Trends

Ukrainian sovereign Eurobonds were flat last week as the August vacation season put most portfolio managers' asset allocation decisions on hold. Domestic Ukrainian news flow was dry, although data showed that the consumer inflation pace reached 10.2% YoY in July due to the global upward trend in food and energy prices. However, Ukraine is also benefiting from the rally in soft-commodity prices, as the country's grain exports have been increasing both in volume and value terms. According to National Bank reports, Ukraine's food&agro exports grew by 5.4% YoY to USD 10.8bn in 1H21, accounting for almost 40% of the country's total merchandise exports in the period.

Quotes for the Ukraine-32s issue, which is the proxy for the 10-year benchmark bond, were unchanged at 104.4 (6.9% YtM) for the second straight week. The medium-term Ukraine-26s edged up by 0.3% to 110.1 (5.5% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) inched down by 0.3% to 116.2 cents on the dollar.

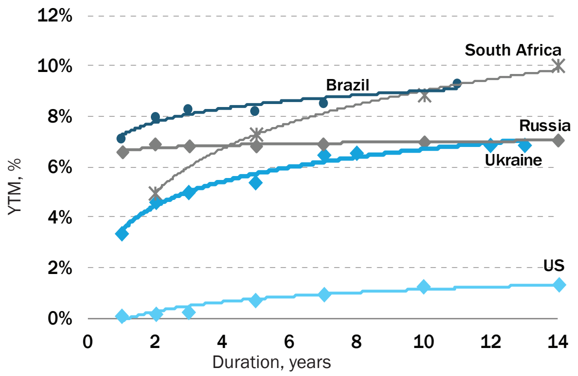
In the corporate bond universe, Metinvest-26s rose by 1.2% to 113.7 (5.2% YtM) after the company said it would buy back a portion of the outstanding USD 648mn bonds maturing in 2026 as it had a strong cash flow this year. Metinvest intends to purchase up to USD 250mn in the principal amount of the bonds at an indicative price of 114.0. The buyback will be performed through an auction. On the downside, MHP-29s declined by 2.0% to 97.3 (6.8% YtM) and Kernel-27s dropped by 2.1% to 105.5 (5.7% YtM). In banking names, OschadBank-23s shed 0.4% to 104.0 (6.6% YtM).

The Finance Ministry continued to rely mostly on issuance of short-term debt. The primary UAH-denominated bond auction held on Aug 10 brought in UAH 2.7bn, with the lion's share again coming from the 1-year bond placement at 11.15%. A rather small amount of UAH 275mn was attracted from the sale of a 2-year bond at 12.09%. On the secondary market, the 1-year bond remained at 11.8%/11.3% (bid/ask).

On the currency market, the hryvnia remained on the rise, gaining 0.7% to 26.65 UAH/USD. The National Bank intervened with dollar purchases to prevent stronger hryvnia appreciation. The NBU appears to be uncomfortable with a rise in the hryvnia of higher than about 1% in any given week.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at research@eavex.com.ua.

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg. Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	+2.0 p.p.
UAH 1-year bond	11.8%/11.3%	0.0 p.p.	+0.3 p.p.
Ukraine-2025	5.4%	0.0 p.p.	0.5 p.p.
Ukraine-2028	6.5%	0.0 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.65	-0.7%	-5.7%
EUR/UAH	31.37	-0.7%	-9.7%

Source: Eavex Capital

Highlights

- Mayor of Zelenskiy's Home City Found Dead in Apparent Assassination
- Ukraine Inflation Reaches Double Digits as July CPI Comes at 10.2% YoY

Kyiv, Ukraine.
(+380 44) 590-54-54, (+380 44) 590-54-64
research@eavex.com.ua

Mayor of Zelenskiy's Home City Found Dead in Apparent Assassination

by Will Ritter
w.ritter@eavex.com.ua

NEWS

Kriviy Rih city mayor Constantine Pavlov was found dead of a gunshot wound in his residence on Sunday (Aug 15), domestic media reported. Pavlov, 48, had been newly elected to the post last autumn as a representative of the pro-Russian Opposition/For Life party, easily defeating a candidate from President Zelenskiy's People's Servant party. The race was politically significant at the time as Kriviy Rih - one of Ukraine's 10 largest cities despite not being a provincial capital - is Zelenskiy's hometown, and it exposed Zelenskiy's inability to transfer his own personal popularity to candidates of his party. Police said that Pavlov was known to carry firearms and that they were investigating the variants of both murder and suicide in the case. Zelenskiy said he is "taking the investigation [into Pavlov's death] under his personal control".

In unrelated but also negative news, members of the militant National Corpus organization injured 8 police officers on Saturday (Aug 14) when they attempted to attack the presidential administration building while protesting against the European-brokered peace agreements which have slowed fighting against pro-Russian separatists in the Donbass region since the full-scale war in 2015/2016.

