



Focus
Ukraine

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

Research team
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Daily Insight

MoF will resume primary auctions

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MONDAY, 11 JANUARY 2016

UX Index (3 months to 11 Jan 2016)



Source: UX.

Key market indicators (as of 8 Jan 2016)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	23.3500	+0.00	-2.82
USD/UAH (1Y NDF)	28.3560	+2.74	+11.22
EUR/USD	1.0922	-0.09	+0.55
USD/RUB	74.7475	-0.03	+3.07
KievPRIME O/N (%)	N/A		
KievPRIME 1M (%)	N/A		

SOVEREIGN EUROBONDS: yields and spreads

Ukraine 15, Eurobond (%)	N/A	+0bp	+0bp
Ukraine 17, Eurobond (%)	29.14	+26bp	+0bp
Ukraine 22, Eurobond (%)	12.32	-1bp	+0bp
Ukraine 23, Eurobond (%)	11.85	+0bp	+0bp
Ukraine 5Y CDS	N/A		

EQUITIES

Stock market indices

UX (Ukraine)	676.65	+0.00	-1.34
MSCI World	374.75	-0.84	-6.16
MSCI EM	740.07	+0.16	-6.81
RTS (Russia)	N/A		
WIG-20 (Poland)	1,725.14	-1.16	-7.21
S&P 500 (USA)	1,922.03	-1.08	-5.96

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

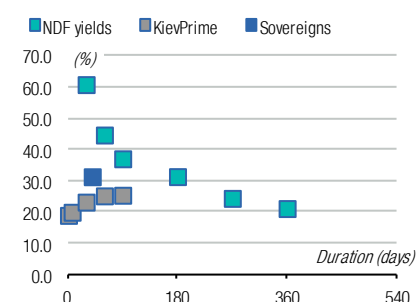
MoF will resume primary auctions

The MoF has scheduled a primary auction tomorrow, offering a 1-year local currency bond. Although banking sector liquidity, down since the year's beginning, from UAH125.26bn to UAH117.85bn last week, could support demand at the year's debut auction, low interest rates are not anticipated. We expect bids at around 19% and a small portion of demand to be accepted. The MoF started this year with UAH9.02bn at the treasury account, the lowest level since February 2015, which could necessitate new borrowings. The new schedule of auctions includes local currency bonds each week in 1Q16 and monthly offerings of USD-denominated bonds. The high level of liquidity and low level of funds at MoF accounts should force the MoF to accept some bids and attract funds to the state budget. At the same time, the high level of liquidity could force some banks to submit bids at lower interest rates.

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Yield curve of the local bond market

(as of market close on 8 Jan 2016)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 8 Jan 2016)

	Last	Daily chg (%)	Weekly chg (%)	MoM chg (%)	YTD chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	N/A	N/A	N/A	N/A	N/A
1wk	N/A	N/A	N/A	N/A	N/A
1m	N/A	N/A	N/A	N/A	N/A
2m	N/A	N/A	N/A	N/A	N/A
3m	N/A	N/A	N/A	N/A	N/A
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	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Resid's ⁴	N/A	N/A	N/A	N/A	N/A
Non-res ⁵	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
NDF IMPLIED YIELDS (%)					
3m	65.12	+154bp	+0bp	+48bp	+0bp
6m	37.29	+652bp	+737bp	+21bp	+737bp
9m	28.26	+436bp	+501bp	+14bp	+501bp
1yr	22.84	+328bp	+15bp	+59bp	+15bp
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	N/A	N/A	N/A	N/A
Jan '14	N/A	N/A	N/A	N/A	N/A
Aug '15 ⁶	N/A	N/A	N/A	N/A	N/A
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	N/A	N/A	N/A	N/A	N/A
Jun '16	67.67	+114bp	+0bp	+0bp	+0bp
Jul '17	29.14	+26bp	+0bp	+0bp	+0bp
Sep '20	14.02	+4bp	+0bp	+0bp	+0bp
Sep '21	14.22	+0bp	+0bp	+0bp	+0bp
Sep '22	12.32	-1bp	+0bp	+319bp	+0bp
Feb '23	11.85	+0bp	+0bp	+292bp	+0bp

