

## Weekly Digest

- The FinMin has raised \$0.6bln via eurobonds and EUR0.6bln from the EU
- The NBU has kept the discount rate unchanged at 6.0%
- Consumer inflation in November amounted to 3.8% YoY and 1.3% MoM

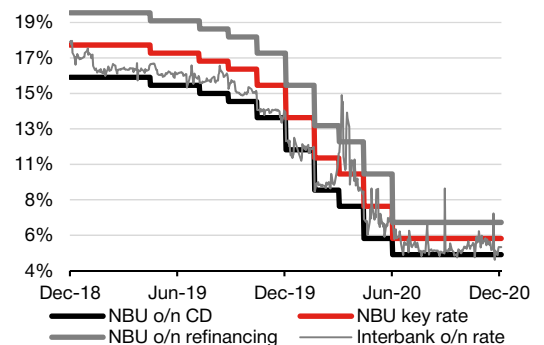
**The FinMin has raised \$0.6bln via eurobonds and EUR0.6bln from the EU.** The eurobond sale was structured as an additional issuance of the already trading \$2.0bln 7.253% note due in 2033 and was priced at 108.91% of par (equivalent to a yield of 6.20%). Funding from the EU came in the form of the first tranche of the MFA V EUR1.2bln program, which was agreed on in July. The FinMin has also received approval from the World Bank on a \$300mln facility that targets strengthening Ukraine's Guaranteed Minimum Income (GMI) program. According to the Ministry's head Marchenko, \$170mln is expected to be disbursed by the end of the year.

**Our view:** Surprisingly, the Ukrainian authorities were able to secure c. \$1.5bln worth of external financing ahead of a staff-level agreement with the IMF. This suggests to us that no official word from the Fund is coming by the end of the year. That said, taking into account that the FinMin has already raised in December a record \$1.7bln net on the local bond market (no doubt helped by the \$0.4bln worth of 5-year loans given out two days before by the NBU), funding is now sufficient for the budget deficit to grow to 5.0-6.0% of GDP (depending on how quickly the newly arrived capital can be spent).

**The NBU has kept the discount rate unchanged at 6.0%.** As per the official announcement, the regulator still believes the current level to be appropriate for both stimulating the economy and keeping inflation in check, despite the CPI accelerating to 3.8% YoY in November.

**Our view:** The decision to avoid decreasing the rate was once again unsurprising, given that inflation is clearly heading towards higher levels due to temporary (grain and gas prices rises) and fundamental (a 39% YoY increase in the M1 money supply) factors. Moreover, the status of Ukraine's cooperation with the IMF and other western donors is still being determined, as the 2021 budget document is yet to be voted in parliament, and the bill on restoring punishment for government officials that falsify asset declarations spurred quite a bit of controversy. A hike in the rate would likely be poorly received by Zelensky's office and, on the whole, goes against the general logic of keeping the monetary policy loose in order to stimulate economic growth.

Local interest rate dynamics, past 24 months

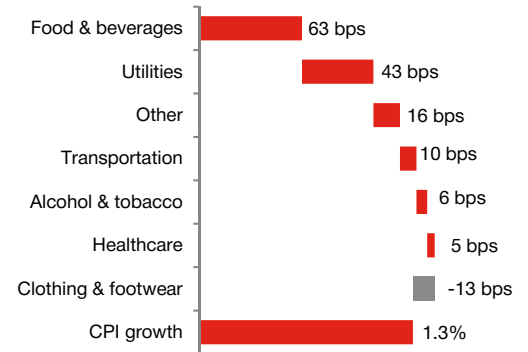


Source: NBU

**Consumer inflation in November amounted to 3.8% YoY and 1.3% MoM.** Key drivers relative to October were food and utilities (specifically natural gas). Most other items, excluding clothing, also demonstrated MoM growth.

**Our view:** Headline CPI came in moderately above estimates, predominantly on the back of higher than anticipated broad-based food price gains. While none of the subcategories particularly stood out (except, possibly vegetables, which jumped by an unseasonal 9.4%), the overall magnitude turned out to be somewhat larger than expected. Natural gas expenses behaved mostly as predicted and reflected a mix between the price dynamic of Naftogaz and regional distributors. Household heating costs climbed much slower, possibly owing to savings efforts by the utility providers (anecdotal evidence points towards lower temperature targets) and delays in tariff hikes. Taking into account the currently available price tracker data and pro-inflation fundamentals (the M1 monetary aggregate is up by 39% YoY as of the end of October), we think the CPI will land in December at 0.8% MoM and 4.9% YoY (up from our prior 4.2% projection). In 2021 inflation is likely to accelerate further, in our view, and will finish the year at 6.2%.

