UKRAINIAN FIXED INCOME WEEKLY

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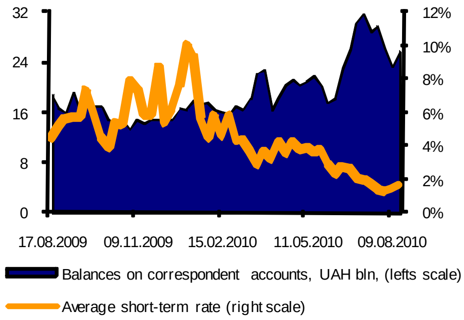
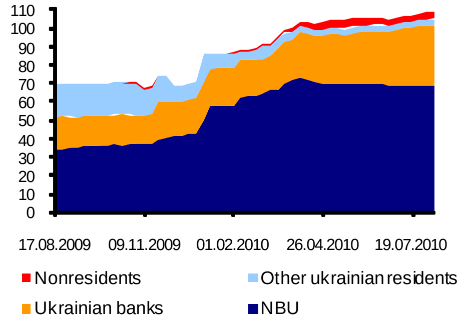
August 18, 2010

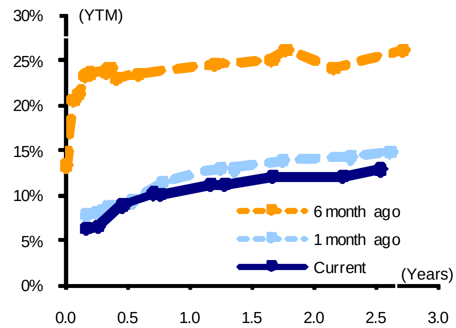
Interbank rates and liquidity on banks correspondent accounts



OVDPs holders. UAH bln



Sovereign yield curve shift



Liquidity

The commercial banks' balances on NBU correspondent accounts rebounded from the level of UAH 23 bln to the level of UAH 26 bln at the beginning of the current week. ***However we assume that the liquidity in the interbank market is going to squeeze within next few weeks since the lion's share of the excess funds were accumulated especially for VAT bonds purchases. The main implication for the market will exhibit in the gradual increase of basic rates.***

Last week we witnessed controversial dynamics in the interbank short-term rates. Overnight rate declined by 0.03 p. p. to 0.61%, but 1-week rate and 2-week rate added 0.03 p. p. and 0.10 p. p. respectively, signaling that short-term financing is going to become more expensive in the short run. This trend was confirmed by the average short-term rate which increased to 1.6% at the beginning of the current trading week.

Nevertheless the National bank of Ukraine announced it cuts its key rates by 0.75 p. p. after the appropriate action regarding discount rate. According to the NBU, the rate for loans secured by state bonds was lowered to 8.75%, and the rate for blank loans to 10.75%.

We await the pace of improvement of macroeconomic situation in Ukraine to slow down since August 2010 due to the change in global and domestic market conditions. Alongside with the narrowing of liquidity this can determine the toughening in the NBU monetary policy till the end of 2010.

Outlook: ***We think that it was the last time in 2010 when NBU announced the decrease of its rates. We forecast the expected second tranche of VAT bonds amounting to UAH 10 bln will absorb large share of free funds and will stipulate the surge of yields in the Ukrainian debt market.***

Major indicators

	16.08	09.08	Change.
Overnight	0.61%	0.64%	-0.03 p. p.
1-week	0.95%	0.92%	+0.03 p. p.
2-week	1.66%	1.56%	+0.10 p. p.
UAH/USD	7.89000	7.89020	0.00%
UAH/EUR	10.09841	10.39613	-2.86%
UAH/RUR	0.25937	0.26449	-1.94%

