



Focus
Ukraine

Scope
**Economics, bonds, equity &
FX markets**

Research team
**Alexander Valchyshen
Taras Kotovych**

Daily Insight

UAH weakened by accelerated inflation

Contents

Bonds: News & Comments	2
Liquidity recovers.....	2
Bondholders' portfolios changes.....	2
Chart page: Local bond market & Eurobond markets.....	3
FX: News & Comments	5
UAH weakened by accelerated inflation.....	5
Chart page #1: Foreign-exchange market.....	6
Chart page #2: ICU's UAH trade-weighted indices.....	7

TUESDAY, 10 MARCH 2015

UX Index (3 months to 10 Mar 2015)



Source: UX.

Key market indicators (as of 6 Mar 2015)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	23.5000	+0.00	+48.55
USD/UAH (1Y NDF)	25.9900	-0.76	+40.87
EUR/USD	1.0844	-1.69	-10.37
USD/RUB	60.4300	-0.76	-0.50
KievPRIME O/N (%)	21.25	+8bp	+235bp
KievPRIME 1M (%)	27.00	+0bp	+710bp

SOVEREIGN EUROBONDS: yields and spreads

Ukraine 15, Eurobond (%)	202.08	+139bp	+14,031bp
Ukraine 17, Eurobond (%)	54.97	+5bp	+2,722bp
Ukraine 22, Eurobond (%)	24.76	+0bp	+851bp
Ukraine 23, Eurobond (%)	23.57	+0bp	+800bp
Ukraine 5Y CDS	3,893bp	-73bp	+1,694bp

EQUITIES

Stock market indices

UX (Ukraine)	1,107.31	+0.64	+7.16
MSCI World	424.86	-1.14	+1.86
MSCI EM	971.23	-0.34	+1.56
RTS (Russia)	903.45	-0.98	+14.78
WIG-20 (Poland)	2,345.93	-0.42	+1.29
S&P 500 (USA)	2,079.43	+0.39	+1.00

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.

Bonds: News & Comments

Liquidity recovers

Broader banking sector liquidity rose UAH2.57bn last Friday to UAH60.30bn, after having fallen significantly at the beginning of February. Banks' correspondent accounts with the NBU slid UAH0.37bn to UAH25.82bn while total CDs outstanding rose UAH2.94bn to UAH26.10bn. Total local currency debt repayments scheduled for the next 30 days remained steady at UAH8.38bn.

KyivPrime interest rates slightly diverged: the KyivPrime ON interest rate rose 8bp to 21.25% while the KyivPrime 1M interest rate remained steady at 27.00%.

Investment implications: Without new injections, as only the NBU's 3-month loans were received by banks last Thursday, the broader indicator rose UAH2.57bn. Before the new reserve requirements take effect, the NBU continued to increase its CDs outstanding and most likely injected some funds via the FX market, purchasing FX last Thursday. We could see liquidity decline, albeit slightly at worst, this week due to the increase in bank reserves.

Taras Kotovych, Kiev, +38044 2200120 ext.724

Bondholders' portfolios changes

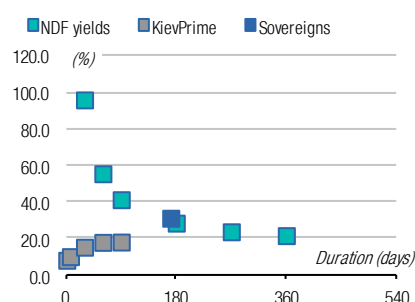
As a result of the significant local currency devaluation last month and the low volume of FX-denominated bonds in the NBU's portfolio, the NBU's share of total government bonds outstanding declined only slightly in February as shares of the banks', non-residents' and other residents' portfolios all rose. Following the hryvnia's slight improvement at the beginning of March, the NBU's portfolio share slightly declined last week.

Last week, the NBU's portfolio slid to UAH337.97bn as its share increased to 66.73% while the banks' portfolio declined to UAH111.88bn (share decreased to 22.09%) and the non-residents' portfolio fell to UAH27.23bn and (share declined to 7.97%) last Friday. The significant changes occurred in the non-residents' portfolio because it consists mostly of FX-denominated bonds which are most sensitive to the UAH/USD exchange rate, causing the share movements in the other portfolios.

