

### Macroeconomic Update

**Real GDP growth contracted by 1.1% yoy in 2Q**, the same pace as in the previous year. Industrial production declined 5.3% yoy over January-June mainly on account of commodity exporting metallurgy and chemicals. At the same time, thanks to domestic market protective and stimuli measures of the Ukrainian government (the imposition of a special duty on imported cars, introduction of licensing for imported drugs, extension of preferential electricity tariffs for select ferroalloy plants, etc.), **the decline in industrial production started to moderate in June.**

**Consumer spending has maintained positive momentum**, sustained by solid real wage growth (up by 9.6% yoy in 1H 2013), diminishing inflation expectations and a more stable exchange rate. This was reflected in an 11% yoy increase in retail sales turnover over January-June 2013. **Production in**

**the agricultural sector surged by 15.4% yoy in 1H 2013** as Ukraine is expected to collect the second highest grain harvest this year. In addition, thanks to several years of high harvests, Ukraine's animal breeding has been demonstrating solid gains. Looking ahead, **the Ukrainian economy is forecast to gradually recover in the course of 2H 2013**, supported by private consumption growth, and gains in agriculture.

**State budget revenues fell by 0.2% yoy** in nominal terms in 1H 2013, while expenditures continued to increase, causing a **widening in the budget deficit**, which was almost three times higher than in 1H 2012. Solid domestic and external borrowings, however, helped keep manage the **fiscal situation** and allowed delaying consolidation measures.

**Inflation remained low in Ukraine.** Con-

sumer prices were 0.1% lower in June compared to the previous year, reflecting declining fuel prices, mostly flat utility tariffs and falling food prices.

**Ukraine's external balance developments were rather favorable over the first six months of 2013.** Thus, the current account deficit was almost 36% yoy lower over the period. Moreover, Ukraine generated solid capital account surplus over the period (up by 25% yoy). The surpluses in Ukraine's Balance of Payments allowed keeping the **Hryvnia exchange rate virtually stable in 1H 2013.** At the same time, Ukraine may find it difficult to meet its still high external financing needs. Already in June 2013, **capital account turned into a small deficit** due to high external public debt repayments. As a result, **NBU gross international reserves declined** to \$23.2 billion as of the end of June.

### Sector Overview

**A total of 28.1M ha of agricultural land are planned to be harvested during the 2012/13 production season**, a 1% (313k ha) increase over the previous season. In July 2013, Ukrainian farmers continued their harvesting campaign of early grains which started in mid June. Early grains accounted for 38% of total sowings (over 10.5M ha).

As of the end of July 2013, 9.4M ha of early grains were harvested in Ukraine (89% of total plan); almost 28M tons of grains in gross weight were collected. The average yield came to 3.0 ton/ha (+20% over 2012).

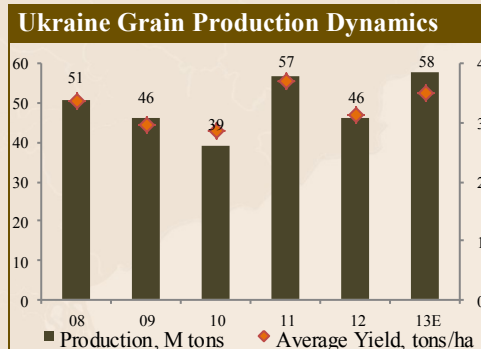
If the weather in August-September is favorable for corn, **2013 can become the record year for Ukraine in volume of grains produced**, exceeding even the 2011 harvest. A

**total of 57-58M tons of grains is expected to be harvested in Ukraine over the 2012/13 season.** The wheat harvest is estimated at 23M tons (40% of total grains) and barley – at 8M tons (12%). Corn output is projected to come to 29M tons (50%).

**Oilseed harvest in 2012/13 should reach 14.1M tons, a record high for Ukraine** and a 16% increase over the 2011/12 season. The distribution of oil crops in the production structure is expected to be as follows: 9.6M tons of sunflower (68%), 2.7M tons of soy (19%), and 1.8M tons of rapeseed (13%). As of the end of July 2013, Ukraine harvested 2.2M tons of rapeseed in gross weight from 944k ha (99% of planned area). The average yield came to 2.3 tons/ha.

**In MY2012/13, Ukraine exported 22.8M tons of grains** (6.8M tons of wheat, 13.5M tons of corn and 2.5M tons of barley and other grains) and 1.2M tons of rapeseed. According to USDA, Ukraine became the 9<sup>th</sup> largest wheat exporter, 4<sup>th</sup> largest corn exporter, and the 5<sup>th</sup> largest barley exporter in the world in MY2012/13.

**In July 2013, a new export season (MY2013/14) started.** Ukraine exported 1.2M tons of grains and 0.2M tons of rapeseed. Provided that Ukraine reaches the grain production targets mentioned above, the volume of grain exports from Ukraine in

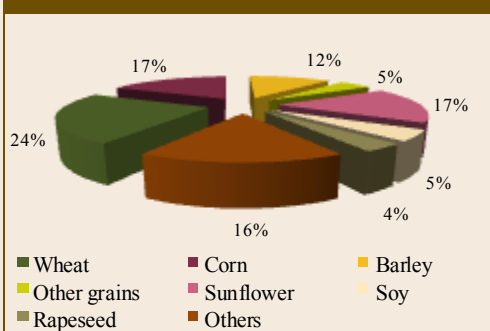


Sources: Agrosfera, APK-Inform

**MY2013/14 may exceed 28M tons (+44% over MY2012/13)**, including 9M tons of wheat, 16M tons of corn and 3M tons of barley and other grains. According to the USDA, **Ukraine may become the second largest grain exporter in MY2013/14**, in particular, the 3<sup>rd</sup> largest corn exporter and the 6<sup>th</sup> largest wheat exporter in the world. **Oilseed exports** are likely to reach a 5-year high of 3.5M tons in MY2013/14.

**The Ukrainian government does not have any plans for imposing grain export duties.** As in MY2012/13, the amount of grains allocated for export will be regulated by *The Memorandum of Understanding* between the Ministry of Agrarian Policy of Ukraine and grain traders, signed in late June. The exact volumes of grain exports will be decided in September.

### 2013 Ukraine Sowing Structure, %



Sources: Agrosfera, APK-Inform

## Commodity Crop Prices (MoM Dynamics)

Prices of all grains in Ukraine continued decreasing in July 2013.

**In 2013 world situation with crop prices on the grain markets is not so favorable as it was in 2012**, when due to bad weather conditions (heat wave, primarily in US), wheat price on the CME increased by 25%, during July-November, corn prices increased by 30% during July-September.

This year the situation has changed significantly. **High expectations of a high world grain harvest**, as well as Ukrainian harvest forecasts, are **resulting in a decline of world**

**grain prices**. Starting from the beginning of 2013, wheat prices decreased by 17% and corn prices decreased by 16% on the CME.

**World grain price fluctuations caused a decrease in EXW grain prices in Ukraine**. In July 2013, wheat and barley prices decreased by 5% and 10% accordingly if compared to July 2012, and by 22% and 19% accordingly over June 2013.

**The Ukrainian oil-based crop price decrease** (sunflower and rapeseed) is caused by optimistic harvest expectations for mentioned crops, as well as for palm oil.

## Ukraine, Domestic Crop Prices for June-July 2013, EXW \$/ton

Crop	Jul-13	Jun-13	Δ, %
Wheat avg.	\$195	\$249	-21.7%
Barley	\$193	\$237	-18.6%
Corn	\$233	\$233	-0.0%
Peas	\$302	\$342	-11.7%
Rye	\$179	\$194	-7.7%
Rapeseed	\$446	\$494	-9.7%
Soy	\$707	\$626	12.9%
Sunflower	\$560	\$580	-3.4%

Source: Agrosfera, APK-Inform

## Activities by Market Players

**In July 2013, the Ukrainian agricultural companies were fully engaged in harvesting of early grains**. By the end of the month, a number of market players disclosed first results of harvesting campaign. The achieved yields for wheat, barley and other crops by leading players were generally better than planned and higher than Ukrainian averages.

**Ukrainian agricultural companies continued land expansion** in July 2013. **MHP** (the leading poultry producer in Ukraine, controls 280k ha in Ukraine) as a part of a regional

diversification strategy, acquired 40k ha in Russia. The estimated deal value is up to \$100M. 200k tons of grain storage capacity were purchased as a part of the deal.

**Mriya Group** (the 4<sup>th</sup> largest agro holding company in Ukraine with 295k ha under control) announced the acquisition of two agricultural companies in Khmelnytskyi and Ternopil regions of Ukraine in July 2013. Total hectareage acquired was not disclosed.

