

Tim Ash: Rupture with IMF over natural gas prices appears certain

Opinion

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Bluebay analyst Tim Ash sees problems ahead between IMF and Ukraine as the government appears set to refuse to increase natural gas prices in line with IMF demands.

LONDON, Sep 29, 2017 (UBO) – There has been a growing consensus for some time that Ukraine's current government and the IMF would run into difficulties with reaching agreement on IMF demands as elections neared. Based on a statement by the minister of social policy, the problems appear set to come to a head as early as Oct 1, 2017, sooner than earlier expected. Responding to the new developments, Bluebay Asset Management analyst Timothy Ash offered the following commentary at 1300 today: Comment from Pavlo Rozenko, Vice PM, minister of social policy: "We have embedded into the stone decision not to hike up gas price increase for this heating season, and the draft budget 2018 has been formulated upon the gas prices effective thought 2017. There are no justifications to increase gas prices, thus no increase for the rest of utility charges and thus no boosting inflation this fall" PM Groysman has said similar things. For the fund I think the gas price hike gig is a total deal breaker - the mission will not get on a plane for the next review unless come Oct 1, gas prices are not hiked, as per the formula agreed with the Ukrainian govt back in April in the 3rd review. Meanwhile, also this morning Poroshenko's ally, Kononenko made a pretty clear statement that he thinks everything is fine with the IMF, and the current (non IMF compliant) pension reform bill will be enough to kick start again the IMF programme. No mention of the anti-corruption agenda. This is pie in the sky from where I am sitting - I think if the IMF do actually sign off on this, the entire programme will be seen as a bit of a joke - and simply Western pandering to Poroshenko and Ukraine's elites. I think at this stage the Fund is prepared to play hard-ball - and you would have to see pressure from Western governments to soft ball Ukraine. That might have been the case if there was a realistic chance of this UN peacekeeping gig happening in the East, but the two sides there seem so far apart still - cannot see why Putin would compromise therein at this stage. If Putin agrees to UN peacekeepers on the border between Ukraine and Russia, Moscow cannot re-supply DPR/LPR and the military operation in Donbas will surely collapse. Net-net at this stage it seems very unlikely that Ukraine's IMF programme will be put back on track any time soon. Question is does the market care in an environment when global financing conditions are still liquid, and very forgiving for weaker bottom up country stories? Poroshenko, et al, will hope not, and market access will remain open over the next six months, to further bolster their cash balance for a spending spree as Ukraine moves into election mode.

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