Taras Kotovych, Kiev, +38044 2200120 ext.724

Yield curve of the local bond market

(as of market close on 6 Mar 2015)



Sources: Bloomberg, Investment Capital Ukraine LLC.

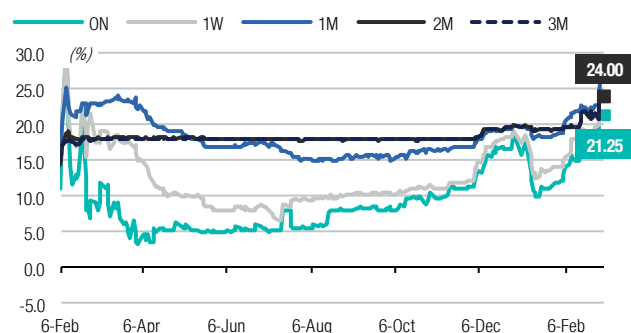
Bond market indicators (as of 6 Mar 2015)

	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	21.25	+8bp	+245bp	+705bp	+235bp
1wk	23.50	+17bp	+390bp	+810bp	+450bp
1m	27.00	+0bp	+420bp	+640bp	+710bp
2m	24.00	+33bp	+250bp	+440bp	+400bp
3m	24.00	+33bp	+250bp	+440bp	+400bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	N/A	N/A	N/A	N/A	N/A
CDs ²	N/A	N/A	N/A	N/A	N/A
Sovgns ³	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	337,968	-0.02	-0.18	+2.20	+6.24
Banks	111,876	-1.70	-15.64	+13.11	+19.74
Resid's ⁴	29,394	-0.32	-2.32	+17.13	+19.73
Non-res ⁵	27,235	-2.42	-19.97	+17.14	+26.42
Total	506,473	-0.54	-5.39	+5.97	+10.67
NDF IMPLIED YIELDS (%)					
3m	12.00	-341bp	-15ppt	+940bp	-14ppt
6m	15.56	-171bp	-615bp	+616bp	-475bp
9m	12.04	-114bp	-389bp	+424bp	-616bp
1yr	11.36	-86bp	-266bp	+335bp	-600bp
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	+0bp
Aug '15 ⁶	31.07	-36bp	+0bp	+678bp	+678bp
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	3,893	-73bp	-629bp	+14bp	+17bp
Jun '16	87.39	+20bp	-614bp	+28bp	+50bp
Jul '17	54.97	+5bp	-147bp	+14bp	+27bp
Sep '20	29.55	+1bp	+6bp	+672bp	+11bp
Sep '21	28.43	+1bp	-216bp	+608bp	+989bp
Sep '22	24.76	+0bp	-184bp	+466bp	+851bp
Feb '23	23.57	+0bp	-189bp	+433bp	+800bp

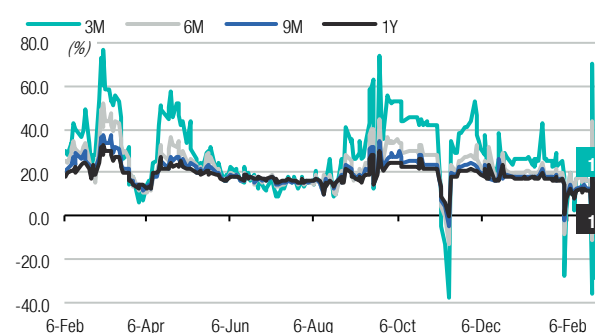
Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