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

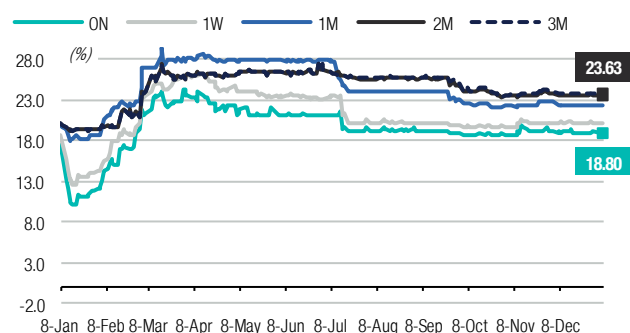


Chart 2. UAH NDF implied yields (%), last 12-month period

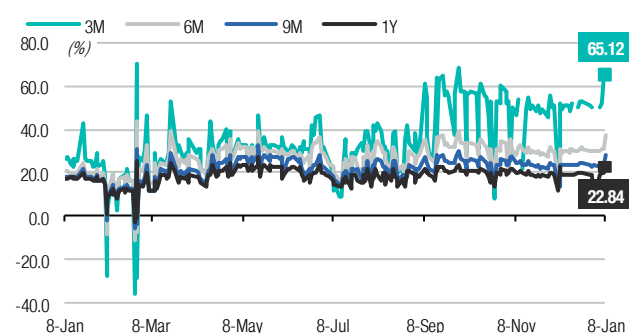


Chart 3. UAH sovereign yield curve (%) as of 8 Jan 2016

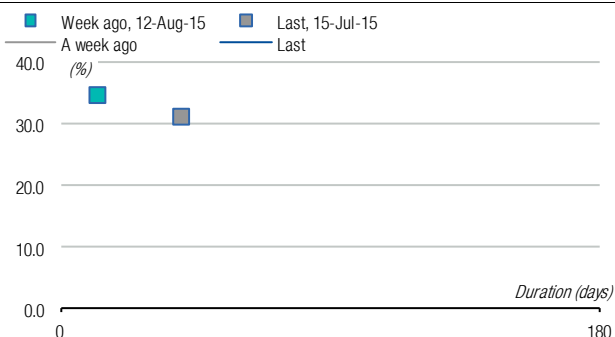


Chart 4. USD sovereign yield curve (%) as of 8 Jan 2016

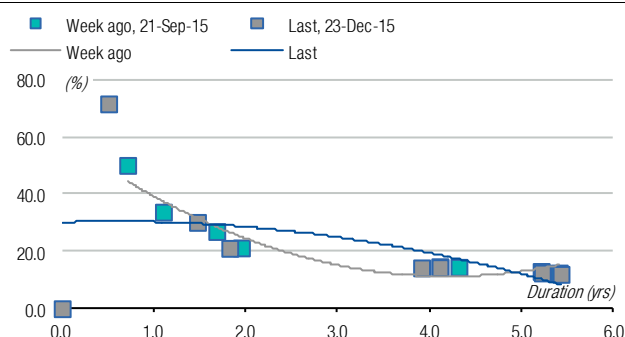


Chart 5. Banking sector liquidity (UAHbn), last 12-month period

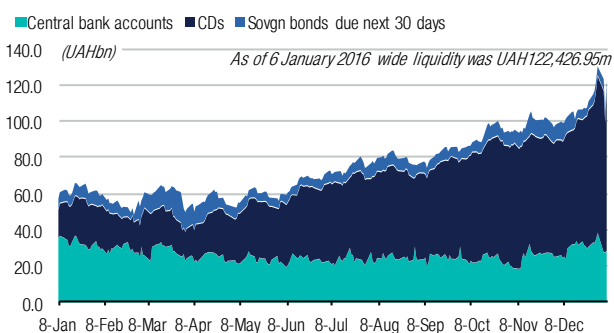


Chart 6. Breakdown of liquidity pool (%) as of 8 Jan 2016

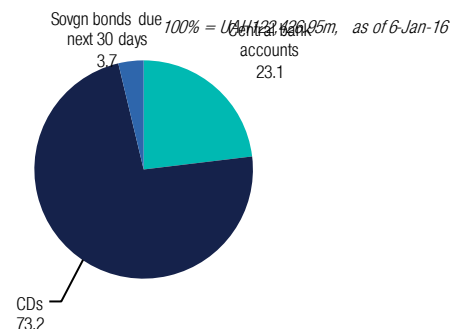


Chart 7. Holders of sovereign bonds (UAHbn), last 12 months

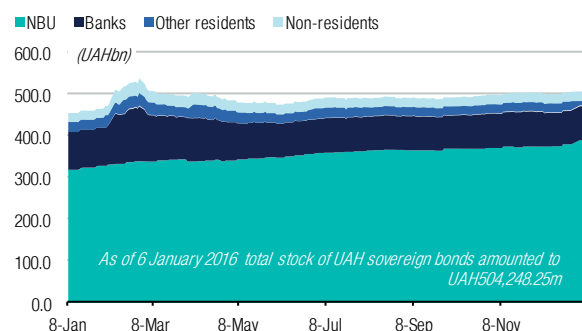


Chart 8. Domestic sovereign debt (%) as of 8 Jan 2016

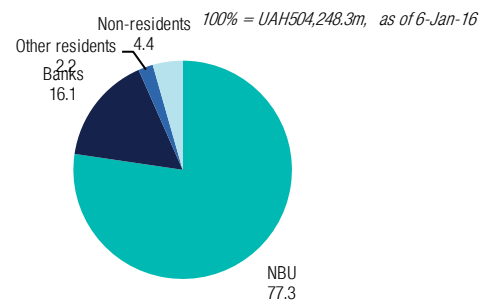


Table 1. Ukrainian stocks (closing prices as of 8-Jan-2016)