UFC fixed-income benchmarks

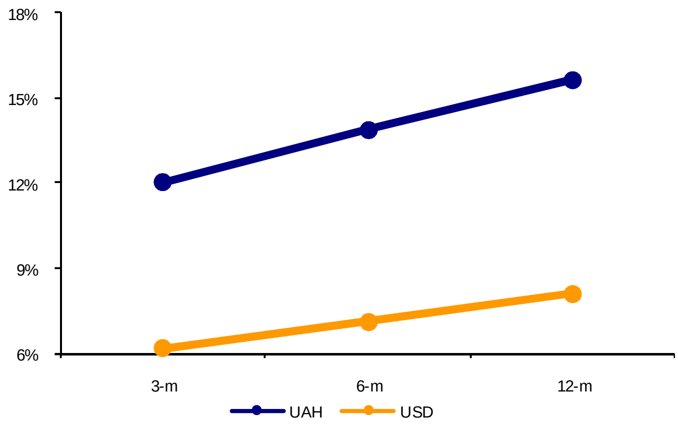
	18.08	11.08	Change
Corporate bonds	14.8%	14.8%	0.0 p.p.
Municipal bonds	17.2%	17.2%	0.0 p.p.
UFC UAH depo	13.8%	14.0%	-0.2 p.p.
UFC USD depo	7.1%	7.2%	-0.1 p.p.

Ukrainian bonds market: (09.08.2010-13.08.2010)

PFTS Ticker	Issuer	Coupon	Volume, UAH mln	YTM
76780	Ukraine, 27.07.2011	-	154.34	11.1%
63648	Ukraine, 26.01.2011	-	144.21	9.1%
63309	Ukraine, 13.10.2010	-	136.33	7.4%
53912	Ukraine, 11.04.2012	15.7%	92.61	17.6%
65403	Ukraine, 20.10.2010	-	33.06	7.2%
61725	Ukraine, 17.11.2010	-	31.53	7.7%
63564	Ukraine, 12.09.2012	20.0%	29.48	18.9%
64018	Ukraine, 20.02.2013	20.0%	11.26	17.9%
65213	Ukraine, 12.01.2011	-	9.65	9.1%
60883	Ukraine, 26.09.2012* (SP issue for Euro-2012)	20.0%	6.12	16.5%
IPOGLD	Galychyna, 1-D	15.0%	1.40	-
OMGBE	Megabank , 1-E	18.0%	1.00	33.0%
OMGBF	Megabank , 1-F	18.0%	1.00	21.0%
OHLPD	Khlibprom, 1-D	17.0%	0.32	-
IPVENA	Vena, 1-A	20.0%	0.18	-
OBSSTA	Business Standard Bank, 1-A	18.0%	0.06	-
OLGSFC	Logo Sfera, 1-C	10.5%	0.03	-
OLGSFB	Logo Sfera, 1-B	11.5%	0.03	-
OLGSFA	Logo Sfera, 1-A	20.0%	0.03	-

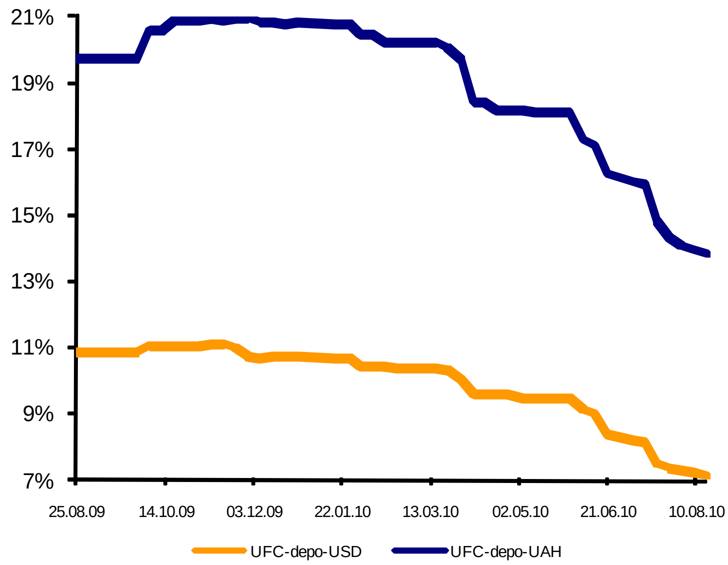
Depo rates

UAH depo/USD depo yield curve



Banking sector is still enjoying the excess of free funds in the interbank market as well as inflow of funds from the clients. Last week the UFC-depo-UAH broke through the level of 14% by losing another 0.2 p. p. The UFC-depo-USD declined by 0.1 p. p. to reach 7.1%.

