



# Fixed Income Weekly

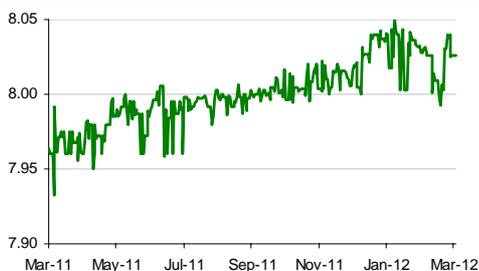
March 12, 2012

Ukraine Economy | Interest Rate Strategy | FX Strategy

	Today	Week ago*	Change
<b>Global indicators</b>			
UST 2Y, %**	0.31	0.28	3
UST 10Y, %**	2.02	1.94	7
LIBOR 3M, %**	0.47	0.47	0
EURIBOR 3M, %**	0.89	0.92	-3
Oil (Brent), USD	125.49	121.98	3.51
Baltic Dry (BDIY, pts)	824	787	37
<b>Sovereign risk</b>			
CDS 1Y bp	546	594	-48
CDS 5Y bp	768	793	-25
Ukraine 13, YTM%**	8.7	7.8	86
Ukraine 16, YTM%**	8.8	8.9	-11
Ukraine 20, YTM%**	9.6	9.6	1
<b>Currency</b>			
USDUAH	8.0255	8.0381	-0.0126
EURUSD	1.3106	1.3112	-0.0006
NDF 1M outright	8.11	8.0925	0.01
NDF 6M outright	8.56	8.53	0.03
NDF 12M outright	9.5	9.45	0.05
12M NDF Implied Yld%	18.9	18.5	0.41
<b>Local interest rates</b>			
KievPrime, O/N %	3.13	1.24	1.89
KievPrime, 1M %	12.35	12.69	-0.34
Wide interbank rate, % (UKIRAWIR)	5.1	5.1	0.00
1Y OVDP, YTM % (bid)	15.00	15.00	0.00
VAT bonds, YTM % (bid)	17.50	17.50	0.00
Liquidity, UAH bn	19.09	20.7	-1.61

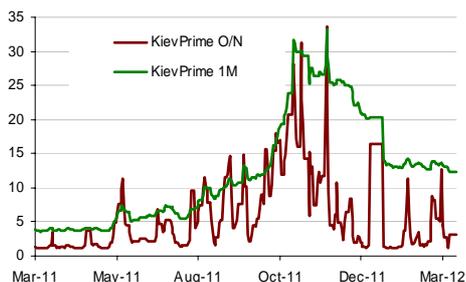
\*Change over the last 7 calendar days; \*\*change in bp

## USD/UAH Spot



Source: NBU

## KievPrime O/N and 1M



Source: Bloomberg

- Sufficient majority of Greece's private creditors has agreed to a bond swap
- Ukraine's president announced social spending ahead of the elections in Oct 2012
- Ukrainian Eurobonds were virtually stable
- UAH spot rate recovers, NDFs slightly weaker
- Government collects UAH 2.5bn on regular auction

### Sufficient majority of Greece's private creditors has agreed to a bond swap

Sufficient majority of Greece's private creditors has agreed to a bond swap, thus avoiding the largest-ever sovereign-debt default and the first for a Western European country in half a century. Asked to take part in the restructuring, covering EUR206 bn (\$273.46 bn) of debt, **holders of 83.5% of bonds agreed.** Collective-action clauses boosted the participation to EUR197 bn, or 96% of the total, triggering credit default swaps. Greece should get its second bailout, and the threat it has posed to global markets should decline. At the same time, credit event on Greece triggered payouts on \$3.2 bn of insurance-like contracts covering Greek sovereign debt.

Following news on Greece, yields of 10 yr Spanish and Italian bonds have dropped below 5%, providing further relief to markets. Medium Portuguese bonds remain in distress area, yielding well above 10% as investors seek to access the probability of second sovereign restructuring in Eurozone.

