



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

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Daily Insight

Ruling coalition to finalize the state budget law

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MONDAY, 29 DECEMBER 2014

UX Index (3 months to 29 Dec 2014)



Source: UX.

Key market indicators (as of 26 Dec 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	15.8200	+0.00	+91.99
USD/UAH (1Y NDF)	18.4500	+0.00	+95.86
EUR/USD	1.2183	-0.34	-11.35
USD/RUB	53.5001	+2.71	+62.76
KievPRIME O/N (%)	16.60	+10bp	+880bp
KievPRIME 1M (%)	19.40	+0bp	+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	1,971bp	+2bp	+1,154bp
EQUITIES			
Stock market indices			
UX (Ukraine)	995.15	-0.55	+9.35
MSCI World	421.27	+0.21	+3.11
MSCI EM	952.53	+0.20	-5.00
RTS (Russia)	828.57	-1.84	-42.57
WIG-20 (Poland)	N/A		
S&P 500 (USA)	2,088.77	+0.33	+13.01

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

Ruling coalition works overnight to finalize the state budget law

Yesterday the ruling coalition worked all day and possibly through the night to finalize the 2015 state budget law with a 60% probability that it will be adopted. With the approved budget in place, the IMF early next month should negotiate the new tranches of financial assistance.

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Bonds: News & Comments

Banking sector liquidity increases

Broader banking sector liquidity rose UAH1.33bn to UAH56.30bn last Friday to a new record high of the month. This increase was caused by significant increase in banks' correspondent accounts with the NBU by UAH2.29bn to UAH36.63bn while total CDs outstanding declined UAH0.97bn to UAH16.12bn and total local currency debt repayments scheduled for the next 30 days remained steady at UAH3.56bn.

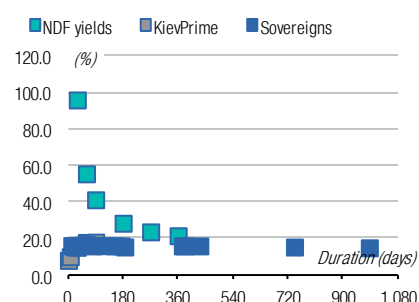
KyivPrime interest rates slightly diverged last Friday: the KyivPrime ON interest rate rose 10bp to 16.60% while the KyivPrime 1M interest rate remained steady at 19.40%.

Investment implications: At the end of last week liquidity rose without significant inflows from the NBU and the MoF. There were no debt repayments or bonds purchases by the NBU. Also, the NBU did not issue new large loans for banks. Liquidity continued to rise prior the end of the year prior to the last day of month-end tax payments.

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Yield curve of the local bond market

(as of market close on 26 Dec 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 26 Dec 2014)

	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)

MONEY MARKET KIEV PRIME RATES (%)

O/n	16.60	+10bp	+0bp	+560bp	+880bp
1wk	18.40	+0bp	+80bp	+640bp	+860bp
1m	19.40	+0bp	+20bp	+240bp	+315bp
2m	19.60	+0bp	+20bp	+160bp	+320bp
3m	19.60	+0bp	+20bp	+160bp	+360bp

LIQUIDITY WIDE MEASUREMENT (UAHm)

CB acc's ¹	36,627	+6.68	-3.09	+39.04	+12.00
CDs ²	16,117	-5.65	+15.10	+28.53	+2,186.1
Sovgns ³	3,393	+0.00	+16.90	-29.54	+127.0
Total	56,138	+2.42	+2.63	+28.47	+60.84

HOLDERS OF UAH SOVEREIGN BONDS (UAHm)

C.bank	296,508	+0.00	+0.17	+4.61	+104.7
Banks	88,528	-0.06	-1.41	+3.10	+10.43
Resid's ⁴	24,452	+0.07	-0.68	+14.67	+97.25
Non-res ⁵	21,503	+0.20	-0.64	+1.81	+83.81
Total	430,991	+0.00	-0.25	+4.67	+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 (%)

