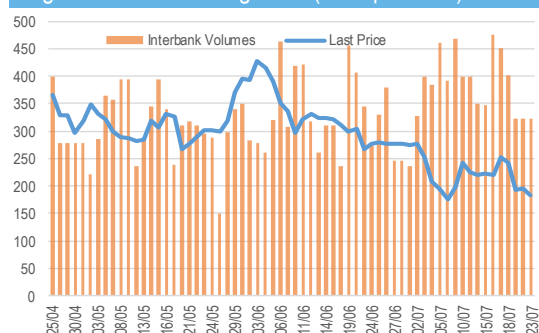


	Rating	Outlook	Last update	This week in focus: Presidential party gets a majority in the Rada
Fitch	B-	STABLE	08.03.2019	On 21 July, parliamentary elections were held in Ukraine, with results evidencing the presidential party Servant of People to seize an outright majority in the Rada. If the new ruling party policy be no less systematic than its landslide election campaign, this might trigger delivery of highly expected reforms.
S&P	B-	STABLE	12.04.2019	
S&P (N)	uaBBB	-	12.04.2019	
Moody's	Caa1	STABLE	21.12.2018	

Figure 1. UAH exchange rate (UAH per USD)



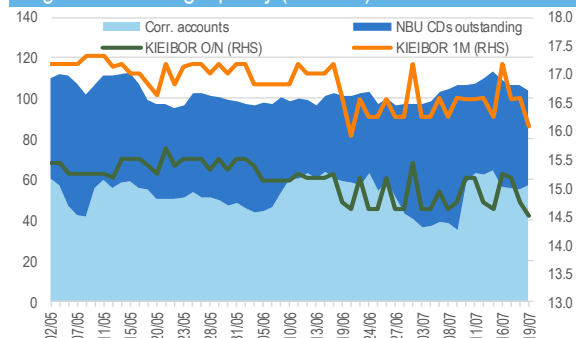
FX and interest rates: UAH recovers after decline below 26 vs the USD

The last week have been fruitful for the Ukrainian currency, with the USD/UAH pair bounced off to 25.65 mark (by the end of July 23). The hryvnia was boosted both by seasonal factors and general improvement in market sentiments on early results of the parliamentary elections.

As it is usual for height of harvesting campaign, a stable source of fresh foreign currency (FX) on the market was provided by large agricultural exporters. This supply was also supported by local purchases of hryvnia for follow-up salary repayments by other export oriented companies, notably from IT sector.

Market was also positively responding on the signs the presidential party to consolidate the majority in the Rada, hoping on decreasing of political instability, and improvement of economic conditions and hryvnia expectations.

Figure 2. Banking liquidity (UAH bn)



As in the first half of the last week hryvnia was struggling, the NBU performed little activity in the market, with total amount of FX interventions decreased to USD40mn per week from USD138.5mn.

Later in the current week, the hryvnia is expected to continue following an upward trend on the back of strong FX supply from both exporters and foreign investors. Induced by speculations about upcoming nominations to the government, non-residents might be willing to increase their investments in local government bonds.

Banking system liquidity declined by 5.3% to UAH104bn (by the end of Friday, July 19) with funds on banks' correspondent accounts at the central bank decreased by 8.23% to UAH57.3bn and investments in CD's fell by a marginal 1.44% to UAH46.6bn. The change was due to repayment by some banks of refinancing loans to the NBU in amount of UAH7.5bn while autonomous factors largely counter balanced each other.