UAH depo/USD depo rates dynamics



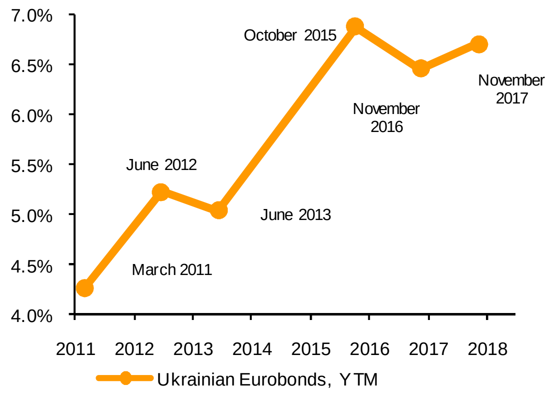
Bonds calendar: 19.08.2010-01.09.2010		
Coupon payment		
20.08.10	-	Imexbank, 1-A
23.08.10	OBERDA	Berdiansk, 1-A
23.08.10	OHLPD	Khlibprom, 1-D
23.08.10	COFORC	Forum Bank, 1-C
2□.08.10	OGNHC	Galnaftohim, 1-C
23.08.10	OTNFB	Favorit, 1-B
25.08.10	OHYPBA	Ipobank, 1-A
25.08.10	48219	Ukraine, 22.02.2012
28.08.10	OBXRH	Khreschatik Bank, 1-H
28.08.10	AZOVTL	Azovstal, 2011
30.08.10	-	Khreschatik Bank, 1-I
30.08.□0	OIMEXB	Imexbank, 1-B
30.08.10	OSUMHB	Sumyhimprom, 1-B
30.08.10	-	HARP trading, 1-C
30.08.10	OVBNG	BVAB Bank, 1-G
30.08.10	OZHENB	Zhytomiroblenergo, 1-B
30.08.10	OKIONB	Kirovogradoblenergo, 1-B
30.08.10	OSENB	Sevastopolenergo, 2-B
31.08.10	OIVFRA	Ivano-Frankivsk, 1-A
01.09.10	OZAPRF	Zaporizhia, 1-F
Redemption/put option		
23.08.10	OBERDA	Berdiansk, 1-A
23.08.10	OHLPD	Khlibprom, 1-D
26.08.10	OGNGF	Galnaftogaz, 1-F
01.09.10	OZAPRF	Zaporizhia, 1-F

Government bonds

The Ukrainian sovereign Eurobonds curve stayed practically unchanged within last week. At the moment the activity in this segment is very low, what could be explained, inter alia, by decline of interest in sovereign debt of emerging markets. ***We think that the rally in the sovereign debt market took a break as the yields stay close to their historical peak.***

The only one factor that can provoke another wave of sovereign bond rally is the possible upgrade of Ukrainian sovereign rating. We think that the positive macroeconomic statistics for July 2010 creates grounds for it.

Ukrainian Eurobonds yield curve



At the regular OVDP auction the Ukrainian Finance Ministry increased volume of the placement by 17% by selling government bonds for the total volume of UAH 1.26 bln.

The Finance Ministry attracted UAH 468.8 mln from 2-month bonds, satisfying 10 of 15 bids. The weighted average yield of this placement amounted to 6.88%. Another short-tem bond maturing in April 2011 attracted 20 bids, 12 of them were satisfied. The total volume of placement equals to UAH 407.7 mln, the weighted average yield – to 9.99%.