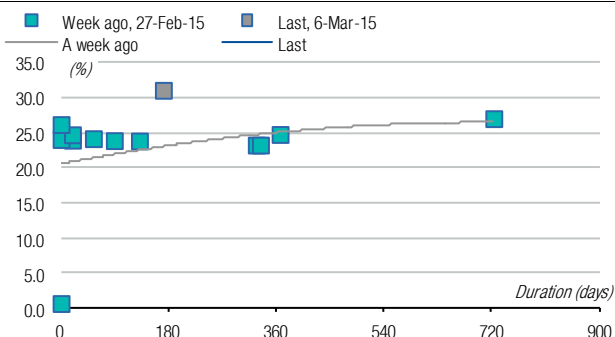
Chart page: Local bond market & Eurobond markets

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


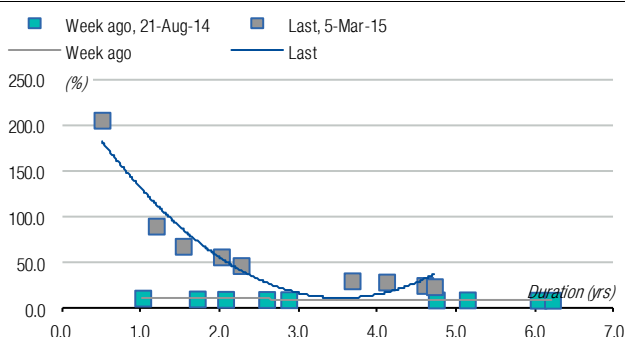
Sources: Bloomberg, Investment Capital Ukraine LLC.

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


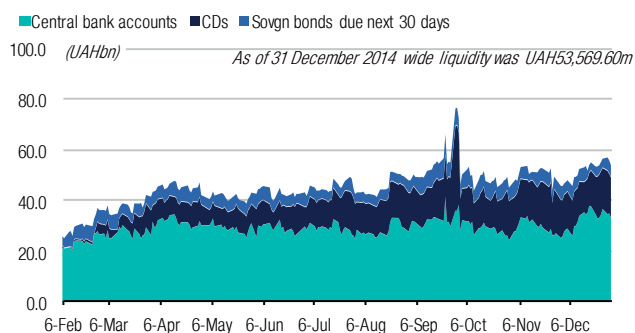
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 6 Mar 2015


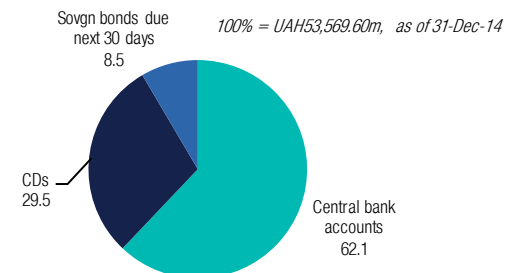
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 6 Mar 2015


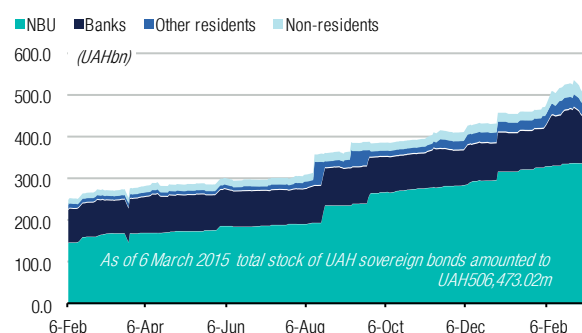
Sources: Bloomberg, Investment Capital Ukraine LLC.

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


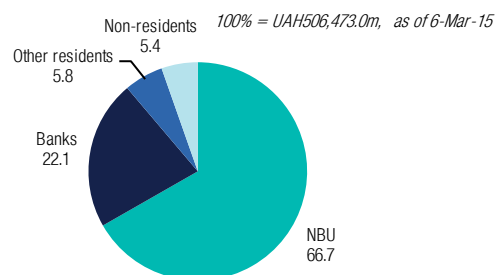
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 6 Mar 2015


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 6 Mar 2015


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

Table 1. Ukrainian stocks (closing prices as of 6-Mar-2015)