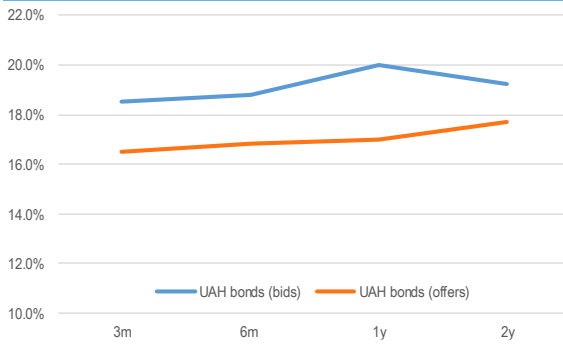
Figure 3. Correspondent account balances (UAH bn)



After the NBU has cut its key rate to 17% on July 18, cost of interbank funds reacted correspondingly, with KIEIBOR overnight rate (O/N) fell to year low at 14.5% and 1m rate declined to 16.08% (by the end of Friday, July 19).

Looking forward, we expect further decline of liquidity in the system. The state company Naftogaz just recently reported on transferring dividends to the state budget in amount of UAH8.2bn. As a result, amount of funds on correspondent accounts declined by the end of Tuesday (July 23) to UAH50.8bn, below the required reserves level at UAH51.6bn.

Figure 4. Local UAH bonds market



Government bond market

CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size, mn	Placement size, mn
UAH	3m	16.63%	16.63%	17.00%	16.50%	15	13	373.08	367.76
UAH	6m	16.73%	16.68%	17.40%	16.63%	25	10	1 676.20	500.00
UAH	1y	16.99%	16.99%	17.74%	16.99%	54	26	3 004.51	500.00
UAH	3y	16.55%	16.44%	16.75%	16.16%	49	46	5 483.44	5 408.44

FinMin turned to more aggressive reduction in cut-off rates at the primary auction on July 23 after the NBU softened its monetary policy last week. Compared with previous auction, the biggest cut was seen in yields of 1y bonds – by 75bps, and 6m tap – by 63bps, while yields of 3m and 3y securities declined by 37bps and 20bps respectively.

Moreover, **the ministry has lowered the offer limit for 1y bonds** to the threshold for 6m securities at UAH500m. As a result, FinMin has "sacrificed" demand at UAH3.38bn.

There was also notable demand spillover from short-term securities to more yielding mid- and long-term ones, with total number of applications submitted 15 for short-term bonds vs over 100 bids for mid and long-term ones. This might serve as an early signal of yields approximation to a level, where resistance to further sharp rates cuts can be encountered.

Upon the totals of the auction, the ministry attracted UAH6.95bn compared to UAH7.41bn (excluding FX-denominated bonds) a week earlier and UAH6.01billion two weeks earlier.

Figure 5. Local USD bonds market

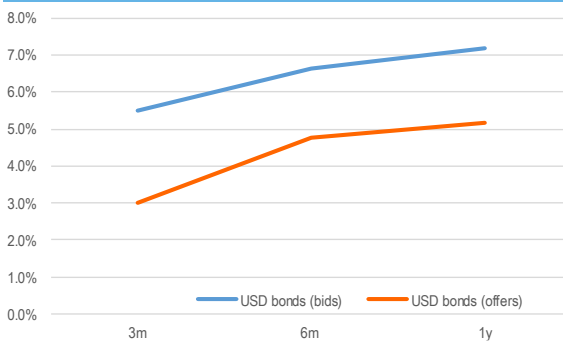
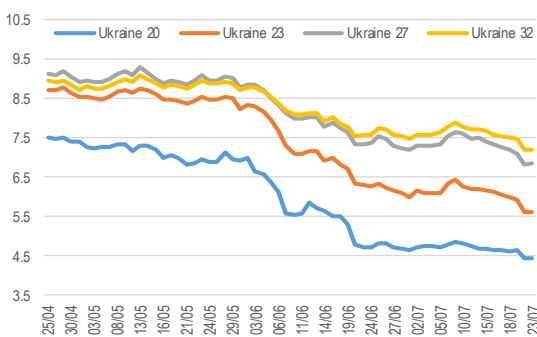


Figure 6. Ukraine's Eurobond yields, bid/ask mid (%)



Key central banks' meetings in coming weeks in focus

The U.S. dollar approached year's tops against the euro and remain well supported by the fact that investors continue scaling back expectations about rate cut by the Fed at its upcoming monetary policy meeting on July 30-31 and increasing expectations about easing policy by the ECB on its policymakers meeting later this week.