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																											
Cadogan Petrol...	CAD LN	London	9.00 GBp	+4.3	+7.5	+10.8	-8.9	0.13	30.2	-18.9	40.2	12.2	0.0	9.1	0.14	694	Neg.	N/A	N/A	2.7	N/A	N/A	Neg.	N/A	N/A	0.4	15.3
Coal Energy	CLE PW	Warsaw	0.52 PLN	+26.8	+10.6	-1.9	-31.6	0.13	5.9	77.4	25.0	1.5	0.2	0.9	0.07	1,482	Neg.	N/A	N/A	10.6	N/A	N/A	0.7	N/A	N/A	0.2	56.9
JKX Oil & Gas	JKX LN	London	26.00 GBp	-1.9	-5.5	-4.6	+112.2	0.38	64.9	75.6	47.2	30.6	0.0	22.0	0.01	10,070	Neg.	Neg.	Neg.	Neg.	2.9	3.0	0.5	0.7	1.0	0.2	9.9
Regal Petroleum	RPT LN	London	3.75 GBp	+7.1	-0.7	+0.0	-15.1	0.05	17.5	-15.9	80.9	14.1	0.5	3.3	0.05	1,842	3.0	N/A	N/A	Neg.	N/A	N/A	Neg.	Neg.	N/A	0.2	0.0
METALLURGY																											
Ferrexpo PLC	FXPO LN	London	20.75 GBp	-1.2	-7.8	-3.5	-59.5	0.30	177.5	834.2	22.4	39.8	129.0	237.7	0.73	137	1.0	1.6	11.7	2.6	3.0	5.0	0.6	0.8	0.9	0.4	61.1
FOOD AND AGRIBUSINESS																											
AgroGeneration	ALAGR FP	EN Paris	0.41 EUR	+0.0	+0.0	+2.5	+2.5	0.45	44.0	98.7	34.0	15.0	0.6	49.9	0.12	845	Neg.	Neg.	2.7	4.8	4.9	3.3	1.4	1.5	1.2	0.6	83.5
Agroliga	AGL PW	Warsaw	11.50 PLN	+4.4	-9.4	+1.1	+15.6	2.88	4.4	5.6	16.7	0.7	0.5	1.3	0.14	699	1.5	N/A	N/A	1.6	N/A	N/A	0.3	N/A	N/A	0.4	10.7
Agroton	AGT PW	Warsaw	0.94 PLN	-2.1	-7.8	-6.9	-33.8	0.24	5.1	31.8	26.2	1.3	8.4	11.7	0.37	271	Neg.	N/A	N/A	1.4	N/A	N/A	0.5	N/A	N/A	0.1	33.4
Astarta Holdin...	AST PW	Warsaw	34.69 PLN	-0.3	+6.7	+0.6	+38.9	8.69	217.1	438.7	31.0	67.4	4.4	27.5	0.02	5,625	Neg.	13.0	3.5	3.7	3.4	3.7	1.1	1.3	1.1	1.0	49.6
Avangard	AVGR LI	London Intl	1.38 USD	+0.0	-13.2	+10.4	-34.3	1.38	88.1	378.9	21.7	19.1	0.0	6.2	0.01	14,427	Neg.	Neg.	Neg.	2.9	8.0	3.7	0.9	1.4	1.1	0.3	33.1
Kernel Holding...	KER PW	Warsaw	46.28 PLN	-1.8	+7.6	-3.8	+57.7	11.59	923.4	1,305.3	58.8	542.7	1,690.2	2,233.2	0.50	199	8.6	4.8	4.6	3.3	3.8	3.8	0.6	0.6	0.5	1.0	31.6
KSG Agro	KSG PW	Warsaw	0.90 PLN	+0.0	-7.2	-3.2	-21.1	0.23	3.4	66.7	34.4	1.2	0.8	7.8	0.19	523	Neg.	N/A	N/A	6.6	N/A	N/A	2.1	N/A	N/A	N/A	67.4
MHP	MHPC LI	London Intl	8.50 USD	+0.6	-8.2	-8.6	-6.6	8.50	898.2	2,070.8	22.3	200.5	33.5	357.6	0.32	309	Neg.	4.1	3.5	3.7	4.2	4.4	1.5	1.6	1.6	1.3	53.0