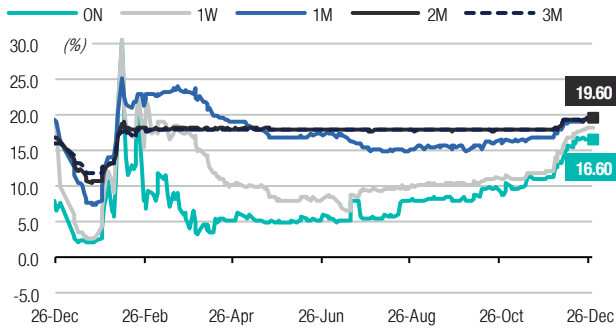
CDS 5yr	1,971	+2bp	+14bp	+417bp	+12bp
Jun '16	33.47	+0bp	-823bp	+14bp	+25bp
Jul '17	26.56	+0bp	-598bp	+879bp	+17bp
Sep '20	17.69	-1bp	-103bp	+450bp	+850bp
Sep '21	16.81	+0bp	-150bp	+368bp	+759bp
Sep '22	15.13	+1bp	-146bp	+318bp	+578bp
Feb '23	14.68	+1bp	-122bp	+273bp	+563bp

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.

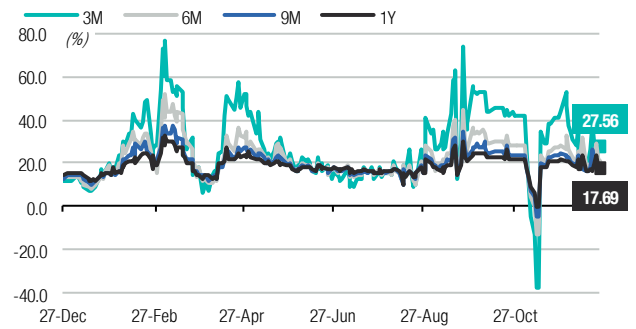
Chart page: Local bond market & Eurobond markets

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



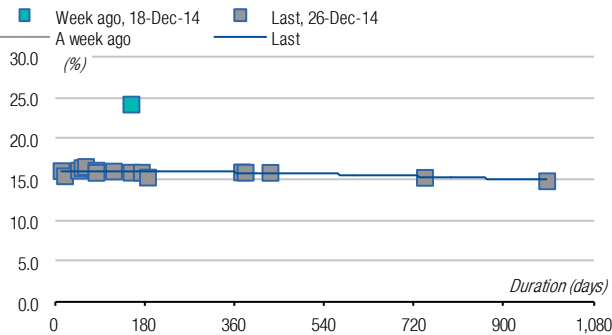
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



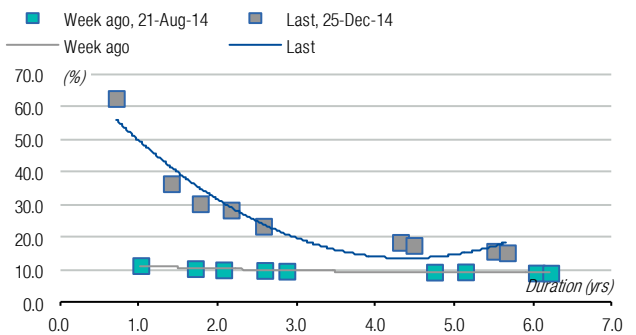
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 26 Dec 2014



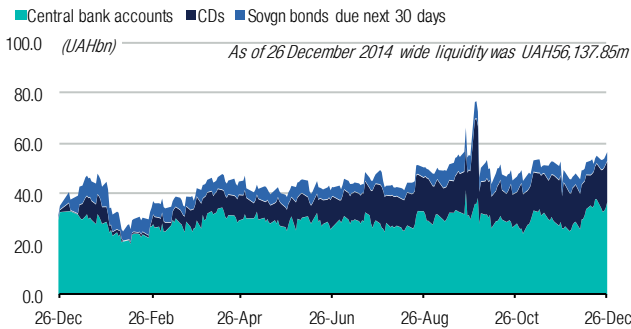
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 26 Dec 2014



