Daily Insight

Industrial data for April indicates fundamentals still weak

INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

MONDAY, 18 MAY, 2009

RESEARCH INSIGHT

Market comment

FX and equities on Friday

On Friday, a further reinforcement of the Ukrainian hryvnia was seen on the local foreign-exchange market. According to UkrDealing data, trading started at 7.60-7.74/USD with a weakening trend in the US dollar, so by the end of the day, the exchange rate was fixed at 7.55-7.70/USD. The central bank also strengthened its official exchange rate to 7.62/USD, and as such, the hryvnia ended the week at its highest point since the beginning of this year. It is important to note that the NBU carried out its foreign currency auction on Friday, during which it sold euros at a cut-off price of 10.33/EUR. The situation on the local cash market was almost the same as on FX market, with the average exchange rate at the interchange stations fixed at 7.48-7.72/USD, meaning that buyers were able to purchase dollars at a rate 0.5% cheaper than on Thursday.

The Ukrainian capital market finished last week on positive growth, with the PFTS gaining 1.18% to close at 416.89. Total market turnover amounted to US$0.54m (UAH4.19m), more than 75% less than at the end of the previous trading session.

Equity market

NBU cancels restrictions on premature deposit withdrawal

The NBU cancelled its own restriction on premature deposit withdrawal, which has been intact since October 2008, according to its Resolution #282, dated 12 May, 2009. The primary reasoning behind this is to support the continued trend in restoration of confidence in the banking system. The regulator stated that matured deposit withdrawals slowed down in February-March 2009, and the banks recorded the retail deposits inflow up 0.6% MoM in April 2009, at UAH190bn. The regulation comes into effect on the day of its public release.

Investment implications: Although we acknowledge the positive deposit inflows over the past several months, which were in our view primarily supported by hryvnia exchange-rate stability and the NBU's actions in support of foreign currency sales to individual clients, we believe the banking system continues to lack stability and is prone to further deposit outflows on any renewed signs of hryvnia exchange-rate volatility. On the other hand, we believe it will be a new challenge for the banks to retain their retail and corporate clients by proving the banks' long-term solvency and high levels of client service, as high deposits interest rates are unlikely to lure new clients at this stage.

Key rates and indices (as of 15 May 2009)

	Last	Daily chg[1] (%)	YTD chg[1] (%)
Currencies			
USD/UAH (spot)	7.6150	-0.07	-2.37
USD/UAH (1Y NDF)	10.7700	0.00	-19.63
EUR/USD (spot)	1.3492	-1.03	-3.48
Money market			
KievPRIME O/N (%)	1.70	-62bp	-2,128bp
KievPRIME 1M (%)	12.80	-208bp	-1,098bp
Bond markets			
EMBI+ Ukraine	1,884	0.27	580.14
Equity markets			
PFTS (Ukraine)	416.89	1.17	38.31
RTS (Russia)	936.27	0.45	48.17
WIG (Poland)	29,424.40	0.39	8.06
S&P 500 (USA)	882.88	-1.14	-2.26

Note: 1) percentage change if not otherwise stated.
Sources: NBU, PFTS, Thomson Reuters, Cbonds, ICU.

PFTS Index (3 months to 18 May 2009)

Source: PFTS.

USD/UAH (3 months to 18 May 2009)

Source: Thomson Reuters.

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Economics

Industrial output data in April: No sustainable recovery in sight, at least for now

Friday's statistical data on industrial production published by the state statistical office proved that some optimism about the local economy, despite the recent spike in the local equity market index and local currency appreciation, does not correspond with macroeconomic fundamentals. In particular, statisticians showed that April's industrial production posted a 4.8% decline compared to the previous month; in year-on-year terms, April's decline of 31.8% appeared a bit stronger than in March, when industrial production contracted by 30.4% YoY. In 4M09 (January this year through April), industrial output declined by 31.9% YoY – this is exactly the same pace of decline in year-on-year terms that statisticians recorded in 1Q09. Among the industrial sectors that posted growth the previous month were only the Food processing industry (6.4% MoM), the Metallurgic coke and oil processing sector (6.2%), and Non-metal minerals production (6.5%). Such key sectors as Steel production and Machinery were in the red during the month, declining by 7.1% and 2.5%, respectively, compared to March. All the industrial sectors were deeply in the red in April with respect to both year-on-year figures for the month of April and for the first four months of the year. For instance, the Steel-making sector has been posting declines in monthly production of at least 40% YoY since last November, and April's pace of decline of 45.5% YoY appeared to be the most rapid one since this February. Summing it all up, in our view, these results suggest that the economy has been experiencing an L-shaped type of recession, at least for now, as the steep contraction in the economy has been followed by shaky economic performance.