Milkiland	MLK PW	Warsaw	1.44 PLN	+0.7	-4.0	+1.4	-15.3	0.36	11.3	126.3	20.0	2.3	0.4	41.2	0.34	293	Neg.	Neg.	Neg.	9.2	25.1	10.9	0.4	0.6	0.5	0.1	42.5
Ovostar Union	OVO PW	Warsaw	87.01 PLN	+0.0	-2.2	-3.9	+19.2	21.79	130.7	140.4	25.0	32.7	0.3	23.9	0.00	25,078	5.2	5.7	6.1	4.8	5.5	5.1	1.8	1.9	1.4	1.6	9.4
CONSTRUCTION																											
TMM	TR61 GF	Frankfurt	0.03 EUR	+0.0	-63.5	-55.7	-56.9	0.03	1.8	94.6	13.1	0.2	0.0	0.7	1.41	71	Neg.	N/A	N/A	Neg.	N/A	N/A	3.6	N/A	N/A	0.0	41.9

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

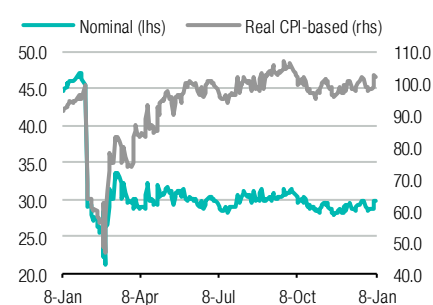
UAH briefly touches 23/USD

At the start of the year, the hryvnia was as high as 23.35/USD over the past week as prices on Ukrainian sovereign eurobonds rose in value (the bond due in 2019 was up 1ppt to 94 percent and the bond due in 2027 rose 2ppt to 89 percent) in reaction to news at the end of last week. Namely, German Chancellor Angela Merkel announced to German businesses suffering from EU sanctions on Russia that the Minsk 2 agreement would be fulfilled in a few months, thus ending sanctions that have been imposed on Russia. In our view, this market response is overly optimistic. Friday's jobs report on the US labor market was positive with 252,000 new jobs added in December and the unemployment rate remaining stable at 5%. Although the USD rose in reaction, enthusiasm cooled as real economic data in 4Q15 signaled a real GDP growth rate coming in below 1% rather than the previously expected 2%. The dollar index finished the day at 98.54 points, up 0.33% from the previous day, while the 10-year US Treasury note saw its yield decline to 2.1% on Friday. The Russian ruble was largely flat last Friday while the euro was down 0.09% while the hryvnia's trade weighted index was up 0.15%. The hryvnia's trade weighted index showed that its market exchange rate is overvalued by 10% (see Chart 15, p.7), implying a fair value rate of 25/USD now. Going forward, fundamentals are against a strong hryvnia. Hence, more weakness is ahead this year.

