

Summer politics update

Preparing for October local elections, tackling war-related issues

Political party approval ratings

	Oct. 14 ¹	Mar. 15	Jul. 15 ²
Petro Poroshenko Bloc	21.7%	26.7%	23.5%
Fatherland (Y. Tymoshenko)	5.7%	11.5%	22.7%
Self-Reliance	11.0%	17.1%	12.2%
Radical Party	7.5%	8.4%	10.2%
Opposition Bloc	9.5%	10.2%	7.2%
Civic Position	3.1%	4.8%	5.5%
Right Sector	1.8%	5.2%	5.4%
Freedom (Svoboda)	4.7%	4.1%	3.9%
People's Front (A. Yatsenyuk)	22.2%	6.6%	2.8%
Strong Ukraine	3.1%	---	2.1%
Communist Party	3.9%	2.6%	1.9%
Other parties	5.8%	2.8%	2.6%

¹ 2014 Parliamentary Election results

² Ratings exclude undecided voters (23.5%) and those who would not vote (14.3%). Poll held June 27-July 9, 2015.

Source: Kyiv International Institute for Sociology

Presidential approval ratings¹

	Oct. 14	Mar. 15
1 Petro Poroshenko	35.1%	26.9%
2 Yulia Tymoshenko	11.6%	25.6%
...
9 Arseniy Yatsenyuk	5.3%	2.3%

¹Ratings exclude undecided voters (23.9%) and those who would not vote (13.6%). Poll held June 27-July 9, 2015.

Source: Kyiv International Institute for Sociology

Poll question: In your view, what's the most acceptable way of resolving the military conflict in the East

Continuation of peace talks and conflict settlement based on Minsk agreements	56.8%
Freeing Donbas by Ukrainian army	28.3%
Hard to say	13.7%
Refusal to answer	1.1%

Source: Kyiv International Institute for Sociology.

The political scene in Ukraine remains as hot as the summer weather as the country prepares for local elections scheduled for October 25. The parties that make up the parliamentary coalition are riding a new wave of populism, a strategy that is starting to pay off, according to a recent public opinion poll. We believe the composition of the coalition will remain little-changed over the next few years and parliament will continue adopting reform-oriented legislation required by the IMF. However, continued progress on this front will require effort and additional concessions from President Poroshenko. The conflict in the east is likely to linger in its current format and ongoing clashes will keep security a number one concern for the country. Peace talks are being held on an ongoing basis, but the odds of a resolution in the near-term are low as Russia seems interested in keeping the conflict smoldering.

Coalition unity lapses, but no risk of breakup

The ruling parliamentary coalition (composed of 5 factions – the Poroshenko Bloc, People's Front, Fatherland, Self-Reliance, and the Radical Party) is currently enduring a major test of its unity. Points of contention have been numerous ever since the coalition was formed, but the October local election is fueling additional squabbles. Although the local elections will have no direct implications for the central government in Kyiv, they still have the potential to reshape the formal and informal powers within the coalition and government.

The 5 coalition factions have remained strongly united on the idea of preserving Ukraine's sovereign integrity and preventing any return to a totalitarian Yanukovich-style political regime. As the local elections move closer, however, the parties are trying to differentiate themselves. As could be expected in this type of environment, populist ideas are again starting to thrive as socially oriented promises (scrapping of utility tariff hikes, indexation of salaries, the mandatory conversion of FX loans by banks) are likely to bring in more votes than similar ideas did last year. A recent public opinion poll points to massive rating gains by Yulia Tymoshenko's Fatherland party, as well as by the Radical Party. Although these two currently have a minor role within the ruling coalition, their appetite is poised to grow ahead of and after the local election. PM Arseniy Yatsenyuk has lost massive ground in the ratings over the past year – his party's approval rating has sunk from 22.2% in October 2014 (in the parliamentary elections) to a dismal 2.8% currently. A lack of real reform initiatives on the PM's side, in contrast to President Poroshenko's non-systemic but appealing moves, has driven the major loss of credibility for Yatsenyuk over the past year.

Despite the likely shifting of powers in the fall, we believe the composition of the parliamentary coalition will not change drastically over the next few years. The governing group will remain led by President Poroshenko's 143-MP-strong faction, but approving any politically sensitive decisions by a parliamentary majority (226 votes) or constitutional amendments (300 votes) will require broad consensus and concessions by the President. At this point, we believe the risk of political tension derailing the continued adoption of IMF-required legislation ahead of the fund's second program review in September is minimal.

Fighting in the east continues, no material progress in recent months

Security remains a major issue for the country despite the enormous efforts and concessions by the authorities to contain the Russia-supported war. The situation has improved slightly in recent months as attacks are now occurring only along the provisional line dividing the areas controlled by

either side; the Russian proxy forces have not attempted large-scale attacks to break through the lines and spread the war into bordering areas.

However, this has come at a huge cost. According to media reports, 1-2 Ukrainian soldiers die and 5-7 are injured nearly every day. The terrorist and proxy forces continue to make widespread use of weaponry explicitly prohibited by the Minsk-2 agreement. Moreover, Ukrainian and NATO intelligence sources repeatedly confirm the presence of tens of thousands of Russian soldiers along the Ukraine-Russia border.

Russia's stance with respect to the war hasn't changed in any visible manner – the tactic clearly lies in exhausting Ukraine with regular terror while denying any direct or indirect engagement in the conflict. That comes against the backdrop of Russian soldiers being regularly captured close to or in the war zone.

Recent polls clearly indicate Ukraine's population is strongly in favor of further peace talks with a view to resolving the conflict as soon as possible. Some 57% of respondents support the peace scenario while 28% believe the conflict can only be settled if the Donbas region is freed by the Ukrainian army.

The self-proclaimed republics (DNR and LNR) intend to hold local elections in mid-October. President Poroshenko has made it clear there is no way Kyiv will accept the results and any local polls will only be legitimate once Ukraine regains control over the occupied territories.

In an attempt to fulfill the commitments made in Minsk, Ukraine's parliament approved draft amendments to the Constitution that allow special forms of local governance in some (a euphemism for "occupied") areas of Donetsk and Luhansk oblasts. The draft amendments are still to be approved by the Constitutional Court and then again by the parliament with a constitutional majority. While critics argue the amendments are a precarious step towards compromising Ukraine's territorial integrity, proponents view this move as a tactical victory, a clear sign of Kyiv's intention to fulfill the Minsk-2 agreement, with the ball now firmly in the opposite camp's court.

A new round of negotiations within the Minsk-2 framework took place yesterday (August 3) and the negotiating group was supposed to fully prohibit the use of weapons with caliber below 100 mm along the conflict line (weaponry with over 100 mm caliber was to have been removed under the Minsk-2 agreement signed in February). The outcome of the negotiation could become another turning point towards a resolution of the conflict but today's news indicates the progress has been immaterial thus far.

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