### Ukraine's president announced social spending ahead of the elections in Oct 2012

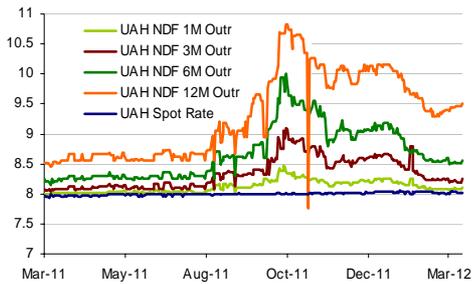
Ukrainian President V. Yanukovich made an important statement last week, prescribing the government to increase pensions by UAH100 and provide one-off compensation of UAH1000 to roughly 6 million of (Soviet) Sberbank depositors who lost their savings. This is the first aggressive move towards increased social spending, costing Ukrainian budget UAH16 bn (according to government official). **Implementation of this move would require changes into State Budget Law for 2012 and add roughly 1% to this year budget deficit.**

### Ukrainian Eurobonds were virtually stable

Following amazing rally in February fuelled by ECB liquidity injection and global risk-on attitude, Ukrainian Eurobonds were virtually stable across the curve. **Ukraine's CDS continue to decline**, recording another 50 b.p. w/w movement for 1yr contract (to 546 b.p.) and a slide of 25 b.p. (to 768 b.p.) for 5Y term. **Albeit newsflow is very supportive for CIS debt, large number of country-specific issues keep potential Eurobond investors on the sidelines for now.**

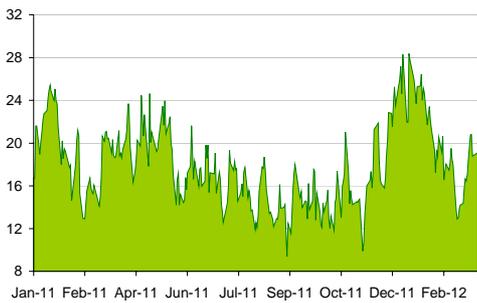


**NDF outright rates**



Source: Bloomberg

**Banking System Liquidity, UAH bn**



Source: NBU, UkrSibbank

**Primary auctions schedule**

	UAH	USD-linked	USD
01.03.2012	6M, 12M, 2Y,3Y	3Y	
06.03.2012	3M, 12M, 2Y		1.5Y,3Y
13.03.2012	12M, 2Y		1.5Y,3Y
15.03.2012	6M, 12M, 2Y, 3Y		
20.03.2012	3M, 12M, 2Y		1.5Y,3Y
22.03.2012	6M, 12M, 2Y, 3Y		
27.03.2012	6M, 12M, 2Y		1.5Y,3Y
29.03.2012	6M, 12M, 2Y,3Y	3Y	

Source: MinFin

**Primary auctions results, Mar 6**

# of Auction	88	84	85	86	87
ISIN (short)	136295	136824	134936	136832	133771
Currency	UAH	UAH	UAH	USD	USD
Maturity (days, M, Y)	3M	12M	2Y	1.5Y	3Y
Cut-off yield	12,75%	14,50%	15,00%	9,30%	-
Weighted average yield	12,36%	14,50%	15,00%	9,27%	-
Highest bid	11,95%	14,50%	15,00%	9,00%	8,50%
Lowest bid	13,00%	14,75%	15,00%	9,30%	8,50%
Bids submitted, mn	768	60	800	114	1,06
Number of bids	26	2	2	4	2
Number of bids accepted	23	1	2	4	0
Bids accepted, mn	750	50	800	114	0
Amount raised, mn	729,3	43,7	809	114	0

Source: MinFin

**UAH spot rate recovers, NDFs slightly weaker**

There is not much to say on UAH spot market since banks were closed for holidays Thu and Fri last week and trading on Wed was dull due to pre-holiday period. UAH has slightly recovered from 8.04 to 8.025 against backdrop of lower demand for foreign currency.

NDF rates were slightly weaker across the board, with little activity last week. 1Y implied yield was at 18.9% (17.75/20%). 3M

**NBU has published monthly statistics of FX market. Private individuals remained the net buyer of foreign currency** (\$1.44 bn bought vs \$1.07 bn sold), displaying negative balance of -\$0.37 bn. Net purchases of FX by population have been declining (after reaching its peak of -\$2.1 bn in Sep 2011) over the last months against the backdrop of improved local currency outlook.