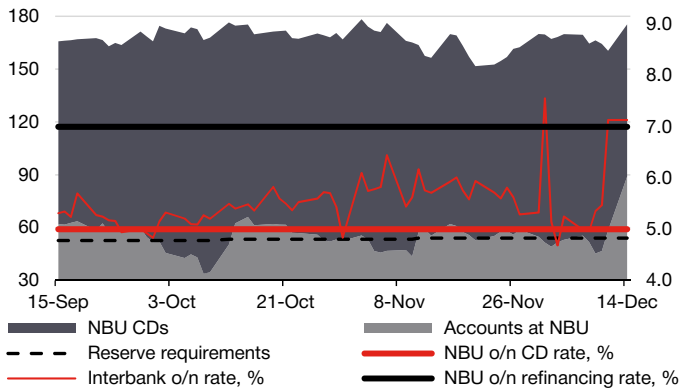
#### MoM CPI contributions by category



Source: SSSU, Adamant Capital estimates

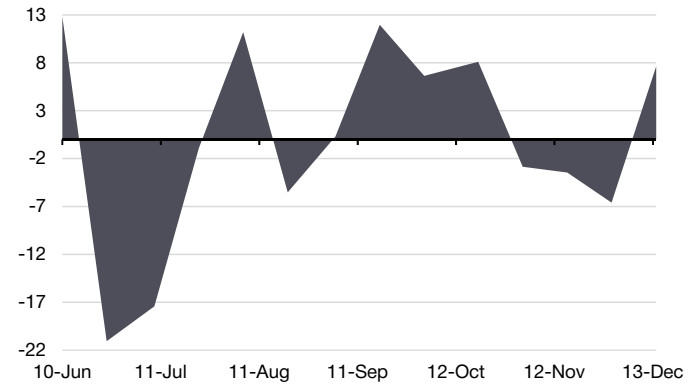
## Appendix

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

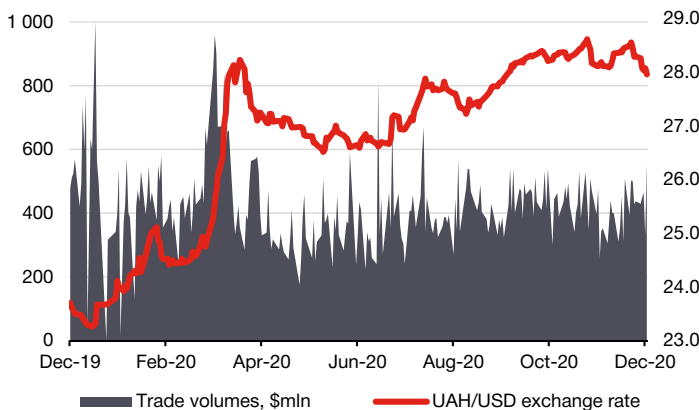


Note: in UAHbln, where each point represents a biweekly sum  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 5.9bln to UAH 175.4bln over the last week. On December 15 the Ministry of Finance conducted local hryvnia denominated placement maturing in March 2021, June 2021, July 2021, October 2021, May 2022, November 2023 and February 2025 with yields of 10.00%, 10.50%, 10.75%, 11.56%, 11.70%, 11.98% and 12.18% respectively, USD denominated placement maturing in October 2021 with yield of 3.80% and EUR denominated placement maturing in November 2021 with yield of 2.50%. A total of UAH 42.1bln, \$266mln and EUR 57mln was raised as a result.

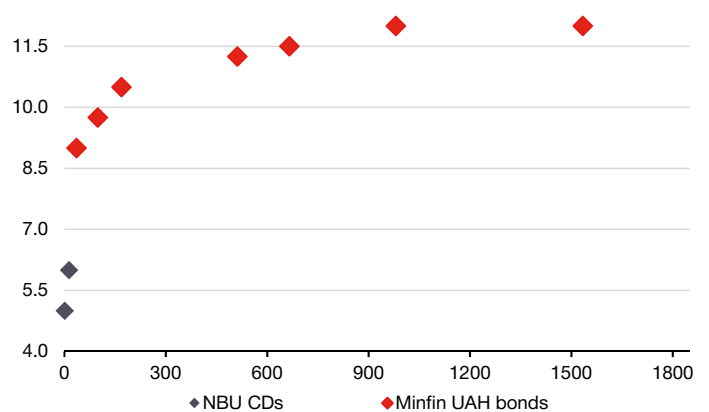
The UAH/USD interbank rate over the last week appreciated by 1.34%, starting out with 28.26 and ending at 27.88.

