

Weekly Digest

- Real GDP growth in 4Q21 has accelerated to 5.9% YoY (preliminary data)
- Consolidated budget deficit in 2021 amounted to 3.4% of GDP, January revenues up 32% YoY
- Ukraine's CA deficit in December landed at \$0.6bln, bringing the full-year figure to \$2.1bln

Real GDP growth in 4Q21 has accelerated to 5.9% YoY (preliminary data), according to the SSSU.

Our view: The figure came in below our latest projection (7.2%), and above both the Bloomberg consensus median (at 5.0%) and forecasts of the NBU (also at 5.0%). While reasons for such economic performance will become clearer in about a month, when the value-added is split out on a sector-by-sector basis, we think that an upwards revision of the growth estimate is not out of the question, as 4Q21 high frequency data looks very strong. According to our calculations, agricultural output alone should have moved real GDP by 5.9% YoY. Taxes, which stay relatively constant (as a share of the total VA), in all likelihood, added another 1.3% on top. This implies that some sectors had to perform quite poorly, of which there, so far, seems to be little evidence. Taking into account that nominal GDP most likely landed a c. \$200bln, Ukraine's VRIs should pay UAH1.6bln or roughly 2 cents on the dollar at the current exchange rate (in May of 2023).

Consolidated budget deficit in 2021 landed at 3.4% of GDP, January revenues up 32% YoY. In hryvnia terms, last year's deficit amounted to UAH187bln, which fell c. 25% short of the FinMin's initial target. For 2022, the government is aiming for expenditures to exceed revenues by UAH188bln, which is equivalent to 2.9% of GDP (or 3.5% using projections on which the document was based on).

Our view: Last year's consolidated deficit came in spot on with our outlook and was driven primarily by financing difficulties. These were created by weak demand for local T-bills (sales, excluding rollovers, totalled c. UAH40bln, which is less than a third of the initially targeted amount), delays in official lending, and geopolitical tensions (made external borrowing more difficult). The IMF's \$2.7bln SDR allocation did take some of the pressure off, but even this unexpected condition-free support turned out to be insufficient.

As noted previously, we believe the 2022 budget plan to be quite conservative, primarily because it was based on the Ministry of Economy's surprisingly timid nominal GDP forecast (UAH5,730bln, which stands almost 10% below our own projection). January performance, which has started the year off with a bang, also hints at the fact that revenues growth will most likely outpace its current 5% YoY target.

January budget revenue performance, UAHbln

	Jan-22	YoY	A/P
Revenues	117	32%	9%
State budget	89	35%	13%
General fund	78	35%	13%
Domestic tax	43	30%	11%
Customs	32	46%	20%
NBU transfers	0	nm	nm
Other	3	16%	-23%
Special fund	11	29%	16%
Local budget	28	25%	-2%

Note:

A and P stand for actual and planned figures (by the FinMin), respectively

Source: SSSU, State Treasury, Adamant Capital estimates

Ukraine's CA deficit in December amounted to \$0.6bln, bringing the full-year figure to \$2.1bln (1.1% of GDP). Compared to 2020 this total is higher by roughly \$4.0bln. December's trade balance (of goods and services) deteriorated YoY by c. \$0.1bln. The FA demonstrated a \$1.0bln decrease in net assets.

Our view: The current account deficit for December (and thus 2021 in total) ended somewhat lower than anticipated. The primary reason for this is a surprise \$1.5bln reinvested loss, which followed a \$0.1bln income figure in November. Taking into account that this indicator is based on complex estimates, we would not be surprised to see it substantially revised a few months down the road. Outsized dividends, which jumped to, a practically unheard of \$2.5bln (likely an all-time record), were also notable and partially acted as a counterbalance. Also noteworthy is that differences in primary income were the largest reason why the current account in 2021 came into deficit from an over \$5.2bln surplus in 2020, as the TB (of both goods and services) for the two periods remained practically unchanged.

Taking into consideration a complex and unpredictable geopolitical environment, forecasts for 2022 are, in our view, subject to an inordinate amount of risk. Potential aggressive actions from Russia can put pressure on Ukraine's physical trade flows and economic output, negatively affect capital flows, and destabilize the exchange rate. Additionally, Ukraine's current account balance is heavily exposed to natural gas prices, which also depend on Moscow's political decision-making. Assuming that the above risks do not materialize and energy markets start normalizing, we still see the CA balance going further into negative territory, which we currently estimate at -\$5.0bln or 2.2% of GDP.

BoP summary for December, \$mln

	Dec-21	Nov-21	Oct-21	LTM	LTM-1
Exports:	8,486	8,038	7,533	81,452	60,707
MoM	6%	7%	-1%		
YoY	39%	42%	36%	34%	-4%
Imports:	9,147	8,700	7,814	84,478	63,085
MoM	5%	11%	-1%		
YoY	37%	47%	38%	34%	-17%
TB:	-661	-662	-281	-3,026	-2,378
MoM	1	-381	42		
YoY	-70	-395	-180	-648	10,133
CA ¹ :	-547	-603	15	-2,088	5,267
MoM	56	-618	630		
YoY	-230	-1,059	-515	-7,355	9,391
FA:	-911	-979	-1,054	-2,560	3,274
MoM	68	75	-2,681		
YoY	2,259	-1,451	-1,926	-5,834	13,340
BoP:	366	377	1,070	487	1,990
MoM	-11	-693	3,313		
YoY	-2,472	392	1,413	-1,503	-3,990
Funding flow ²	244	1,625	915	8,579	1,898

Note: LTM and LTM -1 stand for the last twelve months and last twelve months a year ago, respectively

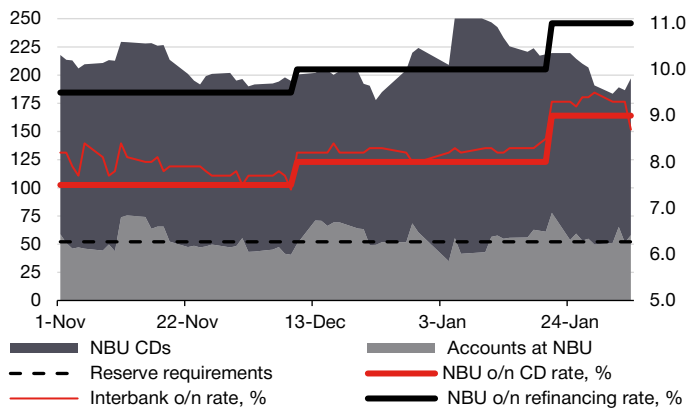
(1) Excludes the \$2.9bln one-off arbitrage payment received by Naftogaz from Gazprom in December of 2019

(2) Private sector financing: an estimated amount of capital flowing into the private sector (including banks) via lending and investment