**Ukraine's international reserves were down to \$31 bn**, contracting by \$316 mn. The decrease in reserves was moderate, especially considering the fact that Ukraine faced ca. \$660 mn worth of redemptions and debt service of IMF loan last month. Monthly interbank volume stood at \$28.870 bn indicating deep and vivid FX market. **Net volume of FX interventions by central bank fell to \$113.5 mn (0.4% of total FX turnover)**, with regulator being virtually absent on FX market.

**Government collects UAH 2.5bn on regular auction**

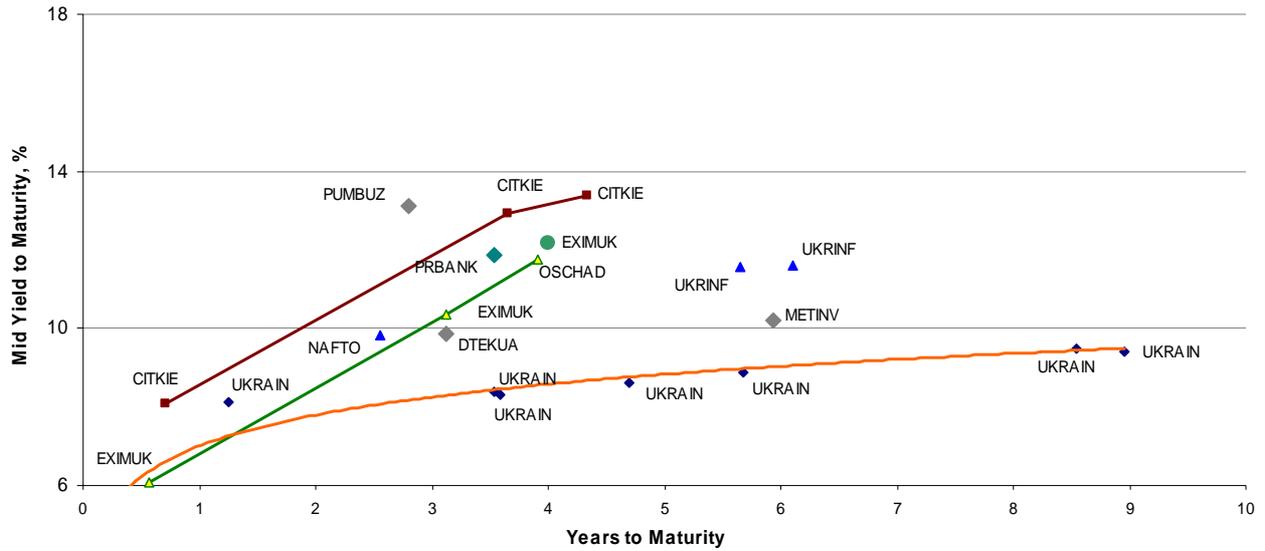
**In a pre-holiday auction government plugged in a vacuum cleaner attracting equiv. of UAH 2.5 bn at par.** Minfin accepted 23 of 26 bids on the short end of the curve (3M bills), cutting at 12.75% and attracting UAH 750 mn at par. It also satisfied one of two bids for 1Y at 14.5% (UAH 50 mn) and both bids for 2Y note at 15% (UAH 800 mn). Provided significant volume of bids for 2Y note we think that buyers could be state related entities. 1.5Y \$OVDP note received \$114 mn in 4 bids, all of them were satisfied.

**The next government bond auction to be held on Mar-13 is expected to be boring** since demand for 1Y and 2Y UAH bond is moderate in best case. Some action is to take place in \$OVDPs segment where most popular 1.5Y bond shall be offered.

**We expect a lot of action on Thu May 15<sup>th</sup>**, although demand shall be shadowed by large volumes of placement in 3M note last week. **Some dramatic yield changes to favor of MinFin are unlikely**, since government injected too many short-term paper to the market.