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	8.03 UAH	+0.8	+12.2	+6.5	+41.6	0.35	130.1	121.8	21.7	28.2	30.8	36.8	0.16	642	6.1	6.1	Neg.	0.2	3.0	Neg.	0.4	0.2	0.3	1.2	16.3
Donbasenergo	DOEN UK	Kiev, UX	29.93 UAH	+0.5	-2.7	-9.3	-28.2	1.31	31.0	65.9	14.2	4.4	0.0	6.1	0.13	775	1.3	0.8	5.4	0.1	1.2	2.5	0.3	0.2	0.4	1.1	25.1
Zakhidenergo	ZAEN UK	Kiev, PFTS	162.00 UAH	+0.0	-1.3	+9.4	+42.2	7.10	90.9	99.2	5.0	4.5	0.0	0.5	0.00	78,607	3.6	N/A	N/A	0.7	N/A	N/A	0.2	N/A	N/A	1.4	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.01 UAH	+1.4	+10.0	+0.0	-63.8	0.00	16.4	1,272.3	3.9	0.6	0.1	1.0	0.09	1,093	Neg.	Neg.	N/A	Neg.	Neg.	N/A	2.0	1.1	N/A	N/A	85.7
Avdiyivsky Cok...	AVDK UK	Kiev, UX	1.40 UAH	+1.2	+20.9	-19.0	-53.5	0.06	12.0	-15.4	4.0	0.5	0.1	2.1	0.32	316	Neg.	Neg.	N/A	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.1	0.1
Azovstal	AZST UK	Kiev, UX	0.81 UAH	-0.4	+11.7	+8.7	+14.1	0.04	149.3	124.8	4.1	6.1	1.2	5.9	0.10	1,012	Neg.	Neg.	N/A	Neg.	5.1	N/A	0.1	0.1	N/A	0.3	0.0
Yasynivsky Cok...	YASK UK	Kiev, UX	0.35 UAH	+12.5	+25.0	+25.0	-51.2	0.02	4.2	4.7	9.0	0.4	0.0	0.6	0.04	2,336	Neg.	0.6	0.4	0.0	0.4	N/A	0.0	0.0	0.0	0.1	0.0
Yenakievo Steel	ENMZ UK	Kiev, UX	17.75 UAH	+0.3	+3.3	-15.3	-50.8	0.78	8.2	2.4	9.4	0.8	0.0	2.6	0.35	286	Neg.	Neg.	N/A	0.4	0.1	N/A	0.0	0.0	N/A	0.8	0.0
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.11 UAH	+1.2	+14.9	+11.8	-31.6	0.00	141.0	N/A	3.8	5.4	4.3	11.8	0.22	463	3.2	Neg.	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	0.5	22.4
Ukrsotsbank	USCB UK	Kiev, UX	0.11 UAH	+0.0	+0.0	-15.5	-39.8	0.00	119.0	N/A	4.5	5.3	0.0	0.5	0.01	9,208	Neg.	9.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.2	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

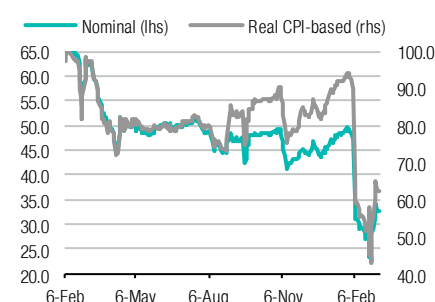
UAH weakened by accelerated inflation

Inflation in February accelerated more rapidly following last month's extreme devaluation. Headline CPI was up 5.3% from the previous month and 34.5% year-on-year. The run on currency was the key driver of inflation. As the IMF is expected to approve and disburse US\$4-5bn in new EFF funding by the end of this week, the domestic financial market could improve, but this reprieve could be short-lived if, and more likely when, the Minsk 2 agreement collapses.