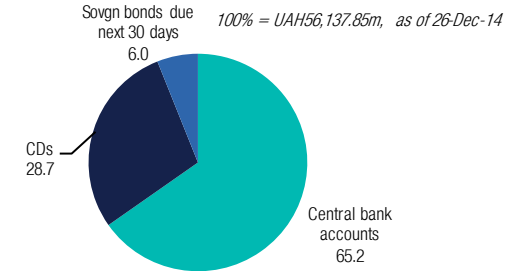
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



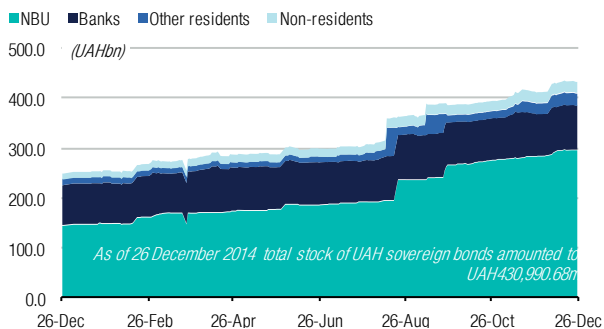
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 26 Dec 2014



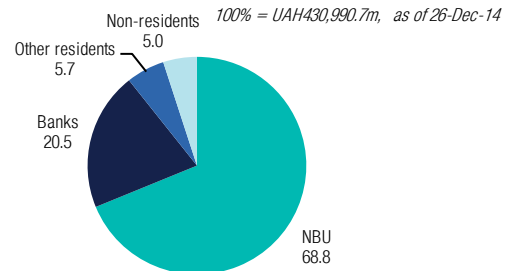
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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 26 Dec 2014



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

Table 1. Ukrainian stocks (closing prices as of 26-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	7.31 UAH	+0.0	-0.9	+53.3	+55.1	0.46	171.1	216.1	21.7	37.2	52.4	43.3	0.17	599	5.5	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	31.98 UAH	+0.0	+3.0	+15.9	+18.2	2.03	47.9	98.3	14.2	6.8	55.5	7.5	0.18	562	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	153.90 UAH	+0.0	+0.0	+70.2	+69.3	9.75	124.7	136.9	5.0	6.2	8.9	2.2	0.02	4,545	3.4	N/A	N/A	0.9	N/A	N/A	0.2	N/A	N/A	1.4	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.01 UAH	+0.0	-16.2	-62.9	-62.9	0.00	23.5	1,838.8	3.9	0.9	5.5	1.5	0.25	400	Neg.	Neg.	N/A	Neg.	Neg.	N/A	2.0	1.2	N/A	N/A	85.7
Avdiyivsky Cok...	AVDK UK	Kiev, UX	1.72 UAH	+0.0	-4.9	-41.9	-42.9	0.11	21.3	18.2	4.0	0.9	53.9	3.4	0.84	119	Neg.	Neg.	N/A	0.0	0.7	N/A	0.0	0.0	N/A	0.1	0.1
Azovstal	AZST UK	Kiev, UX	0.70 UAH	+0.0	+1.4	+4.8	+4.2	0.04	187.0	N/A	4.1	7.7	1.6	10.5	0.10	956	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	0.24 UAH	+0.0	-24.8	-54.7	-54.7	0.02	4.2	4.9	9.0	0.4	2.1	0.6	0.43	234	Neg.	0.5	0.3	0.0	0.3	N/A	0.0	0.0	0.0	0.0	
Yenakievo Steel	ENMZ UK	Kiev, UX	21.25 UAH	+0.0	+6.5	-33.6	-35.2	1.35	14.2	5.9	9.4	1.3	7.6	3.9	0.28	358	Neg.	Neg.	N/A	1.0	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	+0.0	-6.1	-16.7	-16.7	0.01	179.5	N/A	3.8	6.9	2.5	15.8	0.29	344	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	-14.5	-31.6	-31.3	0.01	200.6	N/A	4.5	9.0	4.9	0.8	0.01	9,188	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

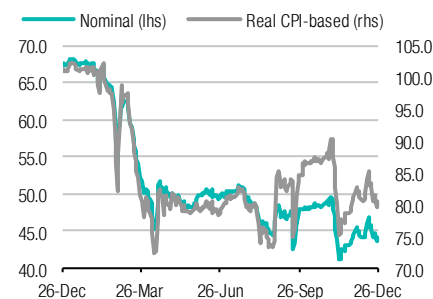
FX market in Russia remains highly volatile

On Friday, the Russian ruble lost about 3.5% after having started the day up. Following a declared environment of 'soft capital controls', this is a telling move, indicating a sizable demand for FX with more pressure on the ruble yet to unfold. Regional currencies, including the hryvnia, will be under pressure as well.