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



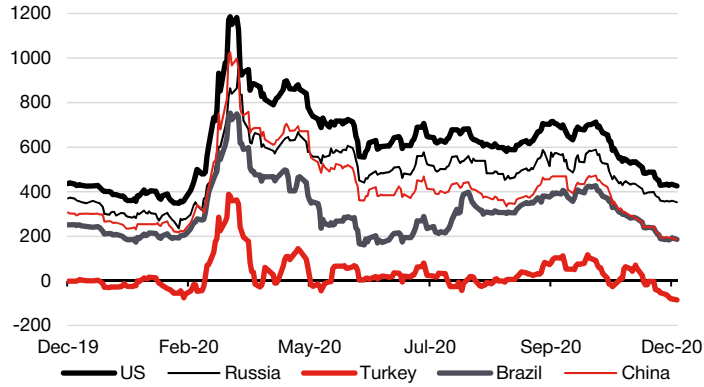
Note: Exchange rate figures are from official interbank data  
Source: NBU

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



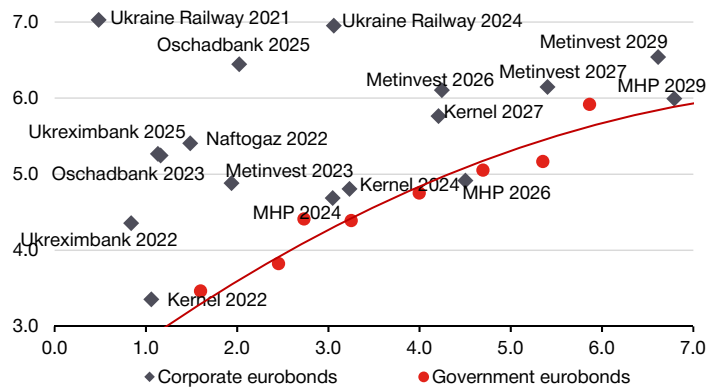
Source: NBU, Bloomberg, Adamant Capital estimates

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



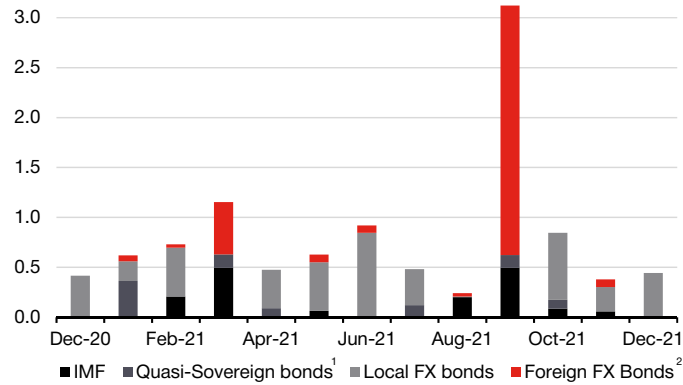
Source: Bloomberg, Adamant Capital estimates

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



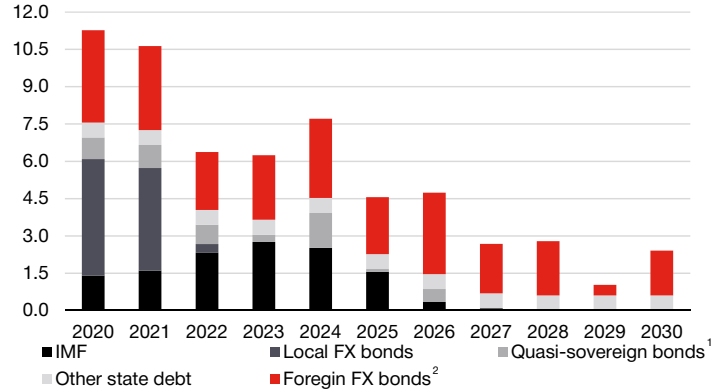
Source: Bloomberg, Adamant Capital estimates