Source: NBU, Adamant Capital estimates

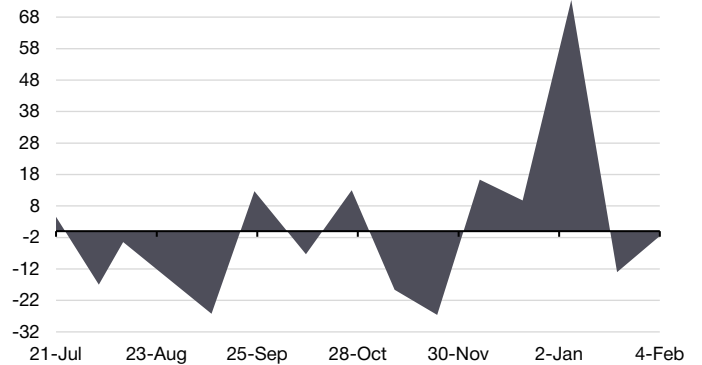
Appendix

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

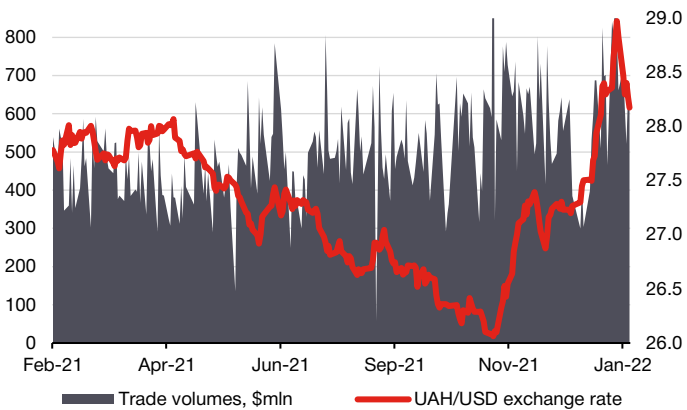


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 28.41bln to UAH 198.5bln over the last week. On February 8 the Ministry of Finance conducted local hryvnia bond denominated placements maturing in May 2022, January 2023, April 2023, February 2024, October 2024 and May 2027 with yields of 11.50%, 11.93%, 12.00%, 13.00%, 12.95% and 13.25% respectively. Dollar denominated bonds maturing in October 2023 with yield of 3.90%. In total, an equivalent of UAH 2.09bln was raised as a result.

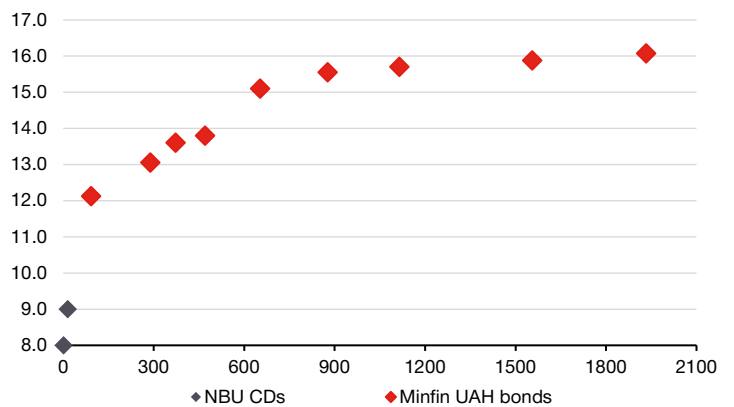
The UAH/USD interbank rate over the last week depreciated by 1.05%, starting out with 28.47 and ending at 28.17.