**Agrokultura AB** (former Alpcot Agro – Swedish agricultural company with lands under management in Russia and Ukraine) in order to optimize its land assets decreased the amount of farmlands in Ukraine by 25k ha, or by 38%, to 65k ha.

In mid July 2013, Ukrainian agricultural producer **Agroton** (the 9<sup>th</sup> largest agro producer, managing over 170k ha in Ukraine) announced its incapability to pay off \$50M Eurobonds, due to bad weather conditions and freezing of Cyprus accounts in 2012. The announcement caused a 36% decline in company's market capitalization.

In July 2013, **Ukrainian agricultural com-**

## Capital Raised by Ukrainian Agricultural Companies in July 2013

Company	Bank	Loan, \$M
NCH	EBRD	\$50.0
HarvEast	Ukrainian SE	\$9.8
Vitagro	Raiffeisen bank	\$3.1
<b>Total</b>		<b>\$62.9</b>

Sources: Agrosfera, APK-Inform

**panies attracted \$63M of loan capital**.

**NCH** (the 2<sup>nd</sup> largest agro holding company in Ukraine, controlling over 400k ha) took a \$50M loan from EBRD to expand its land bank and invest in storage capacities in Russia and Ukraine.

**HarvEast** (which controls over 220k ha primarily in Eastern Ukraine) issued \$10M worth bonds at Ukrainian stock exchange to finance working capital needs.

**Vitagro** (which operates 40k ha in Khmelnytskyi and Ternopil regions of Ukraine) took a \$3M loan from Raiffeisen bank Aval to finance current field operations and winter sowing campaign of 2013/14 production season.

## 2012/13 Harvest – Actual Yields of Ukrainian Ag. Companies, tons/ha

Company	Wheat	Barley	Rapeseed
Agroliga	4.46	2.15	2.28
APC-Invest	4.20	2.40	n/a
Nibulon	4.20	n/a	3.27
Astarta	4.80	3.00	n/a
IMK	4.90	n/a	n/a
<b>Ukraine avg.</b>	<b>3.45</b>	<b>2.35</b>	<b>2.29</b>

Source: Agrosfera, APK-Inform

## Harmelia Update

**Harmelia embarked on the 2013 harvesting campaign in late June**. As of the end of July, 32.9k ha (52% of the sowing plan) under early grains (wheat, peas, and barley) had been successfully harvested. The volume of

threshed grains reached 145.4k tons with an average gross yield of 4.42 tons/ha. Harmelia's actual yields are 15%-90% higher when compared against Ukrainian averages for those crops.

## 2013 Harmelia vs Ukraine Expected/Actual Gross Yields, tons/ha

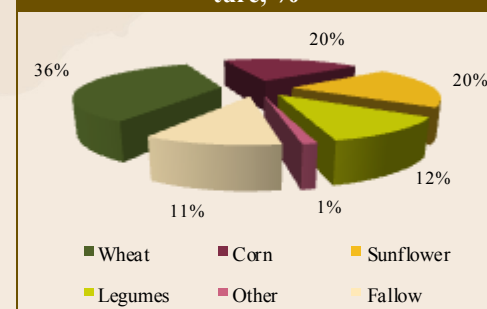
Crop	Harmelia	Ukraine
<b>Wheat*</b>	<b>5.08</b>	<b>3.45</b>
<b>Barley*</b>	<b>4.60</b>	<b>2.35</b>
Corn	6.56	5.27
<b>Peas*</b>	<b>1.78</b>	<b>1.61</b>
Other	1.91	-
<b>Total Grains</b>	<b>5.16</b>	<b>3.51</b>
Soy	-	1.98
Sunflower	2.70	1.99
<b>Total Oilseeds</b>	<b>2.70</b>	<b>1.91</b>

\* Actual figures, as of the end of July 2013

**The plan for the 2013 season among Harmelia companies is to produce up to 300k tons** (in gross weight) of grains, oils, and feed crops, a 60% increase over the 2012 season. Harmelia is planning to start the harvesting campaign of late crops (sunflower) in late August.

**In July, Harmelia started shipping its new harvests**. Over the course of the month, Harmelia sold 19.3k tons of newly produced crops, among them 13.7k tons of wheat, and 3.8k tons of peas. The total sales reached \$3.5M.

## Harmelia 2012/13 Actual Sowing Structure, %



**The financial audit of Harmelia's 2012 results**, supervised by Ernst & Young, was **completed in July**, and Harmelia's consolidated financials for 2012 were prepared.