Completely different situation was observed in the segment of long-term bonds: MinFin satisfied only 1 bid of 7 for 2-year OVDP. These series placement volume amounted to UAH 85.6 mln and the effective yield stands at 11.75%.

Two another series of OVDPs – maturing in August and September 2013 – were special purpose series, which are used by banks for covering mandatory reserves. Minfin raised UAH 299.4 mln from selling these two aforesaid securities at the effective yield of 12%.

Outlook: ***The last OVDP auction confirmed that the market participants are not confident that VAT bonds will appear in the market soon. Banks which are expected to become main traders of VAT-OVDPs will reallocate the part of their free liquidity to the segment of primary and secondary OVDPs market since they do not believe they will obtain desired volume of VAT bonds in the short run.***

Secondary fixed income market

The period of certain activation in the segment of primary placements in the domestic bond market continues. At the end of the last week Donetsk Railway attracted UAH 161 mln by selling its hryvnia-nominated bonds on the auction. ***We consider bonds of Ukrainian railways as alternative for OVDPs since they have similar risks and could be treated as quasi-sovereign debt*** (see **UFC Capital. Odesa Railway, 1-A; Donetsk Railway, 1-A** flashnote dated June 29, 2010).

The end of summer is also marked by very low activity in the Eurobond market. The dynamics for the most of the corporate bonds can be described as sideways trend. ***We think that the demand for Ukrainian Eurobonds strongly depends on the global capital inflow/outflow for emerging markets, that's why we consider current situation with Ukrainian Eurobonds as the consequence of the general trends.***

Interpipe has announced at the beginning of the week that it is going to make additional issue of shares, which will be purchased by the main shareholder of

Ukrainian bonds rating (internal methodology*)		
Corporate		
Agromat, 1 B	OAGMTB	**ufcBB**
Amstor, 1-E	OAMSE	**ufcCCC**
Bogdan, 1-B	OLUAZB	**ufcBB**
Galychina, 1-C	OGLCHC	**ufcB**
Galnaftogaz, 1-E	OGNGE	**ufcBBB**
Donetskstal, 1-A	CODSTA	**ufcBB**
Kirovogradoblenergo, 1-A	OKIONA	**ufcB**
Konti.□1-B	OKKOB	**ufcB**
MAUP, 1-A	OMAUPA	**ufcB**
Sevastopolenergo, 2-A	OSENA2	**ufcB**
Sumykhimprom, 1-A	OSUMHA	**ufcCC**
Favorit, 1-B	COFRAB	**under revision**
HARP Trading, 1-B	OHRPTB	**ufcBB**
Khlibprom, 1-D	OHLPD	**ufcB**
Financial		
Alfa Bank, 1-F	OALFF	**ufcBBB-**
Khreschatik Bank, 1-E	OBXRE	**ufcBBB**
Dongorbank, 3-C	ODGBC2	**ufcB**
Imexbank, 1-A	OIMEXA	**ufcBB**
Kreditprombank, 1-F	COKPBF	**ufcCC**
FUIB, 1-A	COPUMB	**ufcA**
Raiffeisen Bank Aval, 1-B	OBVLB	**ufcA**
Rodovid Bank, 1-C	ORODBC	**ufcCC**
Ukrgazbank, 1-A	OUGZBA	**ufcCCC**
Ukrsotsbank, 1-D	OUSCD	**ufcA**
Forum, 1-C	OPRXBC	**ufcBBB**

*- Follow the link below to get to the internal methodology of UFC Capital for corporate bonds rating:
http://www.ufc-capital.com/en/analysis/bonds_rate.htm

the company to boost its liquidity. This variant will be discussed in connection with the expected restructure of the Eurobonds of the company.