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

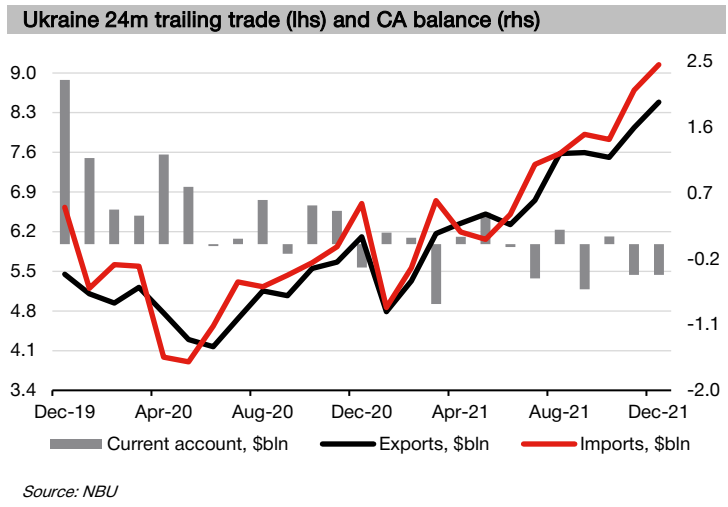
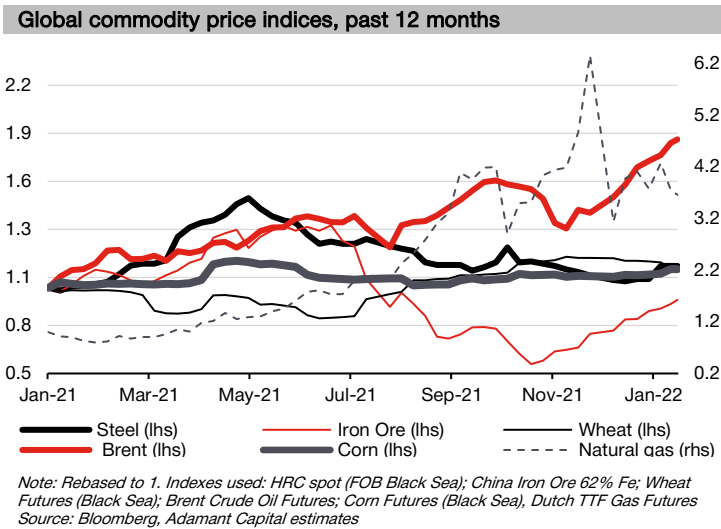
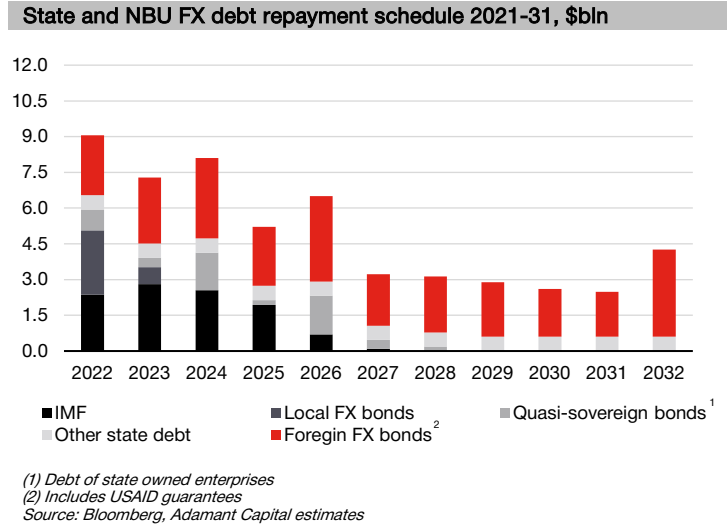
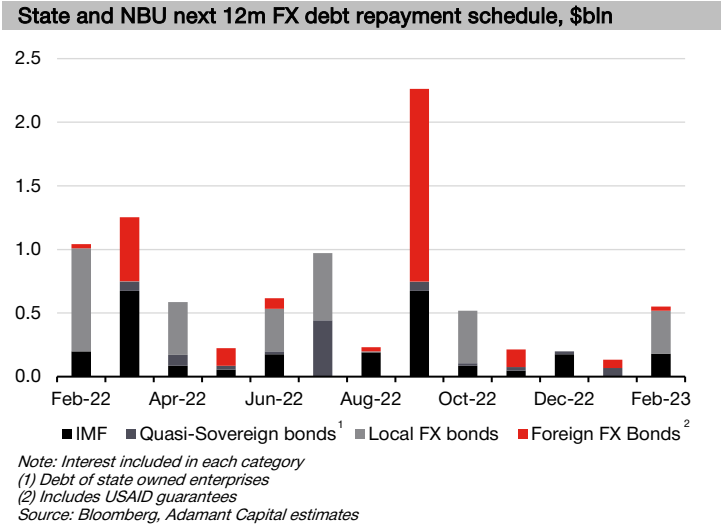
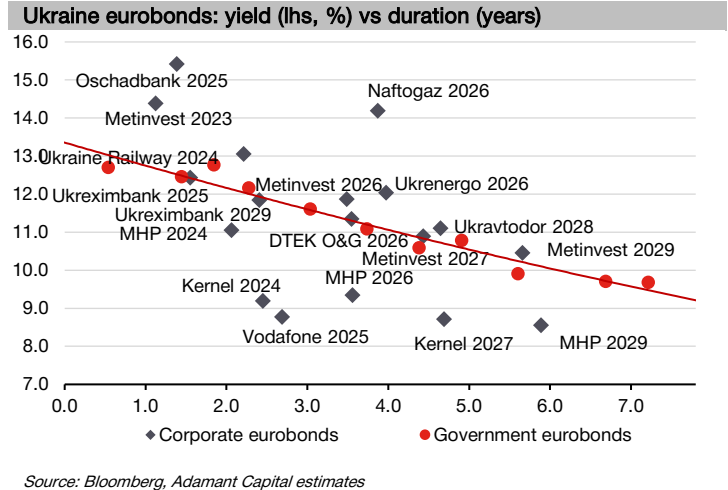
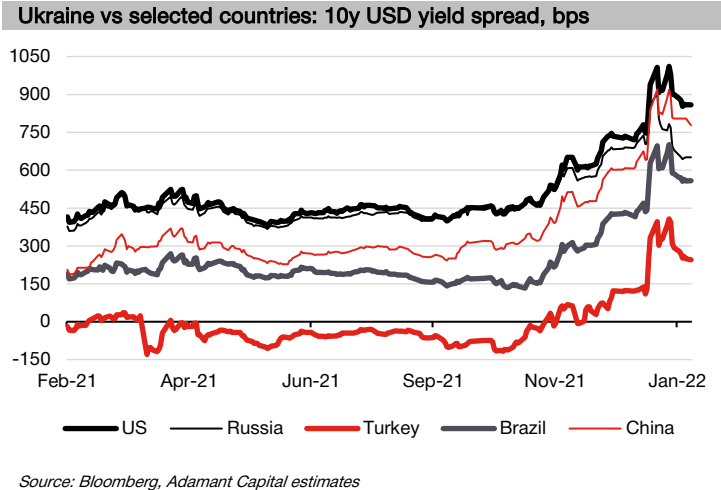


