

Daily Insight

Minsk talks largely unproductive

Contents

Economics: News & Comments	2
Minsk talks largely unproductive.....	2
Parliament discusses the budget law package.....	2
Bonds: News & Comments	3
Liquidity continues to recover.....	3
Chart page: Local bond market & Eurobond markets.....	4
FX: News & Comments	6
UAH holds below 16/USD, ruble extends gains.....	6
Chart page #1: Foreign-exchange market.....	7
Chart page #2: ICU's UAH trade-weighted indices.....	8

FRIDAY, 26 DECEMBER 2014

UX Index (3 months to 26 Dec 2014)



Source: UX.

Key market indicators (as of 25 Dec 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	15.8200	+0.29	+91.99
USD/UAH (1Y NDF)	18.4500	+0.00	+95.86
EUR/USD	1.2225	+0.24	-11.05
USD/RUB	52.0862	-3.19	+58.46
KievPRIME O/N (%)	16.50	+0bp	+870bp
KievPRIME 1M (%)	19.40	+10bp	+315bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	52.92	-860bp	+4,456bp
Ukraine 17, Eurobond (%)	26.56	+0bp	+1,701bp
Ukraine 22, Eurobond (%)	15.13	+1bp	+578bp
Ukraine 23, Eurobond (%)	14.68	+1bp	+563bp
Ukraine 5Y CDS	1,969bp	+0bp	+1,152bp
EQUITIES			
Stock market indices			
UX (Ukraine)	1,000.63	+0.68	+9.95
MSCI World	420.39	-0.03	+2.90
MSCI EM	950.61	-0.06	-5.19
RTS (Russia)	844.09	+3.57	-41.49
WIG-20 (Poland)	N/A		
S&P 500 (USA)	2,081.88	-0.01	+12.63

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in green- or red-shaded box means gain or loss, respectively, of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

Economics: News & Comments

Minsk talks largely unproductive

In the first day of talks in Minsk on the ceasefire that was agreed to in September but was largely disregarded until very recently, a prisoner swap agreement was met yesterday. Although talks will continue, we doubt they will be successful. Pro-Kremlin militants backed by Russia have been trying to establish their own rule in occupied territories. Their aim at the talks has been to deny or renounce the previous agreement reached in Minsk back in September.

Alexander Valchyshen, Kiev, +38044 2200120 ext.721

Parliament discusses the budget law package

Yesterday, the parliament adopted only a few bills out of about 60 that were developed and submitted by the government for the 2015 state budget law. Those passed include the import tariff law and bank recapitalization law while the remainder must be debated by this Tuesday.

Alexander Valchyshen, Kiev, +38044 2200120 ext.721

Bonds: News & Comments

Liquidity continues to recover

Broader banking sector liquidity rose UAH0.92bn to UAH54.98bn yesterday, a new record high of the month. This increase was seen despite the 0.34bn decrease in total local currency debt repayments scheduled for the next 30 days to UAH3.56bn. Banks' correspondent accounts with the NBU rose UAH1.17bn to UAH34.34bn and total CDs outstanding rose UAH0.09bn to UAH17.08bn,

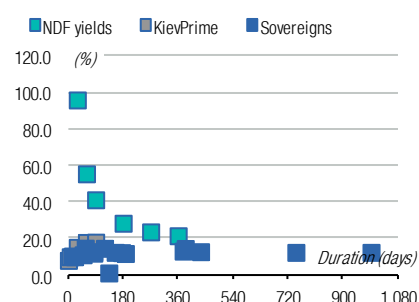
KyivPrime interest rates slightly diverged as the KyivPrime ON interest rate remained steady at 16.50% while the KyivPrime 1M interest rate rose 10bp to 19.40%.

Investment implications: Yesterday's increase was mostly caused by the NBU, as a regulator which issued UAH1.00bn of 19-day loans to 15 banks, while ON loans fell only UAH0.07bn. As the MoF repaid UAH0.34bn in local currency debt repayments, injections were larger than the liquidity increase.