Outlook***: We do not expect the resumption in activity in the Eurobond market till the end of summer. At the same time we think the recovery of liquidity will be favorable for the most undervalued bonds which keep unjustified YTM spread over the sovereign curve.***

Next Ukrainian Fixed Income Weekly report

will be issued by UFC Capital on September, 1

Eurobonds

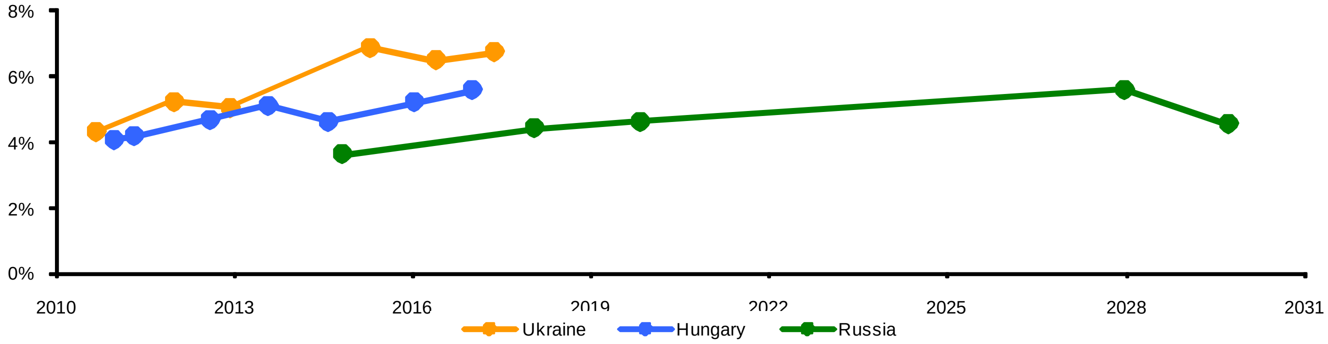
Issuer	bid	ask	Yield (bid)	Yield (offer)	Coupon	Volume, mln	Currency	Mature
Ukraine, 2011	101.00	101.50	5.04%	4.14%	6.875%	600	USD	04.03.2011
Ukraine, 2012	102.00	102.25	5.25%	5.11%	6.385%	500	USD	26.06.2012
Ukraine, 2013	106.25	107.00	5.24%	4.96%	7.650%	1 000	USD	11.06.2013
Ukraine, 2015	92.00	92.50	6.81%	6.69%	4.950%	600	EUR	13.10.2015
Ukraine, 2016	101.50	102.50	6.28%	6.09%	6.580%	1 000	USD	21.11.2016
Ukraine, 2017	102.00	102.50	6.40%	6.31%	6.750%	700	USD	14.11.2017
IUD, 2010	20.00	40.00	3019.27%	1230.34%	9.250%	150	USD	23.09.2010
Azovstal, 2011	99.50	100.50	10.07%	8.15%	9.125%	175	USD	28.02.2011
Kyiv, 2011	99.00	99.75	9.77%	8.90%	8.625%	200	USD	15.07.2011
UkrSibbank, 2011	101.50	102.25	7.63%	6.83%	9.250%	250	USD	04.08.2011
Ukreximbank, 2011	100.50	101.25	7.15%	6.41%	7.650%	500	USD	07.09.2011
UkrSibbank, 2011	100.00	100.75	7.74%	7.15%	7.750%	500	USD	21.12.2011
Privatbank, 2012	98.00	99.00	9.47%	8.73%	8.000%	500	USD	06.02.2012
Alfa Bank (Ukraine), 2012	100.50	101.50	12.70%	12.11%	13.000%	841	USD	30.07.2012
Ukreximbank, 2012	99.38	100.00	7.11%	6.79%	6.800%	250	USD	04.10.2012
Kyiv, 2012	95.75	96.75	10.37%	9.86%	8.250%	250	USD	26.11.2012
Finance and Credit, 2014	85.00	87.00	16.35%	15.50%	10.500%	100	USD	25.01.2014
VAB Bank, 2014	76.00	77.50	19.68%	19.00%	10.500%	125	USD	14.06.2014
Naftogaz of Ukraine, 2014	110.00	110.50	6.69%	6.55%	9.500%	1 595	USD	30.09.2014
PUMB, 2014	91.00	92.50	13.79%	13.30%	11.000%	275	USD	31.12.2014
Ukreximbank, 2015	105.50	106.00	6.98%	6.86%	8.375%	500	USD	27.04.2015
DTEK, 2015	101.25	101.75	9.16%	9.03%	9.500%	500	USD	28.04.2015
MHP, 2015	100.50	101.50	10.11%	9.84%	10.250%	585	USD	29.04.2015
Metinvest, 2015	105.25	105.75	8.87%	8.74%	10.250%	500	USD	20.05.2015
Kyiv, 2015	88.00	89.50	11.08%	10.66%	8.000%	250	USD	06.11.2015
Privatbank, 2016	92.75	94.75	10.52%	10.02%	8.750%	150	USD	09.02.2016
Ukreximbank, 2016	97.00	98.50	9.11%	8.75%	8.400%	125	USD	09.02.2016