Alexander Valchyshen, Kiev, +38044 2200120 ext.242

ICU's UAH trade-weighted indices

(Last 12-month history to 10 Mar 2015)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 6 Mar 2015)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	23.5000	+0.00	-13.76	-6.93	+48.55
NBU avg	22.8971	-0.84	-17.53	-1.01	+45.21
Ttl vlm ¹	197.16	-6.05	-0.99	+2.28	-54.24
\$ volume ²	156.19	-12.48	+2.22	+4.90	-55.91
NDF 3M	24.1900	-0.82	-16.76	-4.76	+43.56
NDF 6M	25.2900	-0.78	-16.15	-4.20	+45.34
NDF 1Y	25.9900	-0.76	-15.78	-4.10	+40.87
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	32.721	+0.40	+16.86	+5.91	-28.45
UAH real CPI	62.302	+0.40	+16.86	+5.91	-27.09
UAH real PPI	87.952	+0.40	+16.86	+5.91	-28.45
USD nom'l	97.615	+1.28	+2.44	+3.08	+8.14
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	60.4300	-0.76	-2.14	-9.61	-0.50
EUR/USD	1.0844	-1.69	-3.14	-4.17	-10.37
USD/CNY	6.2631	-0.05	-0.10	+0.30	+0.93
USD/PLN	3.8095	+1.40	+2.81	+3.71	+7.50
USD/TRY	2.6236	+0.62	+4.60	+6.02	+12.36
USD/BYR	14,975.00	-0.25	+1.18	-4.13	+36.14
USD/KZT	185.3700	-0.01	+0.16	+0.15	+1.66
OTHER MAJOR CURRENCIES					
USD/JPY	120.8300	+0.58	+1.00	+1.44	+0.88
GBP/USD	1.5037	-1.33	-2.60	-1.35	-3.47
USD/CHF	0.9860	+1.24	+3.32	+6.39	-0.83
AUD/USD	0.7716	-0.85	-1.18	-1.03	-5.61
USD/CAD	1.2624	+1.11	+0.87	+0.77	+8.63
USD/BRL	3.0640	+2.03	+7.84	+10.14	+15.29
USD/KRW	1,098.81	-0.20	+0.07	+0.83	+0.72
COMMODITIES					
Gold(\$/oz)	1,167.19	-2.60	-3.79	-5.41	-1.49
WTI crude ³	49.61	-2.27	-0.30	-4.02	-6.87
Brent crd ³	59.35	-1.28	-3.98	+3.18	+6.44
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	220.14	-0.89	-1.76	-2.10	-4.27

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>).

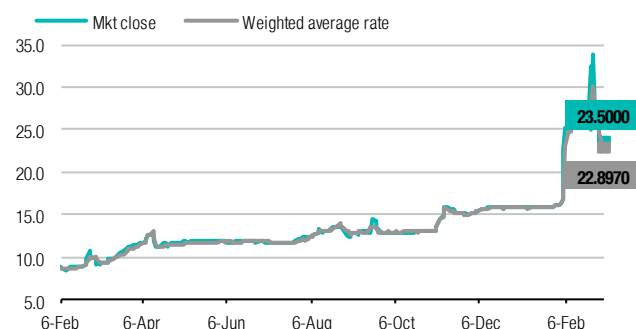
Section on FX market is continued on next page.

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.

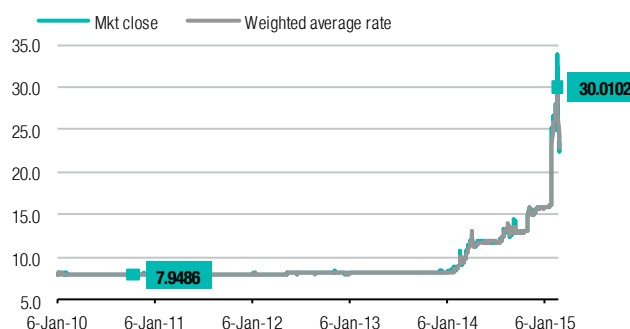
Sources: Bloomberg, Investment Capital Ukraine LLC.