Taras Kotovych, Kiev, +38044 2200120 ext.724

Yield curve of the local bond market

(as of market close on 25 Dec 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 25 Dec 2014)

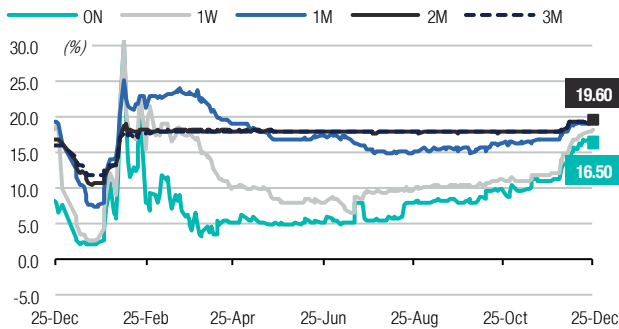
	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	16.50	+0bp	-40bp	+550bp	+870bp
1wk	18.40	+50bp	+60bp	+640bp	+860bp
1m	19.40	+10bp	+20bp	+240bp	+315bp
2m	19.60	+20bp	+20bp	+160bp	+320bp
3m	19.60	+20bp	+20bp	+160bp	+360bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	34,335	+3.52	-9.22	+19.30	+4.99
CDs ²	8,228	-51.58	-36.39	-54.83	+1,067.1
Sovgns ³	2,866	+0.00	+20.66	-47.17	+91.70
Total	45,429	-14.33	-14.50	-13.34	+30.16
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	296,508	+0.00	+0.17	+4.61	+104.7
Banks	88,585	-0.94	-1.46	+2.99	+10.50
Resid's ⁴	24,435	-0.94	-0.64	+14.26	+97.11
Non-res ⁵	21,460	-0.16	-0.73	+1.43	+83.44
Total	430,988	-0.25	-0.26	+4.61	+73.01
NDF IMPLIED YIELDS (%)					
3m	N/A	N/A	N/A	N/A	N/A
6m	N/A	N/A	N/A	N/A	N/A
9m	N/A	N/A	N/A	N/A	N/A
1yr	N/A	N/A	N/A	N/A	N/A
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 ⁶	N/A	+8bp	+0bp	+8bp	-77ppt
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	1,969	+0bp	-46bp	+432bp	+12bp
Jun '16	33.47	+0bp	-823bp	+14bp	+25bp
Jul '17	26.56	+0bp	-598bp	+879bp	+17bp
Sep '20	17.69	-1bp	-103bp	+526bp	+850bp
Sep '21	16.81	+0bp	-150bp	+428bp	+759bp
Sep '22	15.13	+1bp	-146bp	+318bp	+578bp
Feb '23	14.68	+1bp	-122bp	+273bp	+563bp

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

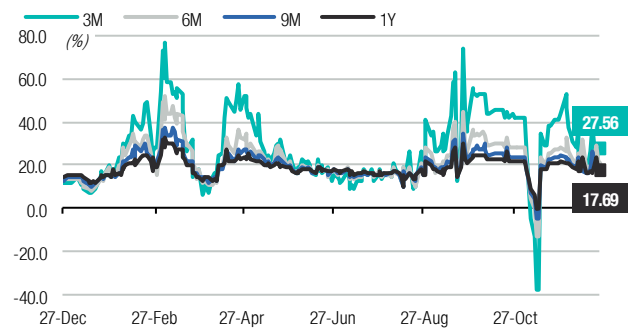
Chart page: Local bond market & Eurobond markets

Chart 1. Kiev Prime rates (%), last 12-month period



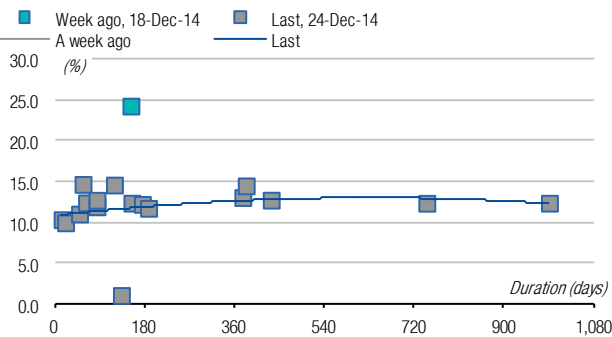
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. UAH NDF implied yields (%), last 12-month period



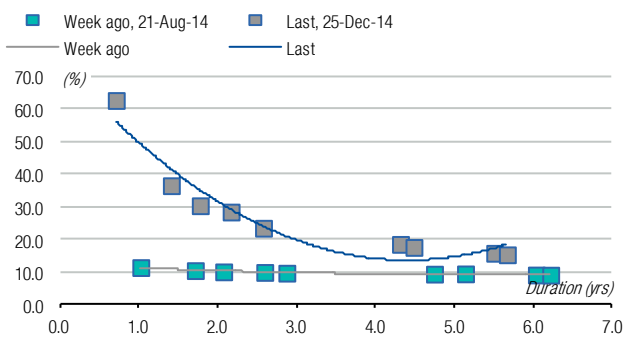
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 25 Dec 2014



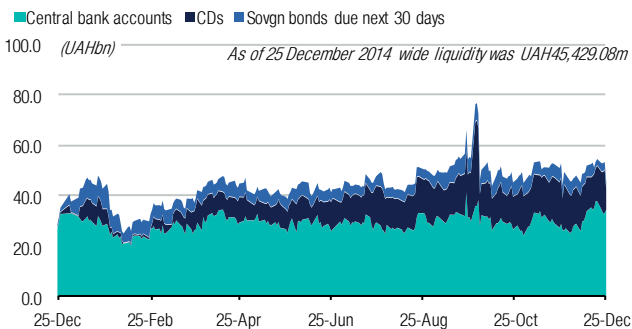
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 25 Dec 2014



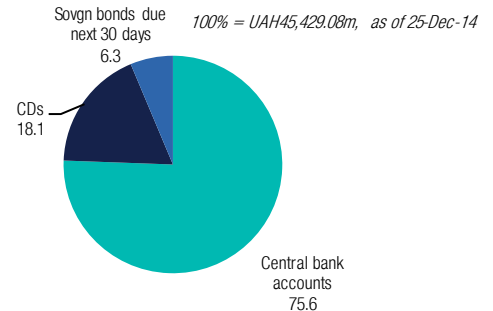
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 5. Banking sector liquidity (UAHbn), last 12-month period



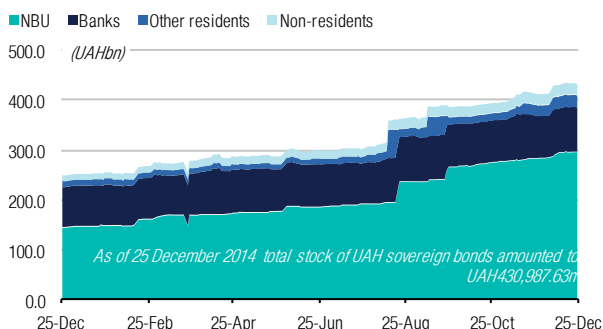
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 25 Dec 2014



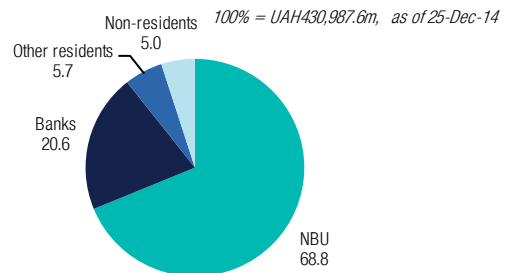
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 7. Holders of sovereign bonds (UAHbn), last 12 months



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 25 Dec 2014



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Table 1. Ukrainian stocks (closing prices as of 25-Dec-2014)