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ICU's UAH trade-weighted indices

(Last 12-month history to 11 Jan 2016)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 8 Jan 2016)

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

USD/UAH MARKET (HRYVNIA per US DOLLAR)

Spot mkt	23.3500	+0.00	-2.69	+0.45	-2.82
NBU avg	N/A	N/A	N/A	N/A	N/A
Ttl vlm ¹	N/A	N/A	N/A	N/A	N/A
\$ volume ²	N/A	N/A	N/A	N/A	N/A
NDF 3M	27.1060	+0.33	+0.00	+11.98	+0.00
NDF 6M	27.6060	+2.82	+12.70	+10.06	+0.28
NDF 1Y	28.3560	+2.74	+11.22	+0.82	+11.22

TRADE-WEIGHTED INDICES (TWIs, points)

UAH nom'l	29.762	+0.15	+3.90	+1.91	+4.08
UAH real CPI	101.823	+0.15	+3.90	+1.91	+4.08
UAH real PPI	133.879	+0.15	+3.90	+1.91	+4.08
USD nom'l	98.540	+0.33	-0.14	+0.02	-0.09

FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs

USD/RUB	74.7475	-0.03	+3.07	+7.82	+3.07
EUR/USD	1.0922	-0.09	+0.61	+0.54	+0.55
USD/CNY	6.5948	+0.03	+1.56	+2.75	+1.56
USD/PLN	3.9969	+0.53	+1.28	+0.44	+1.89
USD/TRY	3.0201	+0.70	+3.38	+3.61	+3.53
USD/BYR	18,741.00	+0.10	+0.93	+2.38	+0.61
USD/KZT	352.1500	+2.01	+3.39	+14.30	+3.39

OTHER MAJOR CURRENCIES

USD/JPY	117.2600	-0.35	-2.73	-4.74	-2.46
GBP/USD	1.4517	-0.69	-1.55	-3.55	-1.49
USD/CHF	0.9948	+0.15	-0.66	-0.44	-0.73
AUD/USD	0.6953	-0.84	-4.79	-3.84	-4.57
USD/CAD	1.4172	+0.40	+2.29	+4.87	+2.41
USD/BRL	4.0248	-0.48	+1.62	+6.01	+1.62
USD/KRW	1,197.84	-0.21	+2.16	+1.64	+1.94

COMMODITIES

Gold(\$/oz)	1,104.05	-0.45	+4.02	+2.77	+4.02
WTI crude ³	33.16	-0.33	+0.00	+0.00	-10.48
Brent crd ³	32.05	-1.20	-11.32	-20.41	-10.35
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	168.58	+0.02	-4.30	-4.97	-4.30

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.

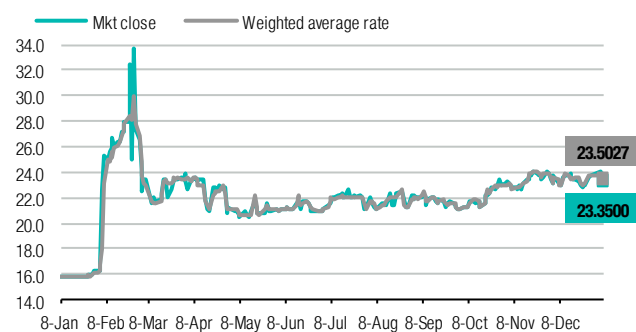
Sources: Bloomberg, Investment Capital Ukraine LLC.

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>).