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ICU's UAH trade-weighted indices

(Last 12-month history to 29 Dec 2014)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 26 Dec 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	15.8200	+0.00	+0.00	+4.77	+91.99
NBU avg	15.7689	-0.01	+0.00	+5.31	+93.46
Ttl vlm ¹	442.57	+56.84	+0.14	+58.01	-84.21
\$ volume ²	383.79	+84.62	+6.14	+85.11	-82.64
NDF 3M	16.8500	+0.00	-2.66	+1.20	+98.59
NDF 6M	17.4000	+0.00	+1.16	+1.75	+98.18
NDF 1Y	18.4500	+0.00	+1.10	+1.37	+95.86
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	43.996	+0.99	-2.87	+1.10	-34.86
UAH real CPI	80.301	+0.99	-2.87	+1.10	-20.55
UAH real PPI	117.401	+0.99	-2.87	+1.10	-15.41
USD nom'l	90.030	+0.22	+0.48	+2.77	+12.49
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	53.5001	+2.71	-10.26	+13.69	+62.76
EUR/USD	1.2183	-0.34	-0.38	-2.58	-11.35
USD/CNY	6.2130	+0.20	-0.13	+1.21	+2.62
USD/PLN	3.5909	+1.17	+2.95	+7.46	+18.79
USD/TRY	2.3187	-0.07	+0.28	+4.91	+7.94
USD/BYR	11,000.00	-0.27	+0.00	+0.92	+15.30
USD/KZT	182.5100	+0.09	-0.34	+0.86	+18.31
OTHER MAJOR CURRENCIES					
USD/JPY	120.3100	+0.17	+0.68	+2.19	+14.24
GBP/USD	1.5558	-0.01	-0.44	-1.48	-6.03
USD/CHF	0.9875	+0.38	+0.33	+2.74	+10.59
AUD/USD	0.8121	+0.02	-0.11	-5.00	-8.93
USD/CAD	1.1627	+0.02	+0.23	+3.38	+9.45
USD/BRL	2.6692	-0.99	+0.36	+6.70	+13.00
USD/KRW	1,098.74	-0.33	-0.29	-0.71	+4.66
COMMODITIES					
Gold(\$/oz)	1,196.00	+1.87	-0.03	-0.16	-0.80
WTI crude ³	54.73	-1.64	-3.17	-25.73	-44.39
Brent crd ³	57.83	-1.11	-5.58	-24.26	-47.82
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	234.65	-0.29	-2.35	-12.00	-16.25

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.

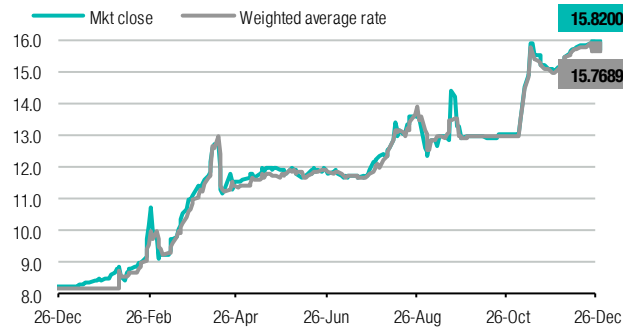
Sources: Bloomberg, Investment Capital Ukraine LLC.

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>).

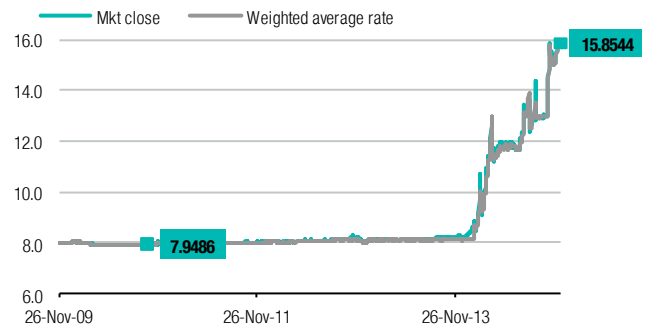
Section on FX market is continued on next page.