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)

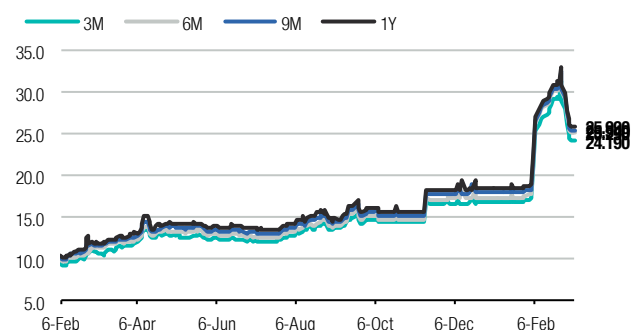


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

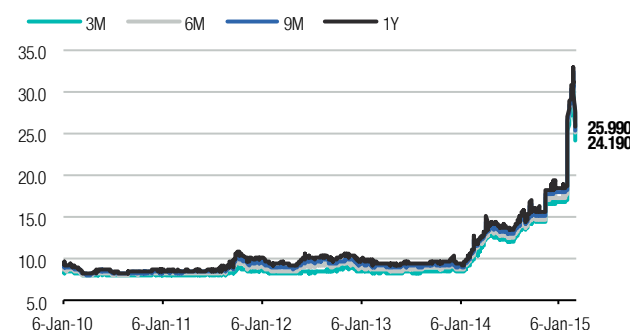


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

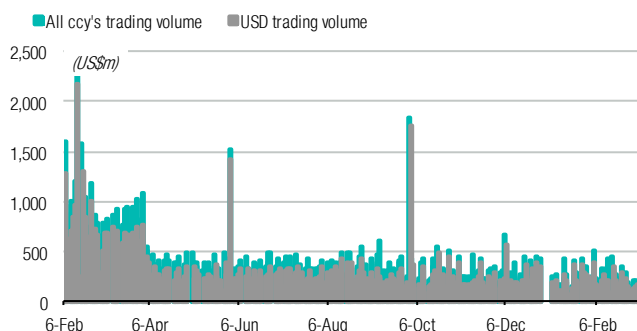


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

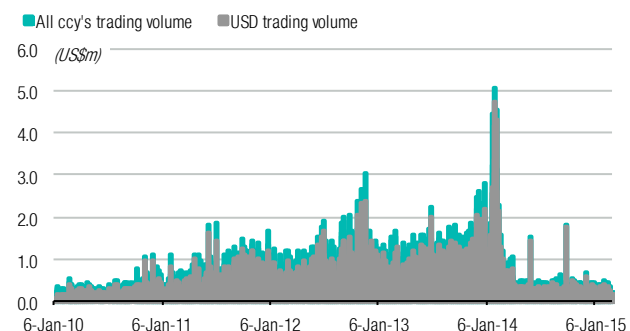


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

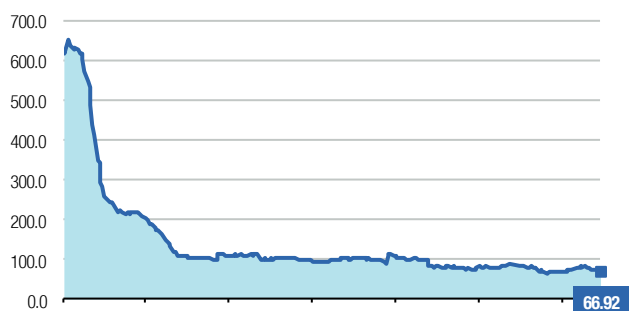


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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)