Company	Bloomberg Ticker	Listing	Share price performance (% change)					Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios		
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	P/B (x)	Debt/Assets (%)
ENERGY																											
Centrenergo	CEEN UK	Kiev, UX	7.36 UAH	+0.6	-2.3	+54.4	+57.3	0.47	173.0	218.2	21.7	37.6	49.7	43.0	0.17	586	5.6	4.8	7.3	0.3	3.8	4.0	0.5	0.3	0.3	1.1	16.3
Donbasenergo	DOEN UK	Kiev, UX	31.97 UAH	-0.1	+0.6	+15.9	+18.5	2.03	48.1	98.7	14.2	6.8	3.6	6.9	0.14	721	1.4	1.3	1.2	0.1	1.8	1.2	0.3	0.2	0.2	1.1	25.1
Zakhidenergo	ZAEN UK	Kiev, PFTS	140.00 UAH	+0.0	-5.4	+54.9	+56.8	8.91	114.0	126.1	5.0	5.7	0.0	1.9	0.02	4,954	3.1	N/A	N/A	0.8	N/A	N/A	0.2	N/A	N/A	1.2	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.02 UAH	+1.4	-16.7	-61.4	-60.7	0.00	24.6	1,847.6	3.9	1.0	8.3	1.6	0.23	438	Neg.	Neg.	N/A	Neg.	Neg.	N/A	2.0	1.2	N/A	N/A	85.7
Avdiyivsky Cok...	AVDK UK	Kiev, UX	1.85 UAH	+2.6	-1.6	-37.6	-38.4	0.12	22.9	19.8	4.0	0.9	1.8	2.8	0.48	207	Neg.	Neg.	N/A	0.1	0.8	N/A	0.0	0.0	N/A	0.1	0.1
Azovstal	AZST UK	Kiev, UX	0.71 UAH	+1.7	-0.1	+5.7	+6.6	0.05	189.4	N/A	4.1	7.8	3.6	10.7	0.11	948	Neg.	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.2	0.0
Yasynivsky Cok...	YASK UK	Kiev, UX	0.23 UAH	-16.7	-25.0	-57.5	-57.1	0.01	3.9	4.6	9.0	0.4	7.5	0.6	0.43	232	Neg.	0.4	0.2	0.0	0.3	N/A	0.0	0.0	0.0	0.0	
Yenakievo Steel	ENMZ UK	Kiev, UX	21.78 UAH	+0.9	+6.7	-32.0	-33.8	1.39	14.6	6.2	9.4	1.4	0.3	3.9	0.26	378	Neg.	Neg.	N/A	1.1	0.2	N/A	0.0	0.0	N/A	1.0	0.0
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.09 UAH	-0.2	-6.6	-16.7	-16.0	0.01	180.3	N/A	3.8	6.9	11.1	16.1	0.31	324	2.8	Neg.	12.0	N/A	N/A	N/A	N/A	N/A	N/A	0.4	22.4
Ukrsotsbank	USCB UK	Kiev, UX	0.13 UAH	+0.0	-5.3	-31.6	-30.6	0.01	201.5	N/A	4.5	9.0	5.1	0.8	0.01	14,456	Neg.	12.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	28.2

Notes: mln - millions; FF - free float; n/a - not available; neg. - negative; a company name (the left column of the table) is shortened to fit the column and hence in some cases is not displayed in full; *** - P/E is above 10,000x. Sources: Bloomberg, ICU.

FX: News & Comments

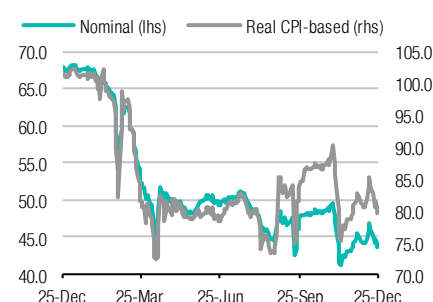
UAH holds below 16/USD, ruble extends gains

Yesterday, the hryvnia declines a slight 0.29% to close at 15.82/USD. In Russia, the ruble rose 3.19% thanks to positive market news that the central bank spent US\$15.7bn in FX reserves during the week of Dec 12-19. Reuters said that government representatives would again oversee state-run corporations' boards to insure that these companies do not hoard hard currency cash at their bank accounts and sell FX cash to the domestic FX market. Hence, Russia runs a soft capital control, avoiding direct blame.