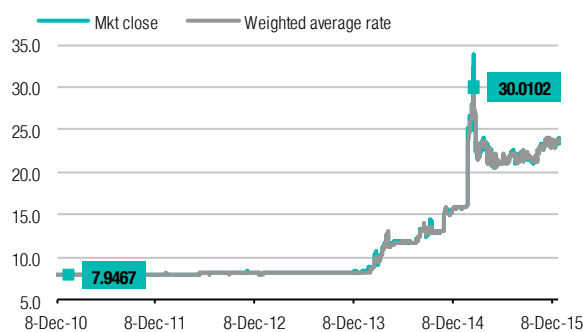
Section on FX market is continued on next page.

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)

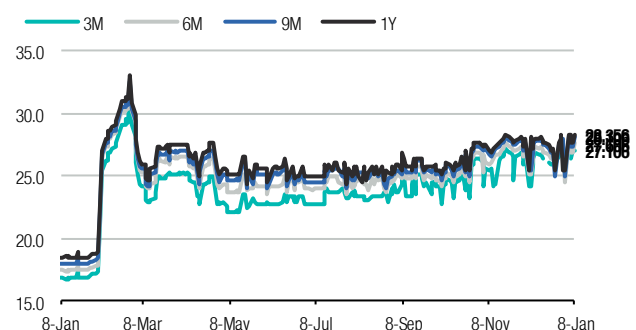


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

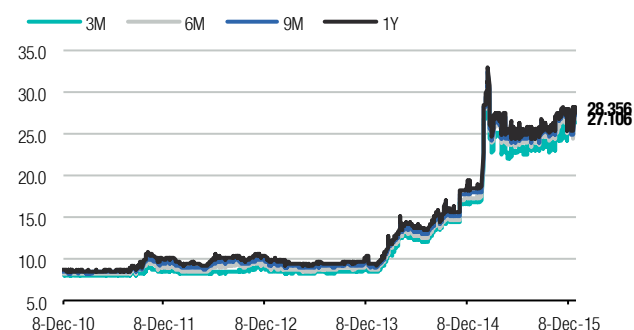


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

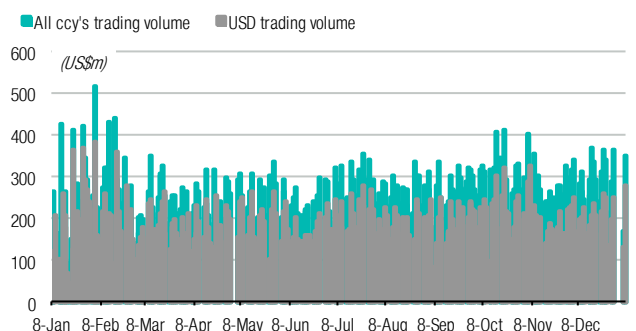


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

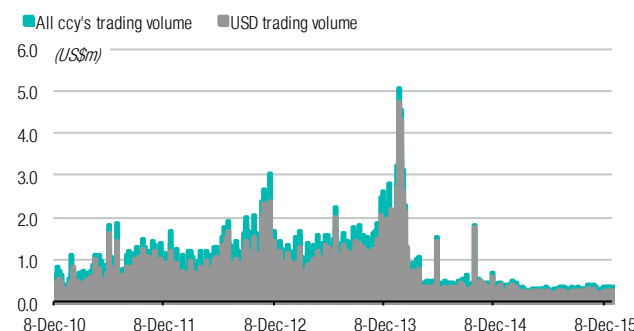


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

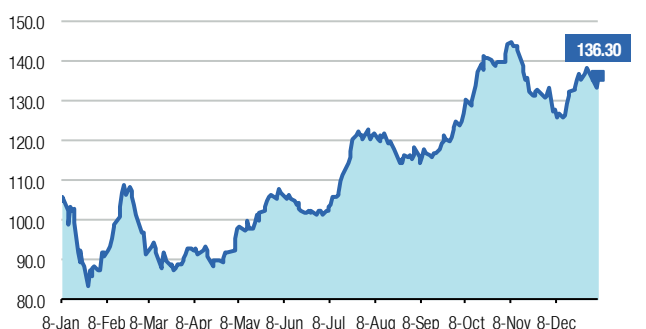


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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)