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)

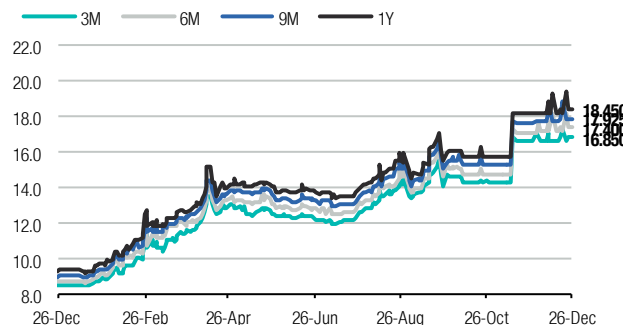


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

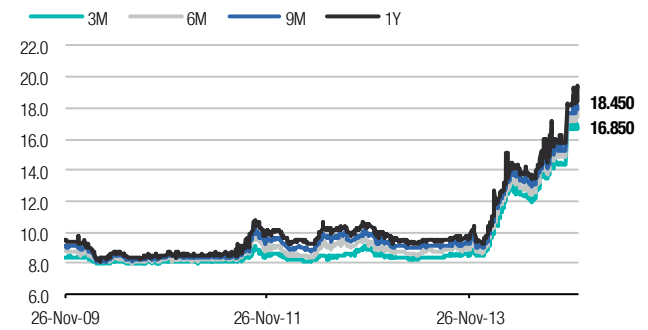


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

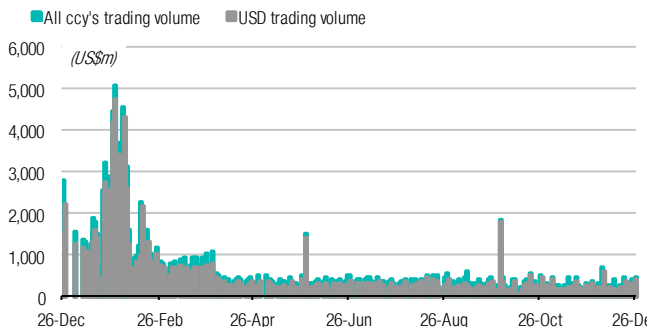


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

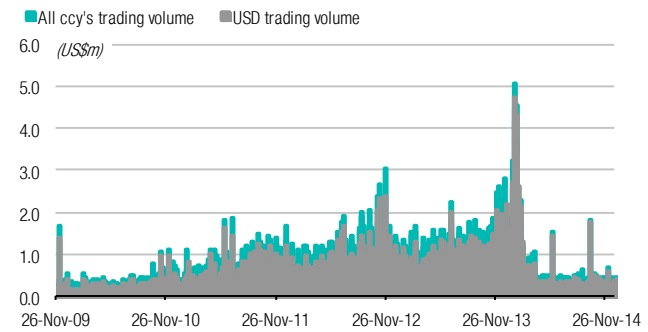


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

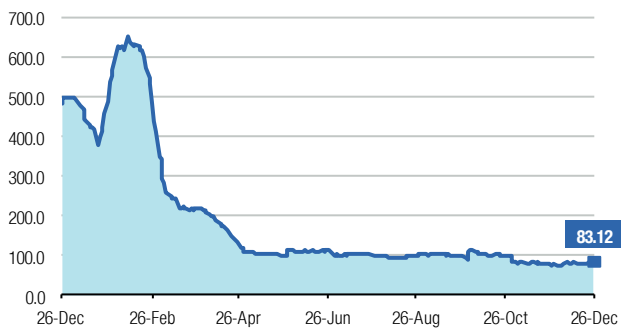


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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.