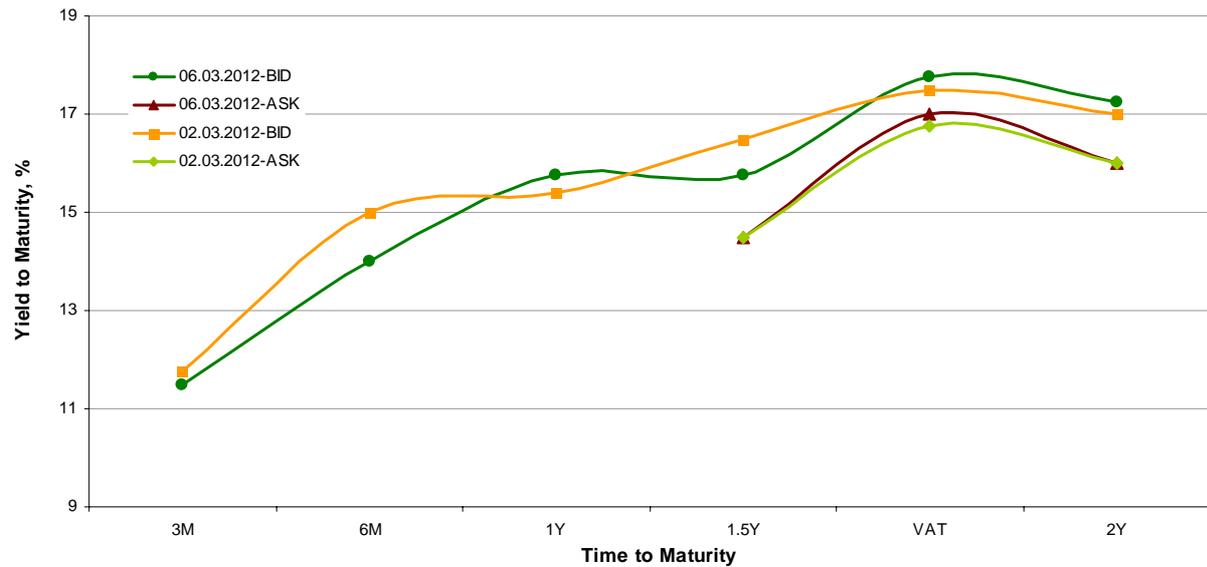


**Ukrainian Eurobonds – yield map**



Source: Bloomberg

**Secondary market for UAH OVDPs**



Source: traders' quotes

**Selected Ukrainian local bonds, sovereign and corporate**

ISIN	Maturity	Time to maturity	Bid Yield	Ask Yield	YTM
UA4000101018	13.06.2012	93	13.50%	11.00%	YTM
UA4000061451	31.10.2012	233	14.30%	-	YTM
UA4000118871	30.04.2013	414	17.25%	16.00%	YTM
VAT II-IV	Aug-2015	3Y6m	17.50%	17.00%	YTM
UA4000134431 (USD)	06.03.2013	359	9.00%	-	YTM
Boryspil G series	13.11.2012	246	19.00%	15.75%	YTM
Sberbank of Russia (Ukraine)	18.01.2013	312	19.00%	17.90%	YTM
Prominvestbank B series	25.02.2013	350	19.00%	18.00%	YTM
Procreditbank G series	14.05.2013 (put)	428	23.00%	18.00%	YTM