Alexander Valchyshen, Kiev, +38044 2200120 ext.242

ICU's UAH trade-weighted indices

(Last 12-month history to 26 Dec 2014)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 25 Dec 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	15.8200	+0.29	+0.01	+4.77	+91.99
NBU avg	15.7709	+0.00	+0.02	+5.08	+93.49
Ttl vlm ¹	282.19	-21.24	+1.47	-11.97	-89.93
\$ volume ²	207.88	-15.33	-0.55	-12.81	-90.60
NDF 3M	16.8500	+0.00	+0.00	+1.20	+98.59
NDF 6M	17.4000	+0.00	+0.00	+1.75	+98.18
NDF 1Y	18.4500	+0.00	+0.00	+1.37	+95.86
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	43.566	-1.34	-4.60	+0.66	-35.49
UAH real CPI	79.517	-1.34	-4.60	+0.66	-21.33
UAH real PPI	116.255	-1.34	-4.60	+0.66	-16.23
USD nom'l	89.835	-0.15	+0.67	+2.18	+12.24
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	52.0862	-3.19	-15.47	+13.12	+58.46
EUR/USD	1.2225	+0.24	-0.50	-2.00	-11.05
USD/CNY	6.2009	-0.24	-0.24	+1.04	+2.42
USD/PLN	3.5494	-0.32	+2.59	+6.03	+17.41
USD/TRY	2.3204	+0.10	-0.11	+4.56	+8.02
USD/BYR	11,030.00	+0.27	+0.27	+1.19	+15.62
USD/KZT	182.3500	-0.23	-0.32	+0.81	+18.20
OTHER MAJOR CURRENCIES					
USD/JPY	120.1000	-0.34	+1.06	+1.81	+14.04
GBP/USD	1.5559	+0.01	-0.71	-0.95	-6.03
USD/CHF	0.9838	-0.22	+0.40	+2.05	+10.18
AUD/USD	0.8119	+0.11	-0.56	-4.82	-8.95
USD/CAD	1.1625	+0.01	+0.42	+3.26	+9.43
USD/BRL	N/A	N/A	N/A	N/A	N/A
USD/KRW	1,102.40	-0.04	+0.01	-0.62	+5.01
COMMODITIES					
Gold(\$/oz)	1,174.01	-0.07	-2.06	-2.24	-2.62
WTI crude ³	N/A	N/A	N/A	N/A	N/A
Brent crd ³	N/A	N/A	N/A	N/A	N/A
Urals crd ³	N/A	N/A	N/A	N/A	N/A
TR/J CRB ⁴	N/A	N/A	N/A	N/A	N/A

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#) and Bloomberg (type: ALLX UTWI <GO>).

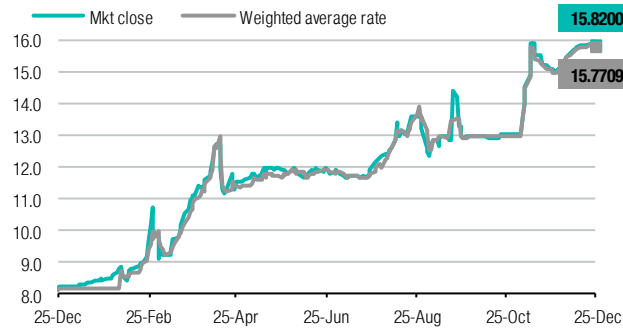
Section on FX market is continued on next page.

Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining when their exchange rates strengthen versus USD.

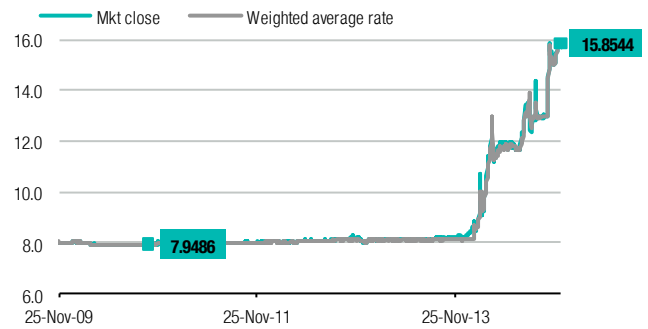
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart page #1: Foreign-exchange market

Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

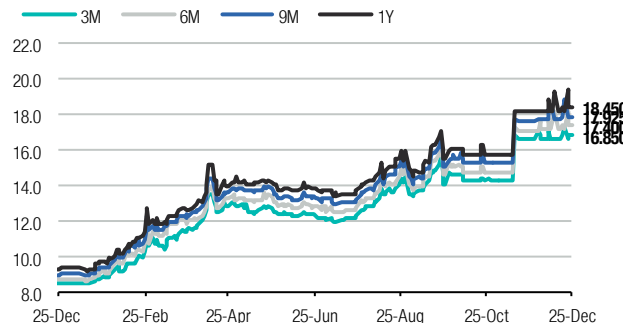


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

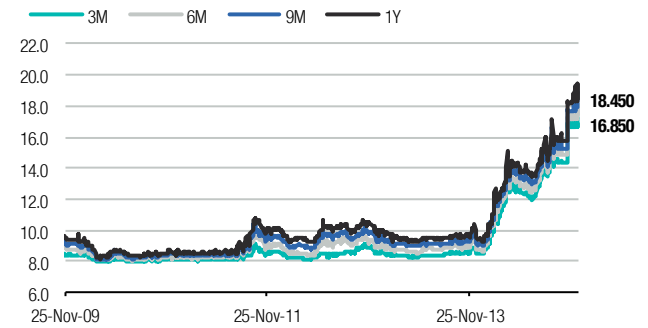


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

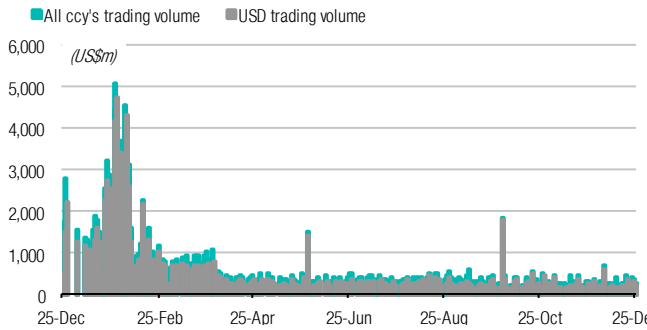


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

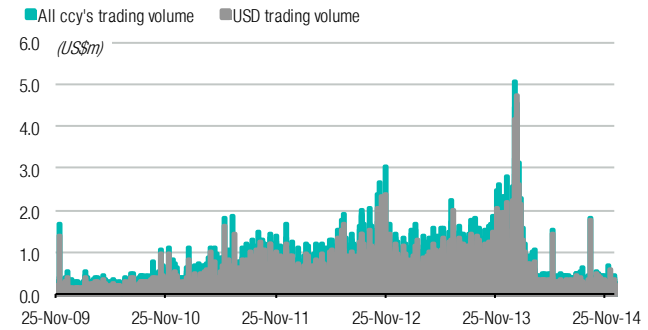


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)

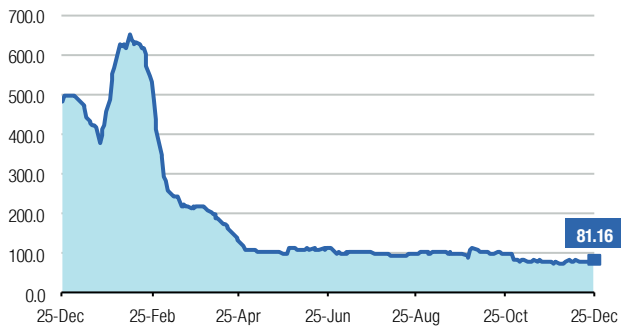


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. 30D MA* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)



Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

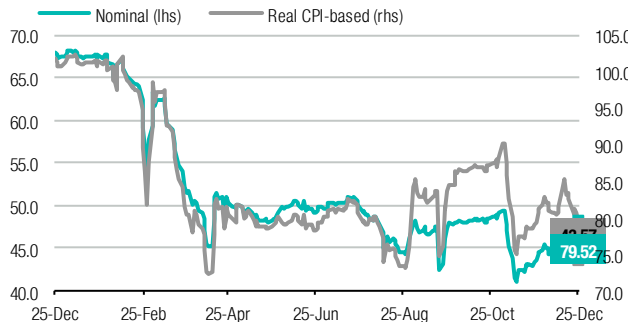


Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

Chart page #2: ICU's UAH trade-weighted indices

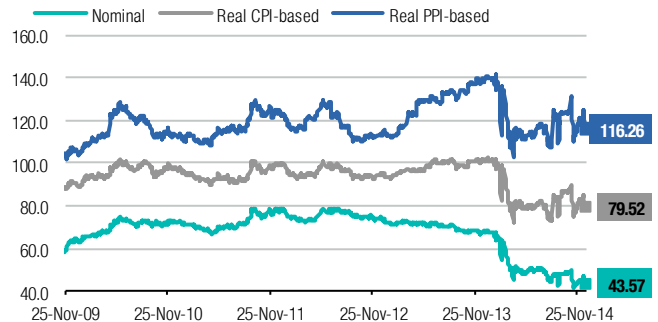
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August 2013.

Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period



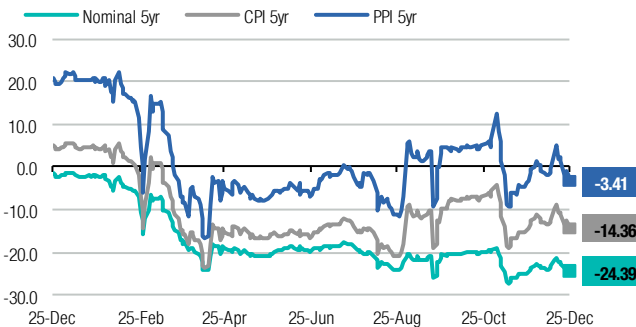
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

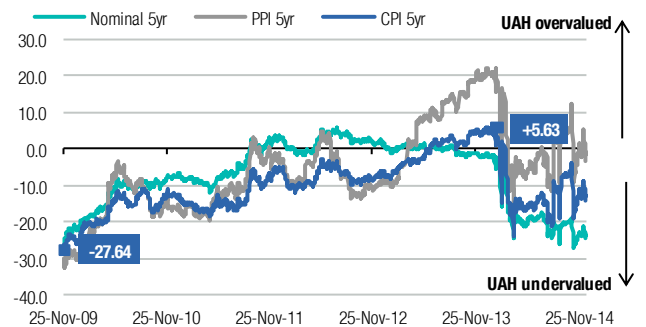


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)

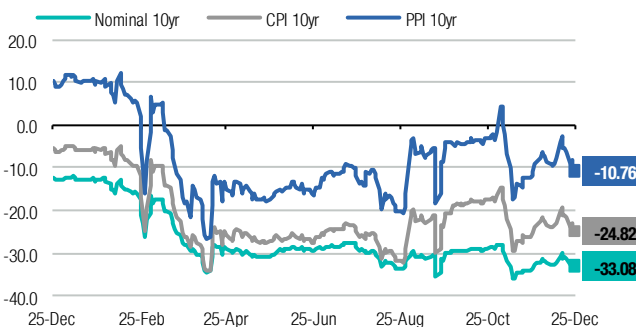


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

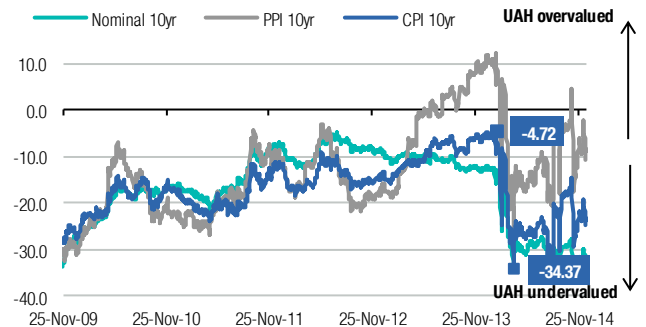


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)



Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

This page is intentionally left blank

Disclosures

ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Vlad Sinani, Director,
Strategy and Corporate Development
vlad.sinani@icu.ua

Julia Pecheritsa,
Ukraine and CIS International Sales
julia.pecheritsa@icu.ua

Yevgeniya Gryshchenko,
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.



Additional information is available upon request.