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



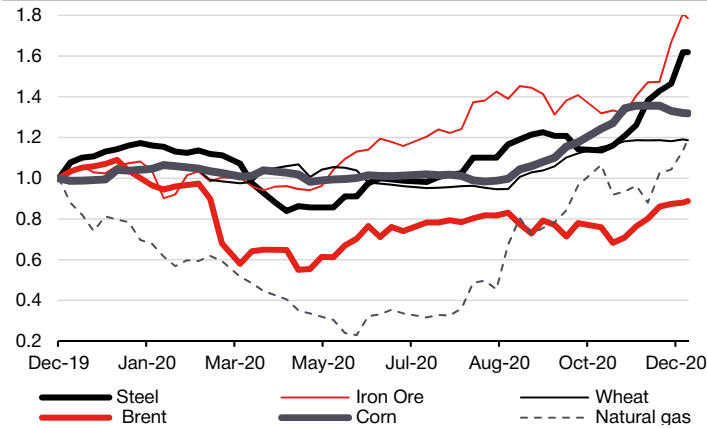
Note: Interest included in each category  
 (1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

**State and NBU FX debt repayment schedule 2020-30, \$bln**



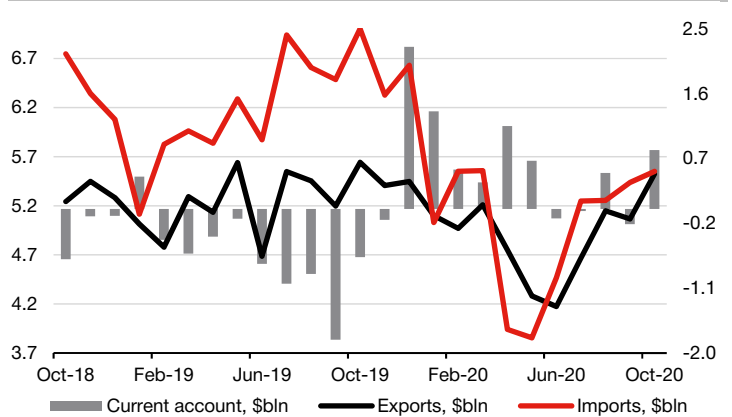
(1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

**Global commodity price indices, past 12 months**



Note: Rebased to 1. Indexes used: HRC spot (FOB Black Sea); China Iron Ore 62% Fe; Wheat Futures (Black Sea); Brent Crude Oil Futures; Corn Futures (Black Sea); Dutch TTF Gas Futures  
 Source: Bloomberg, Adamant Capital estimates