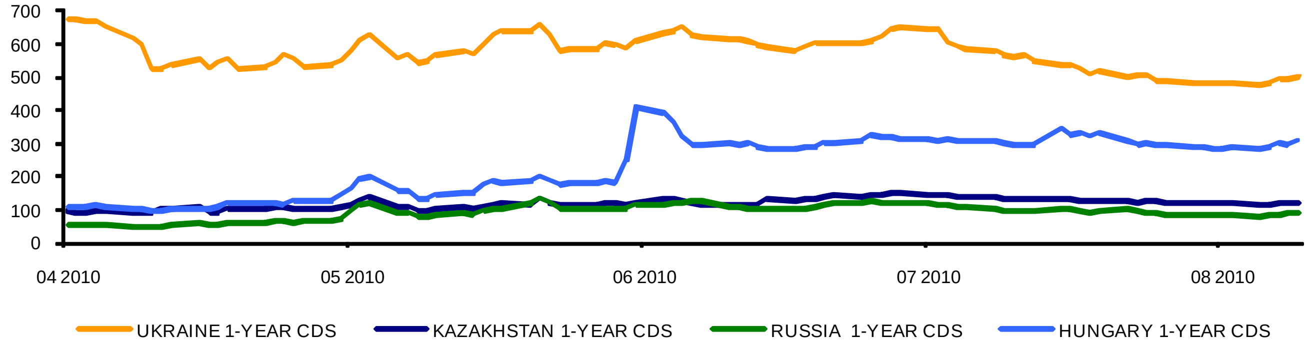
OVDPs

Issuer, ticker	bid	ask	Yield (bid)	Yield (offer)	Coupon	Mature
Ukraine, 63309*	989.00	991.34	7.00%	5.50%	-	13.10.2010
Ukraine, 61725*	982.48	984.94	7.00%	6.00%	-	17.11.2010
Ukraine, 63648*	960.33	963.43	9.25%	8.50%	-	26.01.2011
Ukraine, 74173*	957.63	961.92	9.50%	8.50%	-	02.02.2011
Ukraine, 54456	1 124.21	1 128.89	10.50%	9.80%	20.00%	27.04.2011
Ukraine, 66526*	925.08	933.21	10.75%	9.50%	-	18.05.2011
Ukraine, 61089	1 233.70	1 241.57	11.45%	10.75%	25.14%	12.10.2011
Ukraine, 62012	1 146.84	1 155.75	11.50%	10.75%	20.00%	23.11.2011
Ukraine, 53912	1 109.29	1 115.07	12.25%	11.85%	15.70%	11.04.2012
Ukraine, 61451	1 205.63	1 220.49	12.50%	11.75%	20.00%	31.10.2012
Ukraine, 64018	1 246.14	1 262.54	13.25%	12.50%	20.00%	20.02.2013