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

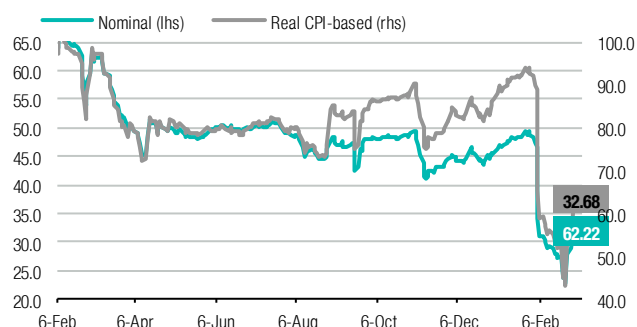


Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

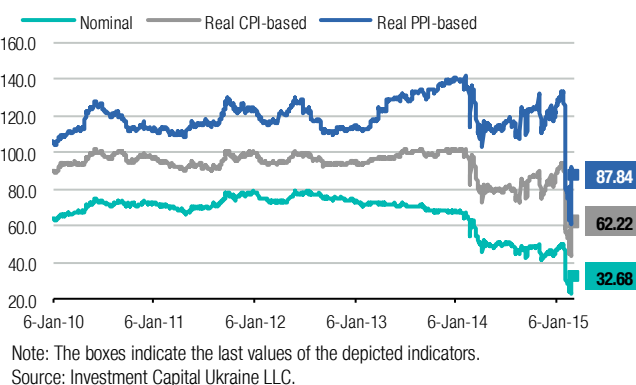


Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)

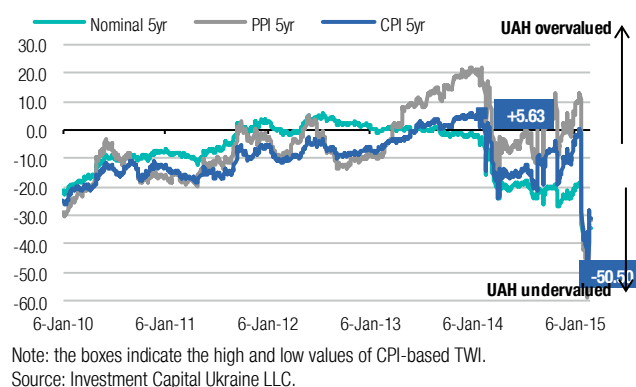
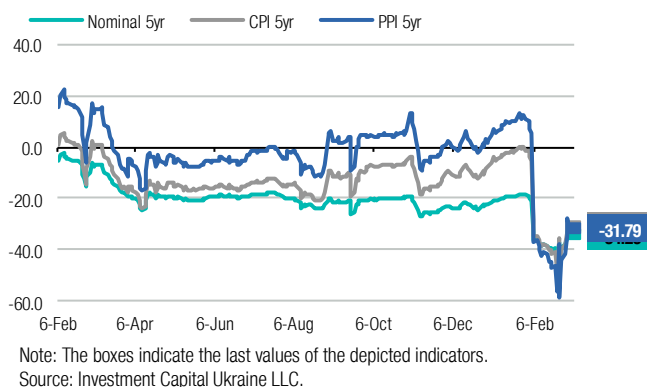
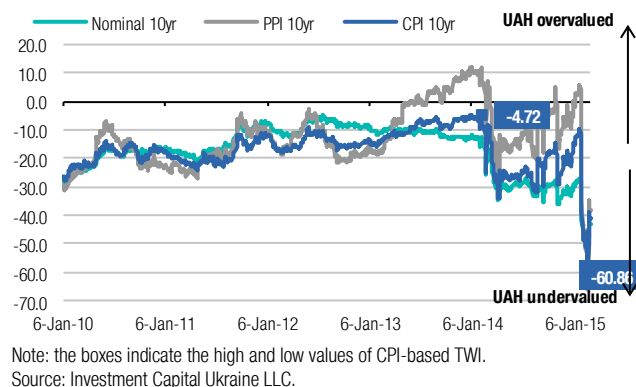
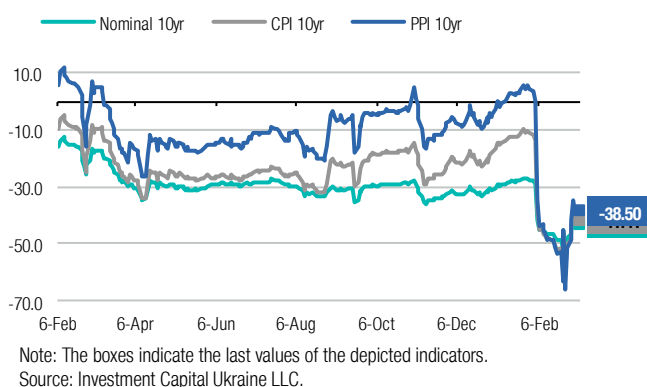


Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)



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.