Note: Exchange rate figures are from official interbank data
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E
Real GDP growth, YoY	-0.5%	-4.0%	-2.2%	5.7%	2.4%	7.7%	3.3%	3.0%
Nominal GDP, UAHbln	1,301	4,192	1,009	1,169	1,494	1,794	5,441	6,332
Nominal GDP, \$bln	46	155	36	42	56	68	200	221
GDP deflator growth YoY, %	17.5%	9.8%	20.7%	26.4%	25.5%	28.0%	25.6%	13.0%
Period average CPI YoY, %	3.8%	2.7%	7.4%	9.1%	10.5%	10.1%	9.3%	7.7%
End of period CPI YoY, %	5.0%	5.0%	8.5%	9.5%	11.0%	10.3%	10.0%	7.0%
Consolidated budget deficit, % of GDP ¹	5.3%	5.3%	4.9%	5.1%	3.1%	3.5%	3.4%	3.0%
Broad public sector deficit, % of GDP ²	6.5%	6.5%	6.2%	6.3%	4.6%	3.8%	3.6%	3.5%
Public debt as % of LTM GDP, UAH	60.9%	60.9%	57.8%	54.2%	49.2%	50.5%	49.1%	45.7%
Public external debt as % of LTM GDP, \$ ³	34.8%	34.8%	33.2%	32.6%	29.5%	28.8%	28.7%	27.7%
Total external debt, \$bln	126	126	123	125	125	127	127	134
Export of goods and services, \$bln	17.3	60.6	16.3	19.2	21.8	23.0	81.4	85.0
Import of goods and services, \$bln	17.8	62.3	17.1	18.3	22.3	25.4	84.2	90.5
Trade balance, \$bln	-0.5	-1.7	-0.8	0.9	-0.5	-2.4	-2.8	-5.5
Current account, \$bln	0.7	5.3	-0.9	0.2	-0.8	-1.4	-2.1	-5.0
Financial account, \$bln ⁴	-0.9	4.6	-0.1	0.2	-2.0	-2.1	-5.6	-5.5
End of period NBU reserves, \$bln	29.1	29.1	27.0	28.4	28.7	30.5	31.7	30.0
Average interbank exchange rate, UAH/\$ ⁵	28.3	27.0	27.9	27.6	26.9	26.5	27.3	28.6
EOP interbank exchange rate, UAH/\$	28.2	28.2	27.8	27.2	26.6	27.5	27.3	28.6
EOP key policy rate NBU, %	6.0%	6.0%	6.5%	7.5%	8.5%	10.0%	10.0%	10.5%