Investors expect ECB President Mario Draghi could lower its key deposit rate in order to mitigate risk of global trade tensions and sub-par regional inflation. Besides, they anticipate the ECB also signal about a fresh round of quantitative easing.

On top of that the greenback was deriving extra support after Washington reached a deal on Monday (July 22) to lift government borrowing limits to cover spending.

By the end of Tuesday (July 23) the greenback was at 1.1143 against the euro.

The benchmark 10-year U.S. treasury prices followed the EUR/USD pair trend during the last week, with the yield on the note, which moves inversely to price, fell to 2.055% by the end of July 23.

While awaiting for the key central banks' meetings, markets are also reacting to fresh optimism on trade, after media reported that U.S. negotiators will head to China next week for face-to-face talks, as the two economic powerhouses seek a resolution to their ongoing trade war.

Figure 7. EUR USD spot (mid)

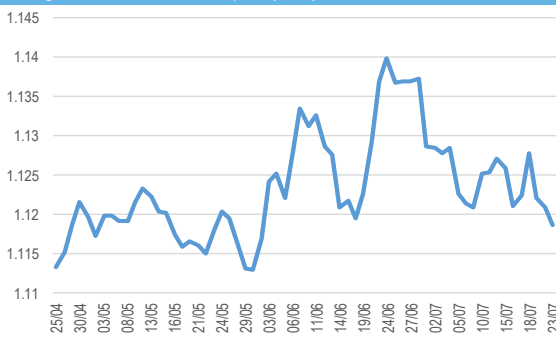










Figure 8. Distribution of powers in the Rada

	Popular vote	PR seats	FPTP seats	Total seats
 Servant of the People	43.17%	124	130	254
 Opposition Platform – For Life	13.01%	37	6	43
 European Solidarity	8.18%	24	2	26
 Batkivschyna	8.11%	23	2	25
 Holos	5.83%	17	3	20
 Others			10	10
 Self-nominated candidates			46	46
 Vacant seats				26

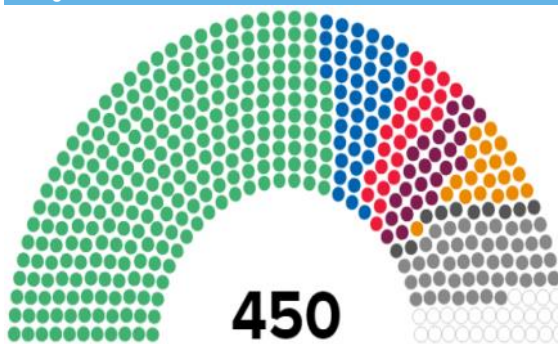
Presidential party gets a majority in the Rada

On 21 July, parliamentary elections were held in Ukraine, with results evidencing the presidential party Servant of People in the lead. The Central Electoral Commission (CEC) is set to publish the official results within 10 days (by July 31st).

Voting was conducted in a transparent and professional manner, according to international observers' statements, suggesting a low risk of subsequent challenging its legitimacy, except for elections in a few single-mandate districts.

A historical precedent of single-party majority: With more than 99% of votes processed by late Tuesday, the presidential party managed to seize an outright majority in the new parliament, securing some 250 members of parliament (MP) of the 450 seat chamber.

Figure 9. Distribution of seats in the Rada



...and single responsibility: Having cemented their power, the new authorities have stood face-to-face with a social demand for reforms, with little room for excuses if it fails to fulfil the expectations. While the party Servant of the People has brought many newcomers to the parliament, some of which has no legislative experience, it relies on its organizational abilities. It is where a memorandum for personal voting and commitment to party's principles, announced by its leader in late June, can provide the necessary unanimity. Though format of the document does not imply a due obedience, it would be difficult to break the agreement and leave the party for the prospect of repeated disbanding of the Rada (for a reason of no coalition). If the winning party manage build unanimity among its members, this might render good results in terms of swift reforms progress.