Investment implications: Industrial production data for April points, in our view, to the sluggish shape of the economy, as external demand for Ukraine's industrial goods sizably diminished on the back of the global economic meltdown of 4Q08 and 1Q09. The entire economy is likely to experience a contraction of the magnitude of some 10-15% in 2Q09, or nearly the same as in 1Q09, according to our expectations.

Foreign exchange market

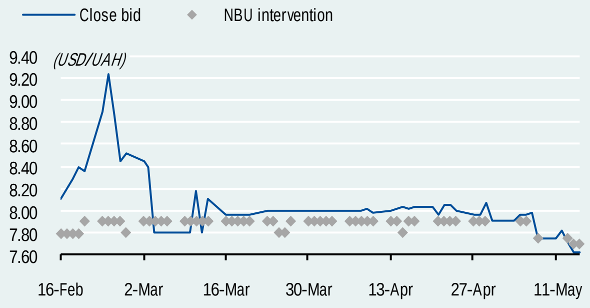
Table 1. Spot exchange rates of USD/UAH and USD/EUR and offshore NDF market exchange rates of USD/UAH

	Last close (15-May-2009)	Previous (14-May-2009)	Daily change (%)	YoY change (%)	YTD change (%)
USD/UAH (spot)	7.6150	7.6200	-0.07	58.98	-2.37
USD/UAH NDF (3M)	8.0900	8.0900	0.00	66.46	-22.95
USD/UAH NDF (6M)	8.8500	8.8500	0.00	77.00	0.00
USD/UAH NDF (1Y)	10.7700	10.7700	0.00	109.13	-19.63
USD/EUR (spot)	1.3492	1.3633	-1.03	-12.63	-3.48

Source: Thomson Reuters.

Chart 1. Exchange rate (USD/UAH) and NBU interventions

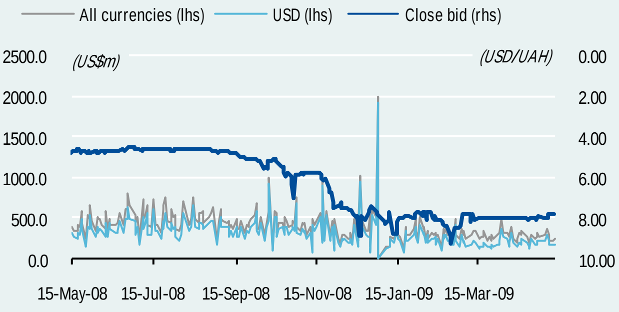
Last 3 months to 18-May-2009



Sources: National Bank of Ukraine, Thomson Reuters.

Chart 2. FX market turnover

Last 12 months to 18-May-2009



Note: right-hand scale is inverted.
Sources: National Bank of Ukraine, Thomson Reuters.

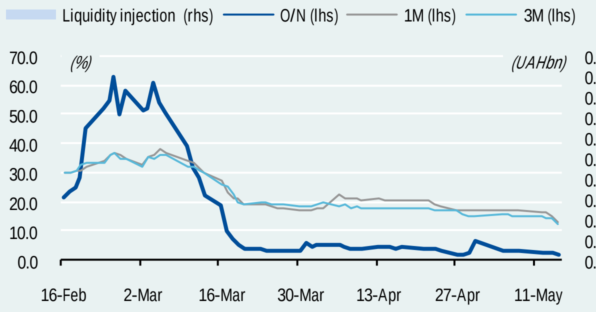
Money market

Table 2. Money market rates KievPRIME (% per year)

	Last close (15-May-2009)	Previous (14-May-2009)	Daily change (bp)	MoM change (bp)	YTD change (bp)
Overnight	1.70	2.32	-62	-246	-2,128
1 week	3.15	4.85	-170	-580	-2,023
1 month	12.80	14.88	-208	-780	-1,098
2 months	11.60	13.68	-208	-620	-1,163
3 months	12.40	14.18	-178	-550	-1,118

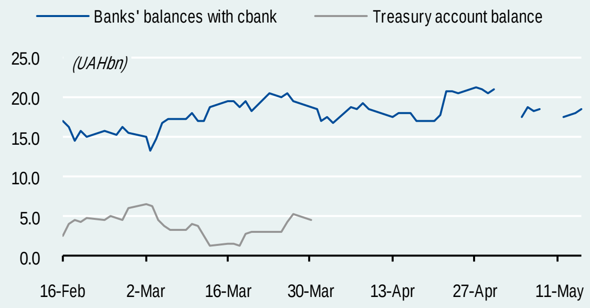
Source: Thomson Reuters.

Chart 3. Money market rates (Kiev PRIME)



Sources: National Bank of Ukraine, Thomson Reuters.

Chart 4. Liquidity indicators

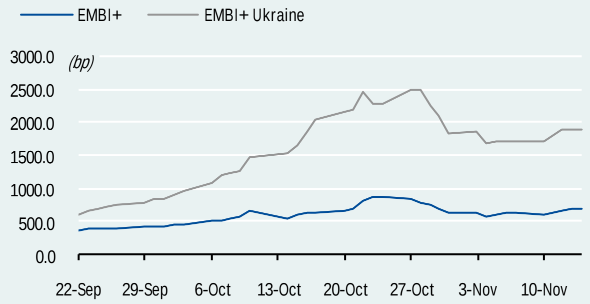


Sources: National Bank of Ukraine, State Treasury of Ukraine.

Bond market

Chart 5. EMBI+ performance

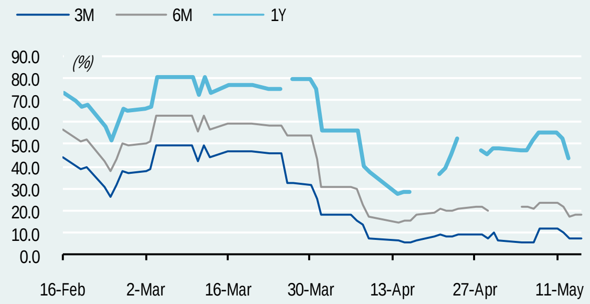
Last 3 months to 18-May-2009



Source: CBonds.info.

Chart 6. Implied yields of USD/UAH offshore NDF market

Last 3 months to 18-May-2009



Sources: Thomson Reuters, ICU.

Table 3. Domestic bond market quotations: government bonds (closing prices as of 15-May-2009)

Ticker	Issuer	Coupon rate (%)	Maturity	Bid (% of par)	Ask (% of par)	Last price (% of par)	Bid YTM (%)	Ask YTM (%)	Last YTM (%)	Trade volume (UAH)

Note: Bid, Ask and Last price are clean prices that are indicated as a percentage of face value. Source: PFTS, ICU.

Table 4. Domestic bond market quotations: municipal bonds (closing prices as of 15-May-2009)

Ticker	Issuer and bond's series	Coupon rate (%)	Put/ Maturity	Bid (% of par)	Ask (% of par)	Last price (% of par)	Bid YTM (%)	Ask YTM (%)	Last YTM (%)	Trade volume (UAH)
OODESC	Odesa (C)	14.00	31-Dec-10		94.822			18.54		0.00

Note: Bid, Ask and Last price are clean prices that are indicated as a percentage of face value. Source: PFTS, ICU.

Table 5. Domestic bond market quotations: corporate bonds (closing prices as of 15-May-2009)

Sector	Ticker	Issuer and bond's series	Coupon rate (%)	Put/ Maturity	Bid (% of par)	Ask (% of par)	Last price (% of par)	Bid YTM (%)	Ask YTM (%)	Last YTM (%)	Trade volume (UAH 000)
FINANCIAL SERVICES											
Commercial banking											
	OBPVA2	Pivdenny (A)	18.00	11-Jan-10	98.422	102.192		22.22	15.23		0.00
Savings banks											
	OSCHDB	Oshchadbank (B)	10.50	12-Aug-10	79.971	86.971		34.10	24.86		0.00

Note: 1) bonds with total outstanding higher than or equal to UAH100m are listed; 2) Bid, Ask and Last price are clean prices that are indicated as a percentage of face value. Sources: PFTS, ICU.