(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	12.5	93.5	1.3	1.4	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	12.8	93.6	1.2	1.8	750
Ukraine 2027	Hold	-	7.8	Sep-27	10.6	88.3	0.3	4.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.8	95.1	0.4	4.9	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	9.7	84.7	0.1	6.7	3,000
DTEK Energy 2027	Buy	24-Nov-21	5.0	Dec-27	23.3	49.8	-0.2	4.1	1,645
Kernel 2024	Hold	25-Jan-22	6.5	Oct-24	9.2	93.7	2.3	2.4	300
Kernel 2027	Hold	25-Jan-22	6.8	Oct-27	8.7	91.3	3.3	4.7	300
Metinvest 2023	Hold	05-Oct-21	7.8	Apr-23	14.4	92.9	0.3	1.1	195
Metinvest 2025 (EUR)	Hold	05-Oct-21	5.6	Jun-25	9.5	89.0	1.1	3.1	333
Metinvest 2026	Hold	05-Oct-21	8.5	Apr-26	11.9	89.1	0.4	3.5	648
Metinvest 2027	Hold	05-Oct-21	7.7	Oct-27	10.9	86.6	0.1	4.4	333
Metinvest 2029	Hold	05-Oct-21	7.8	Oct-29	10.5	86.0	0.2	5.7	500
MHP 2024	Hold	01-Feb-22	7.8	May-24	11.0	93.6	2.5	2.1	500
MHP 2026	Hold	01-Feb-22	7.0	Apr-26	9.3	91.9	2.5	3.6	550
MHP 2029	Hold	01-Feb-22	6.3	Sep-29	8.5	87.3	3.4	5.9	350
Naftogaz 2022	Buy	14-Dec-21	7.4	Jul-22	25.6	92.7	1.6	0.4	335
Naftogaz 2024 (EUR)	Buy	14-Dec-21	7.1	Jul-24	18.1	79.7	3.6	2.2	672
Naftogaz 2026	Buy	14-Dec-21	7.6	Nov-26	14.2	77.8	2.0	3.9	500
Oschadbank 2023	Buy	9-Nov-21	9.4	Mar-23	24.0	92.7	-0.1	0.5	140
Oschadbank 2025	Buy	9-Nov-21	9.6	Mar-25	15.4	92.3	0.0	1.4	200
Ukraine Railway 2024	Buy	12-Oct-21	8.3	Jul-24	13.1	90.3	-0.6	2.2	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	11.1	80.1	1.3	4.6	700
Ukreximbank 2022	Buy	9-Nov-21	9.6	Apr-22	28.2	96.1	-0.1	0.2	104
Ukreximbank 2025	Buy	9-Nov-21	9.8	Jan-25	12.4	96.1	0.0	1.5	192
Ukreximbank 2029	Buy	9-Nov-21	9.9	Dec-29	11.8	90.7	-1.2	2.4	100
Vodafone 2025	Hold	16-Nov-21	6.2	Feb-25	8.8	93.3	1.0	2.7	451
DTEK O&G 2026	Buy	19-Oct-21	6.8	Dec-26	11.3	83.1	0.8	3.5	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
Monthly inflation	Exact	9-Feb
Financial results for FY 2021 IFRS	Indicative	15-Feb

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