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



Source: NBU

Key macroeconomic indicators								
	4Q19	2019	1Q20	2Q20	3Q20E	4Q20E	2020E	2021E
Real GDP growth, YoY	1.5%	3.2%	-1.3%	-11.4%	-3.5%	-2.0%	-4.5%	3.5%
Nominal GDP, UAHbln	1,115	3,975	846	868	1,105	1,138	3,968	4,353
Nominal GDP, \$bln	46	154	34	32	40	41	147	150
GDP deflator growth YoY, %	4.7%	8.1%	5.1%	5.0%	3.0%	4.2%	4.5%	6.0%
Period average CPI YoY, %	5.2%	7.9%	2.6%	2.1%	2.4%	3.8%	2.7%	6.6%
End of period CPI YoY, %	4.1%	4.1%	2.3%	2.4%	2.3%	4.9%	4.9%	6.2%
Consolidated budget deficit, % of GDP <sup>1</sup>	2.1%	2.1%	2.3%	1.7%	3.4%	5.8%	5.8%	5.3%
Broad public sector deficit, % of GDP <sup>2</sup>	2.1%	2.2%	2.3%	2.2%	3.7%	6.4%	6.4%	5.6%
Public debt as % of LTM GDP, UAH	50.3%	50.3%	56.3%	57.6%	59.0%	60.0%	60.0%	62%
Public external debt as % of LTM GDP, \$ <sup>3</sup>	31.6%	31.6%	31.6%	31.7%	32.5%	34.8%	34.8%	37%
Total external debt, \$bln	122	122	120	123	128	127	127	133
Export of goods and services, \$bln	16.5	63.4	15.3	13.2	14.9	17.6	60.9	67.2
Import of goods and services, \$bln	20.0	75.5	16.1	12.3	15.9	16.8	61.1	70.5
Trade balance, \$bln	-3.5	-12.1	-0.9	0.9	-1.1	0.8	-0.2	-3.3
Current account, \$bln	1.4	-1.1	2.3	1.7	0.3	2.3	6.5	2.2
Financial account, \$bln <sup>4</sup>	-2.3	-10.2	2.4	0.4	2.0	-1.5	3.2	-2.2
End of period NBU reserves, \$bln	25.3	25.3	24.9	28.5	26.5	28.0	28.0	32.0
Average interbank exchange rate, UAH/\$ <sup>5</sup>	24.2	25.8	25.2	26.9	27.6	28.1	27.0	29.0
EOP interbank exchange rate, UAH/\$	23.7	23.7	27.6	26.7	28.3	28.0	28.0	29.5
EOP key policy rate NBU, %	13.5%	13.5%	10.0%	6.0%	6.0%	6.0%	6.0%	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 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 2023	Hold	-	7.8	Sep-23	3.8	110.0	0.4	2.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	4.4	113.2	0.5	2.7	750
Ukraine 2027	Hold	-	7.8	Sep-27	5.2	114.5	0.9	5.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	5.9	123.8	1.9	5.9	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	6.1	110.8	0.8	7.8	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	3.4	0.0	nm	214
DTEK 2024 in default	Buy	1-Dec-20	10.8	Dec-24	27.3	65.6	0.2	2.7	1,344
Kernel 2022	Buy	1-Dec-20	8.8	Jan-22	3.4	105.9	0.1	1.1	213
Kernel 2024	Buy	1-Dec-20	6.5	Oct-24	4.8	105.9	0.2	3.2	300
Kernel 2027	Buy	1-Dec-20	6.8	Oct-27	5.8	105.5	0.2	4.2	300
Metinvest 2023	Hold	8-Dec-20	7.8	Apr-23	4.9	106.3	-0.7	1.9	311
Metinvest 2025 (EUR)	Hold	8-Dec-20	5.6	Jun-25	4.8	103.2	1.4	4.0	333
Metinvest 2026	Hold	8-Dec-20	8.5	Apr-26	6.1	110.8	0.2	4.2	648
Metinvest 2027	Hold	8-Dec-20	7.7	Oct-27	6.1	108.2	0.7	5.4	333
Metinvest 2029	Hold	8-Dec-20	7.8	Oct-29	6.5	108.0	0.7	6.6	500
MHP 2024	Hold	24-Nov-20	7.8	May-24	4.7	109.5	0.0	3.0	500
MHP 2026	Hold	24-Nov-20	7.0	Apr-26	4.9	109.4	2.3	4.5	550
MHP 2029	Hold	24-Nov-20	6.3	Sep-29	6.0	101.7	0.5	6.8	350
Naftogaz 2022	Buy	8-Dec-20	7.4	Jul-22	5.4	103.0	-0.1	1.5	335
Naftogaz 2024 (EUR)	Buy	8-Dec-20	7.1	Jul-24	6.0	103.6	0.3	3.2	672
Oschadbank 2023	Buy	10-Nov-20	9.4	Mar-23	5.2	104.8	0.3	1.2	175
Oschadbank 2025	Buy	10-Nov-20	9.6	Mar-25	6.4	106.4	0.0	2.0	225
Privatbank in default (10.250)	Not rated	-	10.3	nm	nm	30.0	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	nm	nm	30.0	0.0	nm	175
Ukraine Railway 2021	Sell	27-Oct-20	9.9	Sep-21	7.0	101.3	0.1	0.5	100
Ukraine Railway 2024	Sell	27-Oct-20	8.3	Jul-24	7.0	104.0	0.8	3.1	595
Ukreximbank 2021 (UAH)	Buy	10-Nov-20	16.5	Mar-21	20.3	99.1	0.0	0.2	150
Ukreximbank 2022	Buy	10-Nov-20	9.6	Apr-22	4.4	104.4	0.0	0.8	104
Ukreximbank 2025	Buy	10-Nov-20	9.8	Jan-25	5.3	105.0	0.0	1.1	384
Ukrlandfarming in default	Sell	13-Jun-17	10.9	nm	nm	4.5	-0.2	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
SSSU - Agricultural production monthly data	Exact	17-Dec
NBU - Gross external country debt 3Q 2020	Exact	18-Dec
SSSU - Q3 2020 GDP	Exact	21-Dec
SSSU - Transportation monthly data	Exact	21-Dec
SSSU - Wholesale and retail turnover monthly data	Exact	21-Dec

## Contacts

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**Adamant Capital**

5-B Volodymyrska Street, 2nd floor  
01001 Kyiv, Ukraine  
+380 44 585 52 36

**Portfolio Management**

Yuriy Sozinov | [urs@adamant-capital.com](mailto:urs@adamant-capital.com)

**Research**

Konstantin Fastovets | [fks@adamant-capital.com](mailto:fks@adamant-capital.com)

**PR**

Inna Zvyagintseva | [zin@adamant-capital.com](mailto:zin@adamant-capital.com)

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