Alliances still possible. Despite strong representation, we don't rule out alliances with other parties. Both the president and the party's chief have shown their sympathy to the Holos team. In addition to the four other parties, that have met 5% threshold to be represented in the Rada, there will be up to 50 self-nominated candidates in the parliament. If common understanding among parties is found, this might open the door for addressing constitutional majority issues, including land reform.

Technocratic government is the first benchmark of policy sustainability: Arguably, a new team already has a view about distribution of ministerial posts, taking into account recent public bold commitment by president Zelensky of formation of professional technocratic government. If come true, this will create a sense of momentum to prompt resumption of negotiations with the International Monetary Fund. Though there were speculations in the mass-media about candidates to hold the office of the prime minister, so far the winning party did not submit its short-list of nominees.

Further expected developments. According to the Constitution, once the Rada is formed, the parties will have 1 month to build a coalition. Once a coalition of 226 MPs is formed, it nominates the prime minister and the government for the president's consideration, which then needs to be approved by the parliament. We expect a new parliament will go ahead of these deadlines with a high chance a new government to be appointed within a few weeks after official announcement of results.

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2013	2014	2015	2016	2017	2018	2019E	2020F
Real sector								
Real GDP (%YoY)	0.00	-6.60	-9.80	2.30	2.50	3.30	2.70	3.00
Industrial production (%YoY)	-4.30	-10.70	-6.00	2.40	-0.10	1.60	0.00	1.20
Retail sales (%YoY)	6.10	-11.00	-25.00	4.00	8.80	6.10	5.00	4.00
Unemployment rate end of year (ILO, working age)	7.70	9.70	11.50	9.30	8.70	8.50	8.50	8.40
Nominal GDP (UAH bn)	1466	1587	1980	2383	2983	3393	3830	4321
Nominal GDP (USD bn)	183.50	133.70	91.20	93.10	112.10	125.00	134.40	141.50
Prices								
CPI (average %YoY)	-0.20	12.10	48.70	16.50	14.40	10.50	9.20	8.10
CPI (end of year %YoY)	0.50	24.90	43.30	12.40	13.70	9.80	8.50	7.20
Real average wage growth (%YoY)	8.20	-6.50	-35.00	10.00	18.90	9.70	8.00	6.00
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	4.20	4.90	2.30	2.90	1.60	2.40	2.40	2.30
Total public debt	39.90	69.40	79.40	81.00	71.80	61.00	60.00	61.00
External balance								
Exports of goods and services (USD bn)	81.70	65.40	47.90	46.00	54.00	59.00	61.50	63.70
Imports of goods and services (USD bn)	97.40	70.00	49.60	51.80	60.80	70.50	74.30	76.80
Current account balance (USD bn)	-16.50	-4.60	1.60	-1.30	-2.40	-4.70	-4.70	-4.80
Current account balance (% of GDP)	-9.00	-3.40	1.80	-1.40	-2.10	-3.30	-3.50	-3.40
Net FDI (USD bn)	4.10	0.30	3.00	3.40	2.30	2.50	2.30	2.40
Foreign exchange reserves (end of year)	20.40	7.50	13.30	15.50	18.80	20.80	19.50	20.50
Imports coverage (months of imports of goods)	2.90	1.50	4.40	3.70	3.60	3.40	3.30	3.30
Interest and exchange rates								
NBU discount rate (% end of year)	6.50	14.00	22.00	14.00	14.50	18.00	16.00	13.00
Exchange rate (UAH/USD) end of year	8.20	15.80	24.00	27.20	27.95	27.70	28.50	30.50
Exchange rate (UAH/EUR) end of year	11.30	23.00	26.20	28.30	33.50	31.80	33.60	36.30



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