Source: traders' quotes



**Ukrainian sovereign Eurobonds, YTM (%)**



Source: Bloomberg

**Credit default swaps**



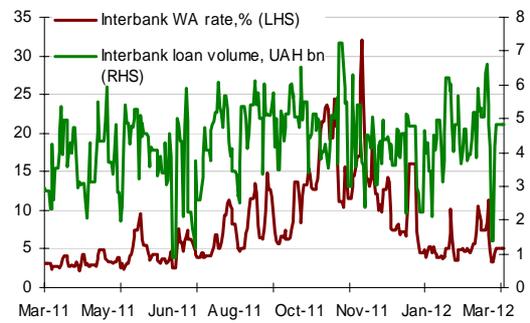
Source: Bloomberg

**UAH vs other currencies, spot**



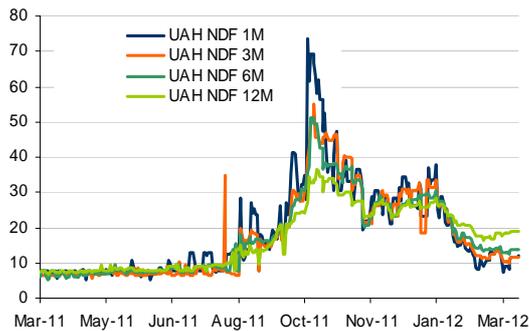
Source: Bloomberg

**Interbank volume and rates**



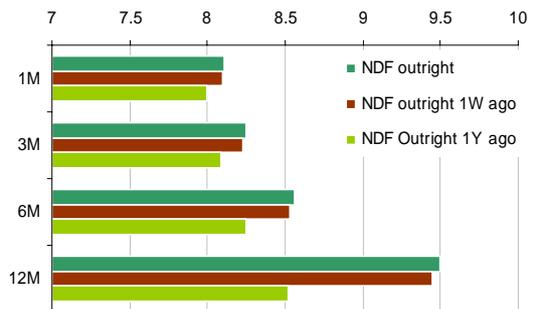
Source: Bloomberg

**UAH NDF implied yields**



Source: Bloomberg

**UAH NDF changes – outright rates**



Source: Bloomberg



**OVDP redemptions in 1H 2012 (principal + interest), UAH mn**

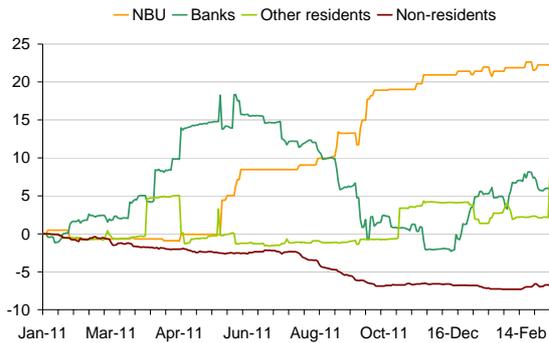
	7-Mar	14-Mar	21-Mar	23-Mar	28-Mar	4-Apr	11-Apr	18-Apr	20-Apr	25-Apr	2-May	3-May	9-May
Local UAH mn	1638	1123	2489		1084	1020	1735	796		162	654		122
Foreign USD mn				75					26			24	

	14-May	16-May	21-May	23-May	30-May	5-Jun	6-Jun	11-Jun	13-Jun	17-Jun	20-Jun	26-Jun	27-Jun
Local UAH mn		2673		171	196	12	452		2663		1471		231
Foreign USD mn	24		33					38		39		516	