Equity market

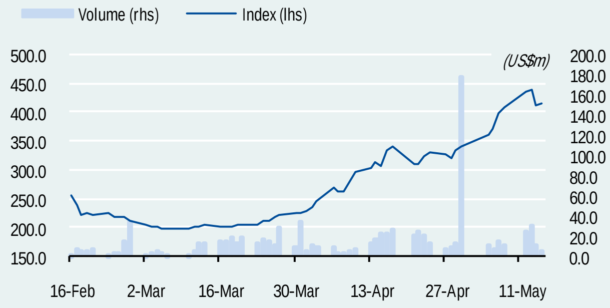
Table 6. Key equity market indicators

	Close (15-May-2009)	Daily change (%)	MoM change (%)	YoY change (%)	YTD change (%)
PFTS Index	416.89	1.17	36.31	-56.73	38.31
Trade volume (US$m)	4.10				
Market capitalisation (US$m)	9,912.89				

Sources: PFTS, ICU.

Chart 7. PFTS equity market index and trade turnover

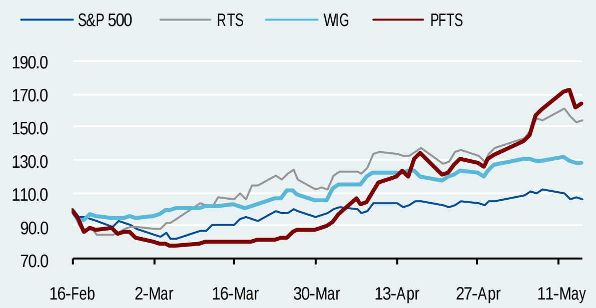
Last 3 months to 18-May-2009



Sources: PFTS, ICU.

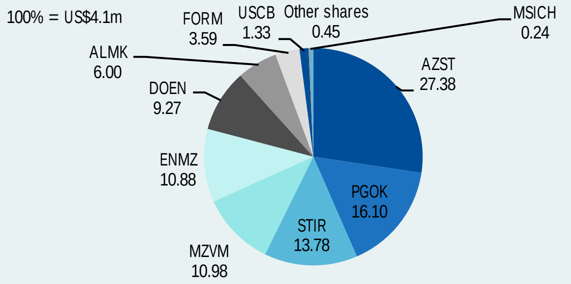
Chart 8. Relative performance of equity indices

Last 3 months to 18-May-2009



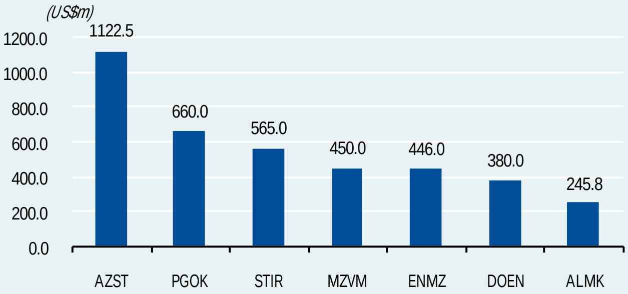
Sources: PFTS, ICU.

Chart 9. Breakdown of total turnover by traded equities (%)



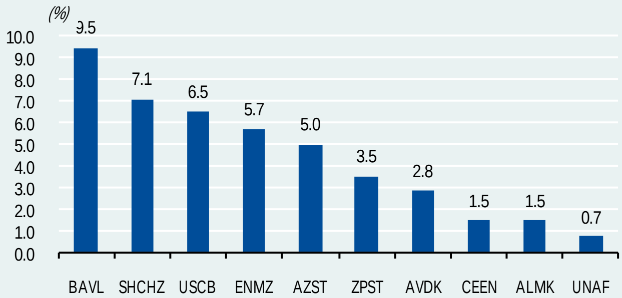
Sources: PFTS, ICU.

Chart 10. Top 10 most traded shares



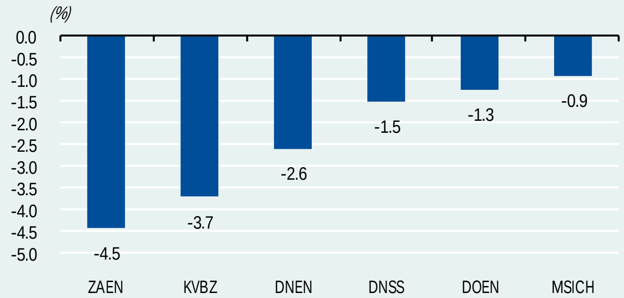
Sources: PFTS, ICU.

