2024	Hold	3-Dec-19	10.8	Dec-24	10.4	101.2	-1.0	3.7	1,344
Kernel 2022	Buy	3-Dec-19	8.8	Jan-22	5.7	106.0	0.2	1.9	500
Kernel 2024	Buy	3-Dec-19	6.5	Oct-24	6.3	101.0	0.4	4.0	300
Metinvest 2021	Buy	5-Nov-19	7.5	Dec-21	7.7	99.4	-0.2	1.9	115
Metinvest 2023	Hold	5-Nov-19	7.8	Apr-23	6.6	103.4	0.1	2.8	505
Metinvest 2025 (EUR)	Buy	5-Nov-19	5.6	Jun-25	5.8	99.4	0.4	4.8	333
Metinvest 2026	Hold	5-Nov-19	8.5	Apr-26	7.6	104.4	0.7	4.9	648
Metinvest 2029	Hold	5-Nov-19	7.8	Oct-29	7.9	98.8	0.5	7.0	500
MHP 2024	Hold	19-Nov-19	7.8	May-24	6.2	105.8	0.3	3.8	500
MHP 2026	Hold	19-Nov-19	7.0	Apr-26	6.4	102.7	0.3	5.2	550
MHP 2029	Hold	19-Nov-19	6.25	Sep-29	7.0	95.0	0.4	7.3	350
Naftogas 2022	Hold	1-Oct-19	7.4	Jul-22	6.6	101.9	0.2	2.4	335
Naftogas 2024 (EUR)	Hold	1-Oct-19	7.1	Jul-24	5.9	104.8	0.7	4.0	672
Oschadbank 2023	Buy	12-Nov-19	9.4	Mar-23	6.8	104.1	0.0	1.6	245
Oschadbank 2025	Buy	12-Nov-19	9.6	Mar-25	6.6	104.5	0.0	1.5	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	29.1	0.8	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	30.8	-1.1	nm	175
Ukraine Railway 2021	Buy	8-Oct-19	9.9	Sep-21	5.6	104.0	0.2	1.0	200
Ukraine Railway 2024	Not rated	-	8.3	Jul-24	6.9	105.2	0.2	3.8	595
Ukreximbank 2021 (UAH)	Buy	12-Nov-19	16.5	Mar-21	16.4	100.0	-0.2	1.1	150
Ukreximbank 2022	Buy	12-Nov-19	9.6	Apr-22	6.7	103.8	0.1	1.3	313
Ukreximbank 2025	Buy	12-Nov-19	9.8	Jan-25	7.0	105.4	0.2	2.0	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	6.8	-1.2	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
NBU - Decision on the key policy rate	Exact	12-Dec
SSSU - Agricultural production monthly data	Exact	13-Dec

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