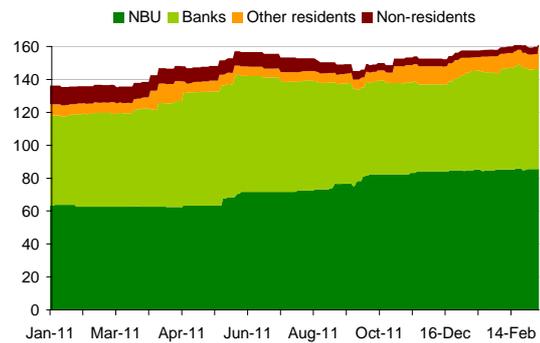
Source: MinFin, UkrSibbank

**OVDPs change in holdings, UAH bn**



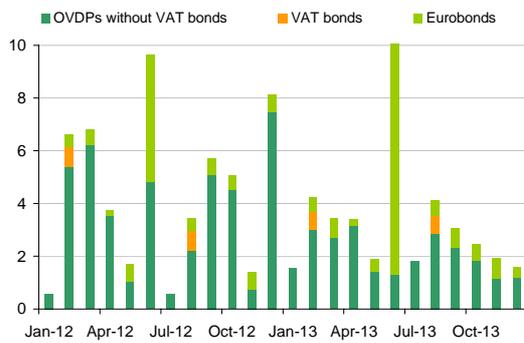
Source: NBU, UkrSibbank's calculations

**OVDP in circulation structure, UAH bn**



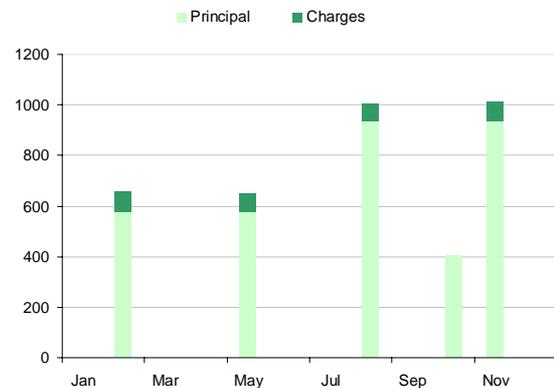
Source: NBU

**Payments to bond holders, UAH bn**



Source: MinFin, UkrSibbank's calculations

**Payments to IMF, USD mn**



Source: IMF



Key macroeconomic indicators

Base case scenario

	2009	2010	2011E	2012F	2013F
<b>Business Cycle</b>					
Real GDP growth (%)	-15.1%	4.2%	5.2%	3.8%	4.0%
Nominal GDP (UAH bn)	913	1095	1314	1514	1732
Nominal GDP (\$bn)	117	138	164	187	182
GDP per Capita (at F/X rate; \$)	2538	2998	3591	4099	4025
Real Industrial Output (% y/y)	-21.9%	11.2%	7.7%	3.5%	4.0%
<b>Prices</b>					
GDP Deflator	113.0%	115.0%	112.0%	111.0%	110.0%
CPI	112.3%	109.1%	104.6%	109.9%	115.0%
PPI	114.3%	118.7%	116.4%	111.5%	108.0%
<b>Public Finance</b>					
Revenues	210	241	315	337	364
Expenditures	242	304	333	370	410
Budget balance (% of GDP)	-4%	-6%	-1.8%	-2.2%	-2.7%
Budget deficit (UAH bn. "-" is deficit)	-33	-64	-24	-33	-46
Total Public Debt (USD bn)	40	54	59	63	66
Total Public Debt (% of GDP)	34%	39%	36%	34%	36%
Gross External Debt (USD bn). e-o-p	103	117	127	132	140
Gross External Debt (% of GDP)	88%	85%	77%	71%	77%
<b>External Balances</b>					
Exports (USD bn)	40	52	69	70	74
Imports (USD bn)	45	61	83	83	79
Merchandise trade balance	-4.3	-8.4	-13.8	-13.2	-5.3
Services Trade Balance (USD bn)	2.4	4.4	4.6	4.7	4.7
Current Account Balance (USD bn)	-1.7	-2.9	-9.3	-8.7	-1.1
Current Account Balance (% of GDP)	-1.5%	-2.1%	-5.7%	-4.6%	-0.6%
Capital and Financial Accounts Balance (USD bn)	9.9	7.9	6.8	5.8	8.0
Net FDI Inflow (USD bn)	4.7	5.8	6.6	4.0	7.0
Net FDI Inflow per Capita (\$)	101	125	144	88	155
Gross F/X Reserves (USD bn)	26.5	34.6	31.8	25.1	25.5
<b>FX</b>					
USD/UAH (rate; eop)	7.99	7.97	8.02	8.40	9.80
USD/UAH (avg.)	7.79	7.94	7.99	8.10	9.50

Source: UkrSibbank

	2010	2011	2012
Revenues, UAH bn	241	315	333
Expenses, UAH bn	304	333	358
Deficit, UAH bn	64	24	25
Recapitalisation borrowings, UAH bn	16	21	12
Privatisation, UAH bn	1	11	10
Debt redemptions, UAH bn	27	46	66
Borrowings, UAH bn	108	81	98
Net borrowings*, UAH bn	65	14	21

Source: Cabinet of Ministers of Ukraine. UkrSibbank

\*Borrowings less recapitalization borrowings less debt redemptions



## Contacts

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**François Girod**

Head of Capital Markets

(+38044) 537 5013. [francois.girod@ukrsibbank.com](mailto:francois.girod@ukrsibbank.com)

**Oksana Shveda**

Head of Investment Banking

(+38044) 201 2254. [o\\_shveda@ukrsibbank.com](mailto:o_shveda@ukrsibbank.com)

**Serhiy Yahnych**

Corporate Finance

(+38044) 585 0175. [serhii.yahnych@ukrsibbank.com](mailto:serhii.yahnych@ukrsibbank.com)

**Mykola Selekhman, CFA**

Trading and Brokerage

(+38044) 585 0120. [mykola.selekhman@ukrsibbank.com](mailto:mykola.selekhman@ukrsibbank.com)

**Alexey Litvinov**

Trading

(+38044) 201 2274. [oleksii.litvinov@ukrsibbank.com](mailto:oleksii.litvinov@ukrsibbank.com)

**Pavel Mishustin**

IB Services

(+38044) 585 0132. [p\\_mishustin@ukrsibbank.com](mailto:p_mishustin@ukrsibbank.com)

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