Chart 11. Gainers – top 10 shares by daily price increase



Sources: PFTS, ICU.

Chart 12. Losers – top 10 shares by daily price decline



Sources: PFTS, ICU.

Table 7. PFTS shares (closing prices as of 15-May-2009)

Sector	Ticker	Company	Bid (US$)	Ask (US$)	Price[1] (US$)	Daily Chg (%)	YTD Chg (%)	Volume (US$ 000)	52wk avg volume[2] (US$ 000)	Market Cap[3] (US$m)
ENERGY										
Fossil fuel electric power generation										
	DNEN	Dniproenergo	91.924	108.733	**100.328**	-2.61	66.85	0.00	322.87	393.69
	DOEN	Donbasenergo	4.596	5.253	**4.924**	-1.25	32.88	380.00	40.21	116.44
	KIEN	Kyivenergo	1.320	0.000	**1.320**	-25.09	21.60	0.00	61.41	71.51
	CEEN	Tsentrenergo	0.886	0.924	**0.905**	1.46	35.82	0.00	250.52	334.48
	ZAEN	Zakhidenergo	45.962	51.215	**48.588**	-4.45	-4.32	0.00	370.85	621.47
Electric power distribution										
	ODEN	Odesaoblenergo	0.000	0.985				0.00	32.41	102.67
Oil and gas										
	UNAF	Ukrnafta	15.233	16.218	**15.726**	0.70	6.46	0.00	233.95	852.77
Coal mining										
	SHCHZ	Chervonoarmiyska-Zakhidna No.1	0.407	0.492	**0.450**	7.10	102.40	0.00	78.83	381.65
METALLURGY										
Iron and steel mills										
	ALMK	Alchevsky Metalurgic Plant	0.014	0.016	**0.014**	1.46	38.17	245.80	107.74	154.24
	AZST	Azovstal	0.179	0.183	**0.182**	4.99	62.26	1,122.47	262.05	1,022.48
	DNSS	Dniprospetsstal	157.584	249.508	**203.546**	-1.52	-40.11	0.00	97.71	218.82
	ENMZ	Yenakievo Steel	14.445	15.102	**14.839**	5.68	117.26	446.00	172.15	1,538.94
	ZPST	Zaporizhstal	0.118	0.197	**0.158**	3.52	205.19	0.00	40.94	416.60
Pipe and tube manufacturing										
	HRTR	Khartsyzk Pipe Plant	0.141	0.197	**0.169**	11.81	43.55	0.00	898.53	92.61
Foundry coke manufacturing										
	AVDK	Avdiyivsky Coke Plant	0.962	1.116	**1.039**	2.83	81.27	0.00	271.18	201.17
CHEMICALS										
Nitrogenous fertilizer manufacturing										
	STIR	Concern Stirol	3.152	3.808	**3.480**	-4.27	-16.55	565.00	58.16	94.40
MACHINERY										
Railroad rolling stock manufacturing										
	KVBZ	Kryukovsky Rail Car Plant	1.589	1.773	**1.681**	-3.73	42.88	0.00	57.65	192.76
Automobile manufacturing										
	AVTO	Ukrainian automobile corporation	7.879	13.789	**10.834**	-8.27	41.70	0.00	78.44	68.59
Aircraft product and parts manufacturing										
	MSICH	Motor Sich	64.347	68.943	**65.660**	-0.93	34.85	10.00	178.00	136.44
FINANCIAL SERVICES										
Commercial banking										
	BAVL	Raiffeisen Bank Aval	0.043	0.051	**0.049**	9.45	55.67	18.60	214.65	1,113.47
	USCB	Ukrsotsbank	0.046	0.050	**0.048**	6.48	66.67	54.65	198.59	177.35

Note: 1) the table lists those companies a) the shares of which have average daily turnover for the last 52-week period of more than or equal to US$25 thousand and b) that have market capitalization of more than or equal to US$50m; 2) Price is calculated as a) average between best bid and best ask if there was no turnover with the share or last price exceeds the range between best bid and best ask for the trading session; or b) last price of trades with the share; 3) market capitalization. Sources: PFTS, ICU.

Disclosures

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