COMMENTARY

The murder of public figures in Ukraine, and the failure of security organs to solve such cases, continues to be a major problem for Ukraine's international image. We find it unfortunate that after more than 2 years in office, Zelenskiy did not see fit to take the languishing 5-year-old investigation into the assassination of journalist Pavel Sheremet "under his personal control". Anyway, we doubt that such grandiose statements from the President will ultimately lead to better police work. Overall, despite declining approval and trust ratings, Zelenskiy currently benefits from a lack of serious political competition, as no new figures have emerged to challenge his leadership; legacy politicians such as former President Petro Poroshenko and Opposition/For Life leader Yuriy Boyko have, in our view, no chance to defeat him in a national election.

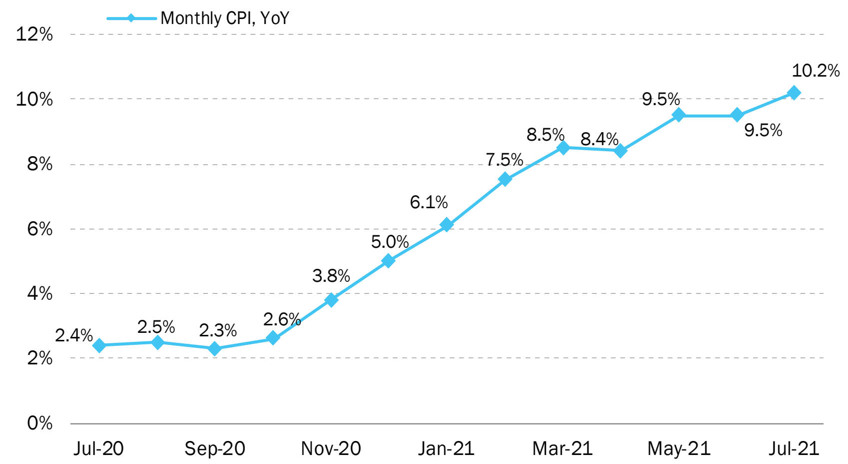
Ukraine Inflation Reaches Double Digits as July CPI Comes at 10.2% YoY

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine's State Statistics Committee (UkrStat) reported that 12-month "headline" consumer inflation was at 10.2% for July, up from 9.5% for June. The inflation index inched up by just 0.1% on a monthly basis, but the traditional deflation pattern for summer did not occur, leading to the higher 12-month rolling inflation figure of 10.2%. In the individual inflation basket categories, the most visible price increase was registered in natural gas, which surged by 2.6x YoY in July amid a Europe-wide shortage. The aggregate utility sector services for households became 35.5% more expensive on a yearly comparison.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The rising 12-month inflation in Ukraine is being driven by the global factors of food and energy price growth. Unlike the crisis period for Ukraine in 2014-2016 when inflation was mostly spurred by the steep hryvnia devaluation, this time we observe double-digit inflation despite the fact that the hryvnia has strengthened by around 5% since the start of the year. The government and the National Bank are trying to show that they are seriously concerned about the inflation pace. The National Bank has raised its key interest rate to 8.0% in a move to ease inflation expectations, while the government made a populist promise to lower the electricity price for households. The Energy Ministry proposed to decrease the electricity tariff for small households that consume less than 250 kWh a month from UAH 1.68 to UAH 1.44 (5.4 US cents) per 1 KWh, starting in October. Although there is no real economic basis for lower electricity prices, the Ukrainian government has the power to adjust the market through its control over the 100% state-owned nuclear plant operator EnergoAtom.

Taking into account the latest inflation number, it looks very unlikely that the government's targeted level of 7.3% inflation for full-year 2021 will be met.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	104.3	0.0%	3.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.1	0.3%	5.5%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.3	0.0%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.4	0.0%	6.9%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	116.2	-0.3%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	105.5	-2.1%	5.7%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.0	0.0%	5.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	97.3	-2.0%	6.8%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.5	-0.3%	13.6%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.7	1.2%	5.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.1	0.3%	6.5%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	103.7	0.0%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.5	-0.3%	6.9%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	98.7	-0.4%	8.5%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.7	-0.2%	5.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.0	-0.4%	6.6%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	109.0	0.2%	4.5%	9.63%	20 Mar 2025	250	USD	B2//B

[1] *Moody's/S&P/Fitch*

Source: Boerse-Berlin, Boerse-Stuttgart. cbonds, TR Data, Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000195176			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464

E-mail: research@eavex.com.ua

Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board
yuriy.yakovenko@eavex.com.ua

SALES & TRADING

Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

Evgen Klymchuk
Fixed Income Sales and Trading
e.klymchuk@eavex.com.ua

RESEARCH

Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua