

Weekly Digest

- Real GDP in 3Q21 grew by 2.7% YoY (final data)
- Security update: Washington to start talks with Russia in January
- The World Bank has approved its second EUR0.3bln DPL to Ukraine

Real GDP in 3Q21 grew by 2.7% YoY (final data). This figure was bumped up by 30bps from the SSSU's preliminary estimate in November.

Our view: The upward revision is mostly cosmetic and has no material effect on our outlook for the year. The now available breakdown of value added by sector also did not bring many surprises. As anticipated, the contrast versus 2Q21 growth mostly occurred as a result of a higher comparison base. Additionally, a negative contribution was generated by domestic trade (-3.9% YoY, predominantly due mysteriously weak wholesale figures) and government services, the largest of which was defense. The latter seems to simply be a result of slimmer budgetary spending in real terms. The only item which did somewhat take us aback was finance, as it demonstrated a relatively unimpressive 8% bump in value added, despite exceptionally high profits of the domestic banking system.

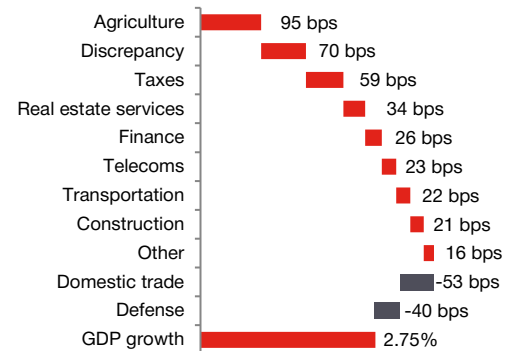
All in all, the reported data does not seem to imply any additional risks for our 3.7% growth projection for 2021. We continue to expect the agricultural sector to overshadow all other drivers in the final quarter due to previously discussed crop harvest delays versus 2020. Looking ahead into 2022, we see few reasons, in contrast, to be significantly optimistic, as transportation remains the only industry with an obvious growth driver. Moreover, output may also suffer from exceptionally high energy prices, which seem to be sticking around for the time being. This is especially concerning for soft commodities, which depend on sufficient fertilizer input to generate above-average yields.

Security update: Washington to start talks with Russia in January.

According to Karen Donfried, the US assistant secretary of state, discussions will concern Moscow's proposals, which essentially ask that NATO and the US cut their presence in eastern Europe, including instating a permanent ban on Ukraine ever joining the Alliance. Some of these demands the US is allegedly "prepared to work on". According to Ukraine's Foreign Minister Dmytro Kuleba the decision to invade Ukraine is still on the table at the Kremlin and troop numbers at the border continue to gradually grow.

Our view: Out of all the requests presented by Russia, the US could viably satisfy only ones that stipulate keeping bombers, naval vessels, and missiles out of striking distance and limiting nuclear weapons to each party's own territory, since curtailing the rights of Ukraine or any other country from choosing its own defense policy essentially violates post-Cold War treaties (and infringes on sovereignty). As we noted earlier, the US would also have a hard time forcing Ukraine to grant Russia a clear win on any of its areas of interest, including reintegrating the Donbas on unfavourable terms. All of this implies that room for meaningful negotiations is in reality very small.

Real GDP growth contribution by sector in 3Q21



(1) The difference between total real GDP and the sum of the GDP contributions by sector
 Source: SSSU, Adamant Capital estimates

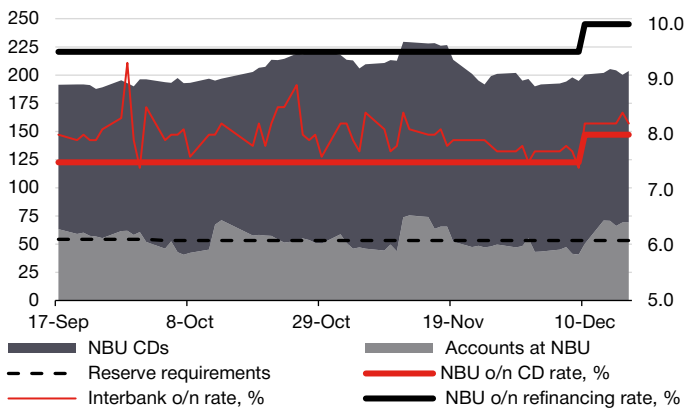
The World Bank has approved its second EUR0.3bln DPL to Ukraine.

According to the official press release, key reforms supported by the economic recovery loan include: (1) fostering de-monopolization of the economy and strengthening anti-corruption institutions, (2) strengthening land and credit markets, and (3) bolstering the social safety net for the vulnerable elderly population to cushion the impact of the COVID-19 pandemic.

Our view: While the disbursement is undoubtedly good news (World Bank loans are typically very long term and are cheap to service), we do not expect these funds to go towards budgetary expenditures this year, as the state treasury is already flush with cash from overperforming revenues and a total of \$1.0bln in financing from the IMF and Cargill in November.

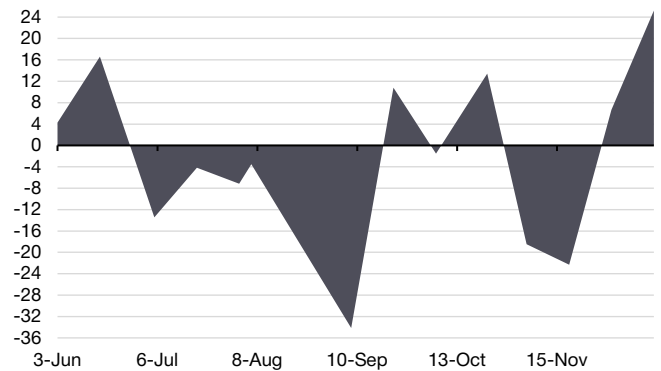
Appendix

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

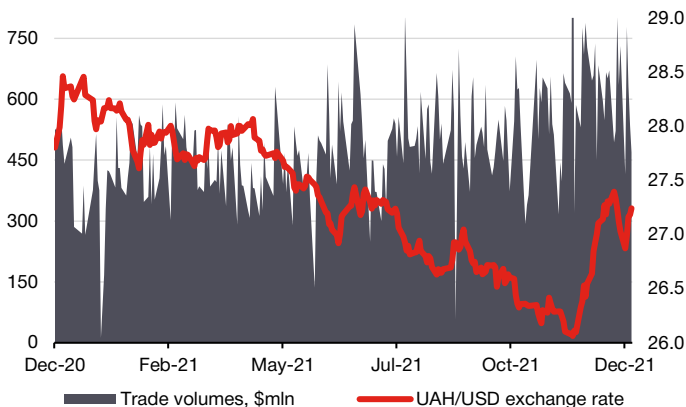


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 3.19bln to UAH 203.7bln over the last week. On December 21 the Ministry of Finance conducted local hryvnia bond denominated placements maturing in February 2022, May 2022, December 2022, April 2023, November 2023, May 2024, July 2024, October 2024 and May 2027 with yields of 10.50%, 10.80%, 11.88%, 11.88%, 12.78%, 12.85%, 12.90%, 12.88% and 13.25% respectively. Dollar denominated bonds maturing in December 2022 were sold at a yield of 3.70%. In total, an equivalent of UAH 20.48bln was raised as a result.

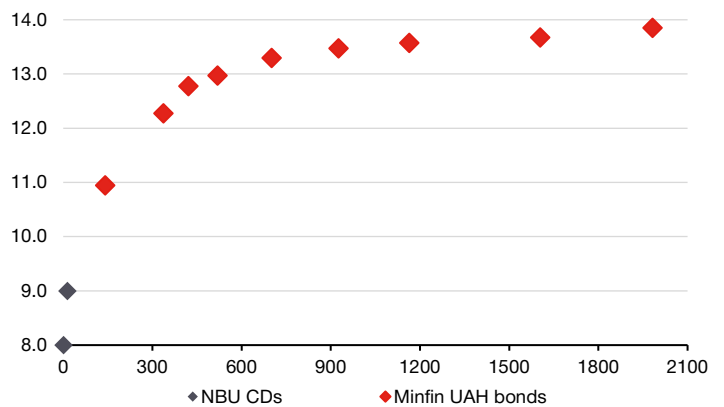
The UAH/USD interbank rate over the last week appreciated by 1.37%, starting out with 26.87 and ending at 27.24.

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



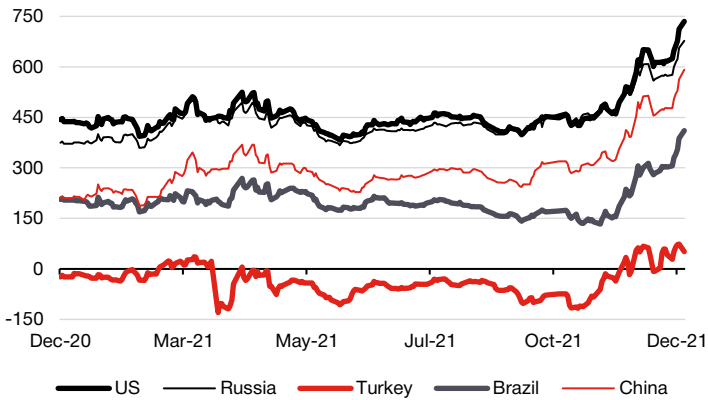
Note: Exchange rate figures are from official interbank data
Source: NBU

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



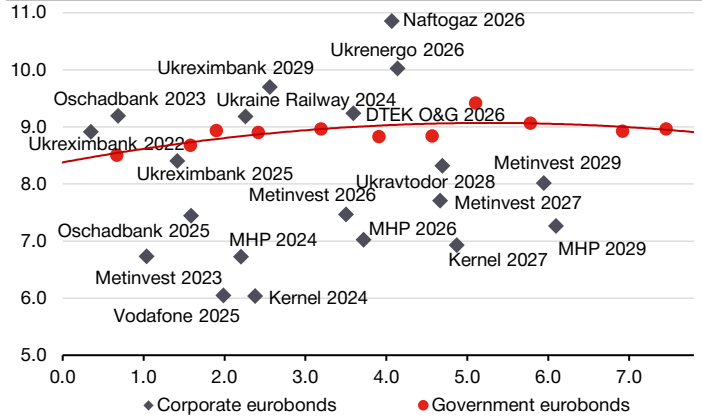
Source: NBU, Bloomberg, Adamant Capital estimates

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



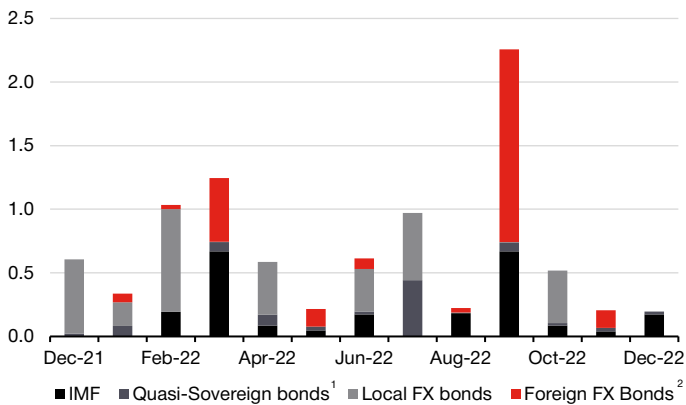
Source: Bloomberg, Adamant Capital estimates

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



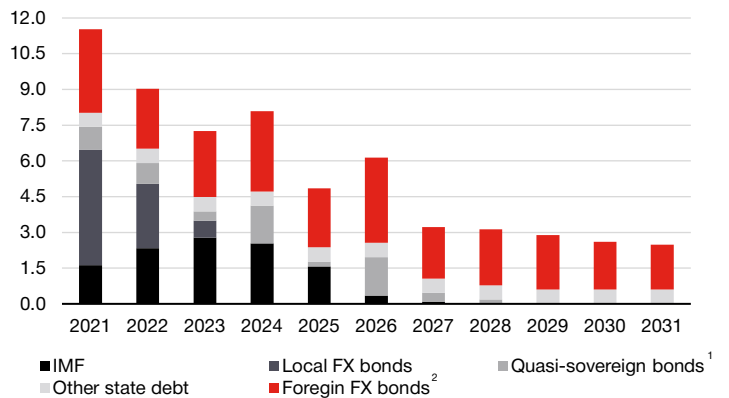
Source: Bloomberg, Adamant Capital estimates

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



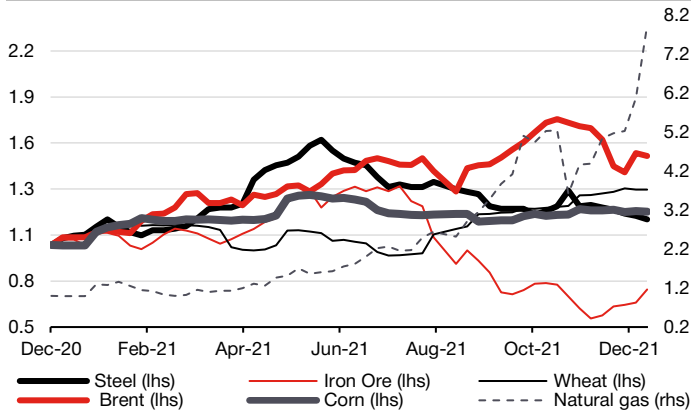
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2021-31, \$bln



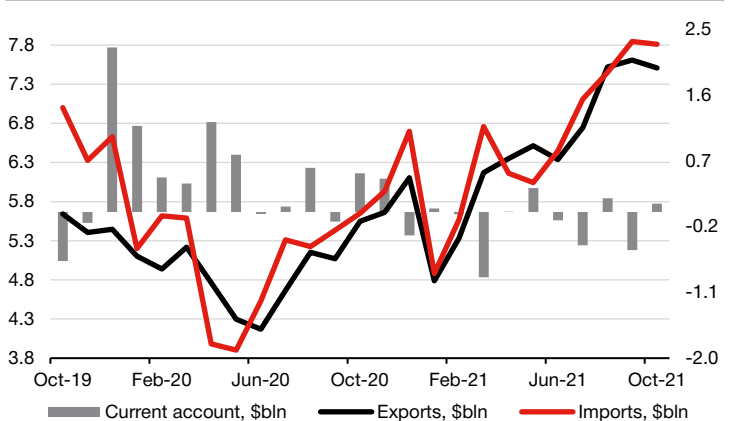
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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								
	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E
Real GDP growth, YoY	-0.5%	-4.0%	-2.2%	5.7%	2.4%	7.9%	3.7%	3.0%
Nominal GDP, UAHbln	1,301	4,192	1,009	1,169	1,494	1,797	5,493	6,223
Nominal GDP, \$bln	46	155	36	42	56	68	202	218
GDP deflator growth YoY, %	17.5%	9.8%	20.7%	26.4%	25.5%	28.0%	26.4%	10%
Period average CPI YoY, %	3.8%	2.7%	7.4%	9.1%	10.5%	10.1%	9.3%	7.2%
End of period CPI YoY, %	5.0%	5.0%	8.5%	9.5%	11.0%	9.5%	9.5%	6.0%
Consolidated budget deficit, % of GDP ¹	5.3%	5.3%	4.9%	5.1%	3.1%	4.0%	4.0%	3.0%
Broad public sector deficit, % of GDP ²	6.5%	6.5%	6.2%	6.3%	4.6%	4.3%	4.3%	3.5%
Public debt as % of LTM GDP, UAH	60.9%	60.9%	57.8%	54.2%	49.2%	50.8%	50.8%	54.3%
Public external debt as % of LTM GDP, \$ ³	34.8%	34.8%	33.2%	32.6%	29.5%	28.6%	28.6%	28.4%
Total external debt, \$bln	126	126	123	125	125	130	130	134
Export of goods and services, \$bln	17.3	60.6	16.3	19.2	21.8	26.5	83.8	85.0
Import of goods and services, \$bln	17.8	62.3	17.1	18.3	22.3	24.8	82.5	89.5
Trade balance, \$bln	-0.5	-1.7	-0.8	0.9	-0.5	1.7	1.2	-4.5
Current account, \$bln	0.7	5.3	-0.9	0.2	-0.8	1.9	0.5	-4.0
Financial account, \$bln ⁴	-0.9	4.6	-0.1	0.2	-2.0	1.3	-1.7	-5.9
End of period NBU reserves, \$bln	29.1	29.1	27.0	28.4	28.7	33.1	33.1	35.0
Average interbank exchange rate, UAH/\$ ⁵	28.3	27.0	27.9	27.6	26.9	26.5	27.2	28.6
EOP interbank exchange rate, UAH/\$	28.2	28.2	27.8	27.2	26.6	27.5	27.5	28.9
EOP key policy rate NBU, %	6.0%	6.0%	6.5%	7.5%	8.5%	8.5%	8.5%	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	8.7	98.5	-1.7	1.6	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	8.9	100.1	-2.3	1.9	750
Ukraine 2027	Hold	-	7.8	Sep-27	8.8	95.2	-3.7	4.6	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	9.4	101.6	-4.6	5.1	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	8.9	89.4	-3.9	6.9	3,000
DTEK Energy 2027	Buy	24-Nov-21	5.0	Dec-27	na	53.5	-0.5	na	1,645
Kernel 2024	Hold	30-Nov-21	6.5	Oct-24	6.0	101.1	-0.8	2.4	300
Kernel 2027	Hold	30-Nov-21	6.8	Oct-27	6.9	99.1	-1.6	4.9	300
Metinvest 2023	Hold	05-Oct-21	7.8	Apr-23	6.7	101.3	-0.9	1.0	195
Metinvest 2025 (EUR)	Hold	05-Oct-21	5.6	Jun-25	6.0	98.9	-0.6	3.2	333
Metinvest 2026	Hold	05-Oct-21	8.5	Apr-26	7.5	103.7	0.1	3.5	648
Metinvest 2027	Hold	05-Oct-21	7.7	Oct-27	7.7	99.7	-0.9	4.7	333
Metinvest 2029	Hold	05-Oct-21	7.8	Oct-29	8.0	98.5	-0.8	5.9	500
MHP 2024	Hold	24-Nov-21	7.8	May-24	6.7	102.2	-1.1	2.2	500
MHP 2026	Hold	24-Nov-21	7.0	Apr-26	7.0	99.7	-1.5	3.7	550
MHP 2029	Hold	24-Nov-21	6.3	Sep-29	7.3	94.1	-0.7	6.1	350
Naftogaz 2022	Buy	14-Dec-21	7.4	Jul-22	11.1	98.0	-0.5	0.6	335
Naftogaz 2024 (EUR)	Buy	14-Dec-21	7.1	Jul-24	11.3	91.0	-1.7	2.4	672
Naftogaz 2026	Buy	14-Dec-21	7.6	Nov-26	10.9	88.0	-2.6	4.1	500
Oschadbank 2023	Buy	9-Nov-21	9.4	Mar-23	9.2	100.1	-0.9	0.7	140
Oschadbank 2025	Buy	9-Nov-21	9.6	Mar-25	7.4	103.4	0.0	1.6	200
Ukraine Railway 2024	Buy	12-Oct-21	8.3	Jul-24	9.2	97.9	-0.8	2.3	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	8.3	90.7	0.2	4.7	700
Ukreximbank 2022	Buy	9-Nov-21	9.6	Apr-22	8.9	100.2	-0.3	0.3	104
Ukreximbank 2025	Buy	9-Nov-21	9.8	Jan-25	8.4	101.9	0.0	1.4	192
Ukreximbank 2029	Buy	9-Nov-21	9.9	Dec-29	9.7	99.8	-0.1	2.6	100
Vodafone 2025	Hold	16-Nov-21	6.2	Feb-25	6.0	100.3	-0.3	2.0	451
DTEK O&G 2026	Buy	19-Oct-21	6.8	Dec-26	9.2	90.2	-2.5	3.6	425

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 - Wholesale and retail turnover monthly data	Exact	22-Nov
SSSU - Industrial production monthly data	Exact	23-Nov
SSSU - Transportation monthly data	Exact	26-Nov
Treasury - Monthly state budget performance	Indicative	26-Nov
Kernel - Q1 2022 Financial Report	Exact	26-Nov

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