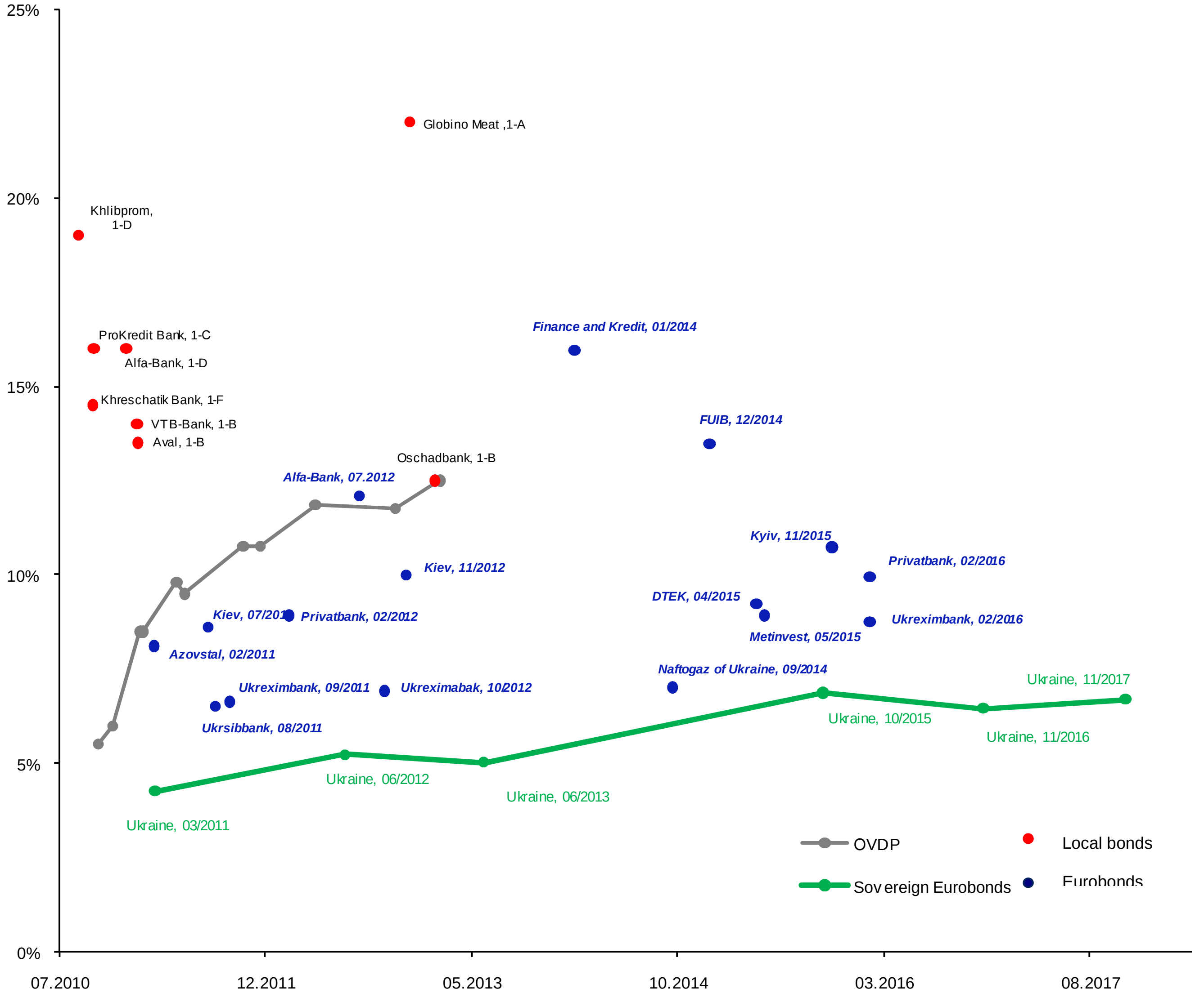
Note: For issues marked * simple yields are specified, while for the rest issues – effective yields

Sovereign Eurobonds yield curves and CDS dynamics





OVDPs yield curve and effective YTM of Ukrainian hryvnia-denominated bonds vs. Eurobonds



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