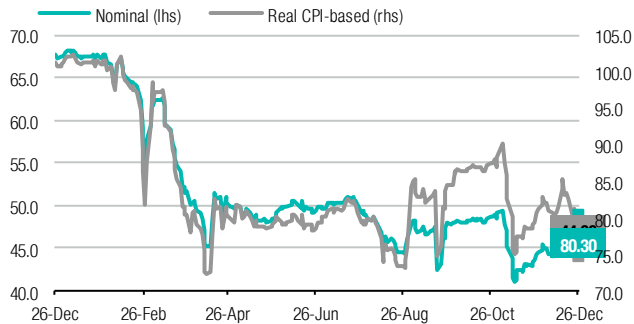


Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

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

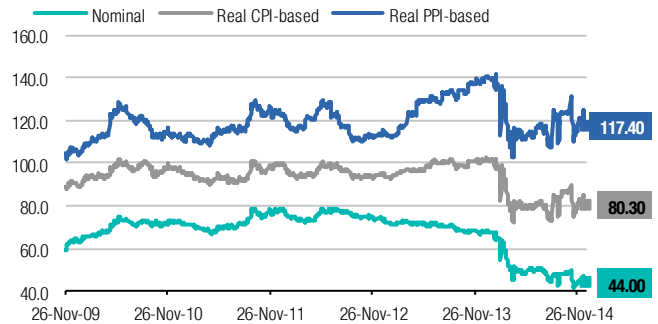
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August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

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



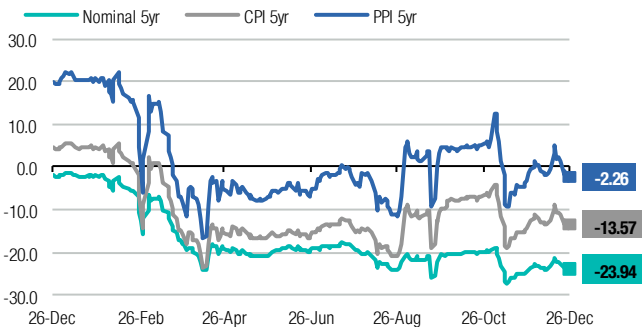
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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

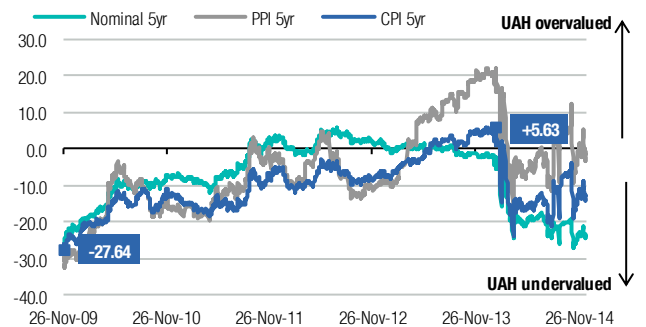


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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)

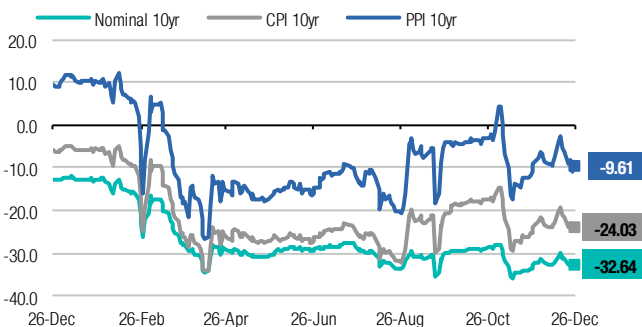


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

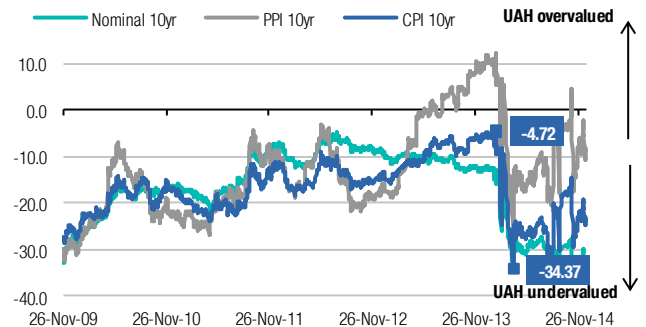


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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.

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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



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