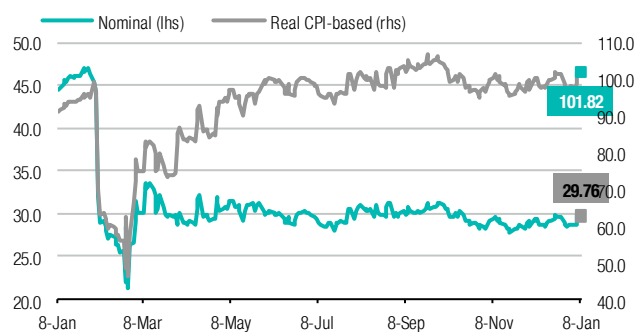
Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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

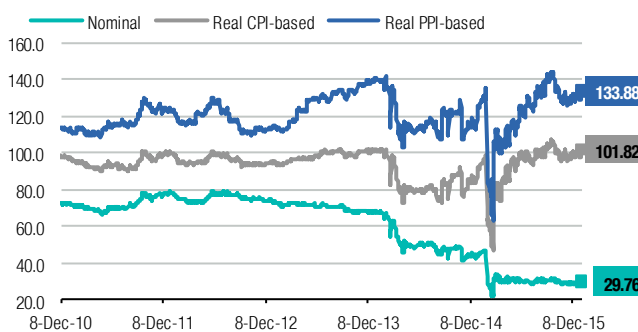
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology (for more details visit <http://www.icu.ua/en/research/currency-indices>).

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



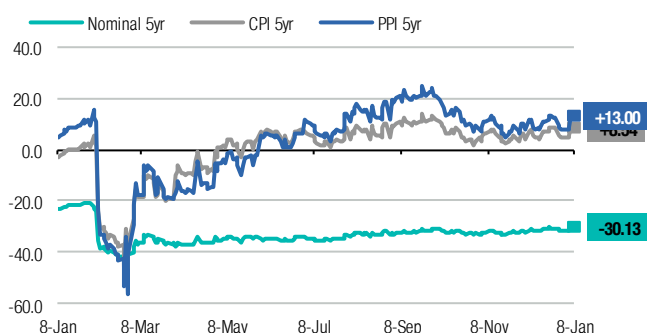
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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

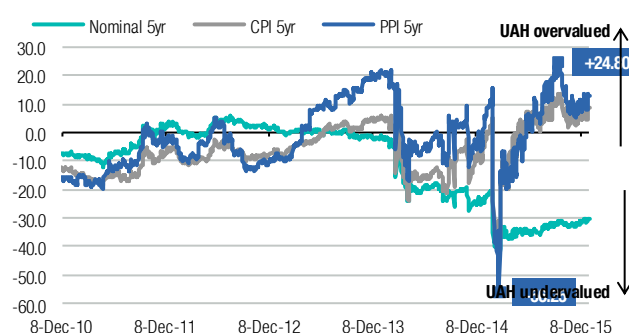


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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)

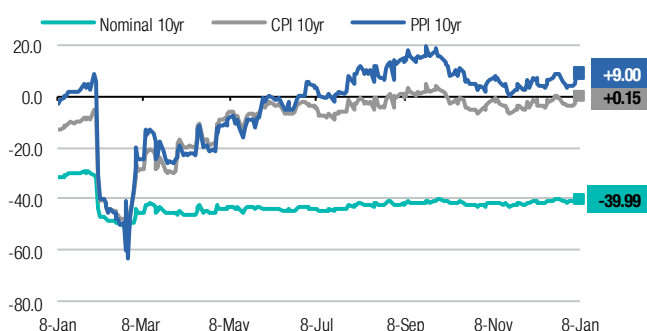


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

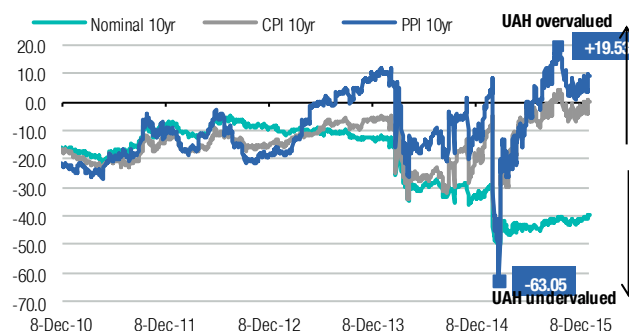


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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

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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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