Fixed Income Weekly Monitor

August 9, 2021

Trends

Quotes for Ukrainian sovereign Eurobonds were little changed last week, ignoring the risk-on momentum on global financial markets. There is so much money in investors' pockets that they even priced the recent Rwanda 10-year sovereign bond at just 5.5%. Together, African countries issued USD 11.8bn worth of Eurobonds in the first half of 2021, out of the total emerging market sovereign issuance of USD 109bn. These were Kenya (USD 1 bn, 12.5 years at 6.3%), Ghana (USD 3 bn, multiple bonds with the 13-year portion at 8.625%), Benin (USD 1.2 bn, 11-year at 4.875%); Senegal (USD 945mn, 16 years at 5.375%) and Cameroon (USD 827mn, 11 years at 5.95%).

The Ukraine-32s issue, which is the proxy for the 10-year benchmark bond, was flat at 104.4 (6.9% YtM), and the short-term Ukraine-22s edged down by 0.3% to 104.3 (3.5% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) edged up 0.3% to 116.5 cents on the dollar.

The EUR-denominated Eurobonds of NaftoGaz with maturity in 2024 inched down by 0.2% to 103.7 (5.7% YtM) as ballooning natural gas prices could hardly cover the potential loss of income from the gas transit segment after Russia launches its Nord Stream-2 pipeline.

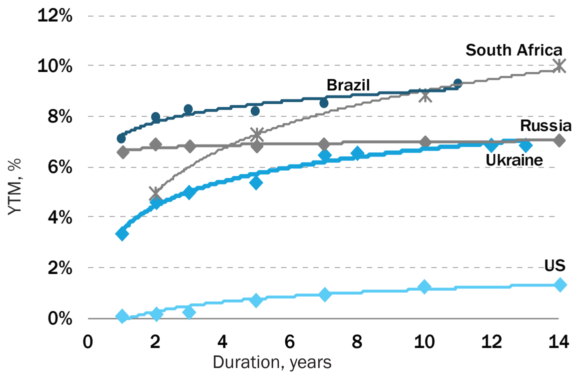
In quasi-sovereign banking debt papers, UkrEximBank-25s rose by 0.8% to 107.9 (5.5% YtM) after the bank posted a solid UAH 1.12mn (USD 41mn) net profit for 1H21. UkrExim's total assets grew by 7.8% YtD to an equivalent of USD 7.6bn in 1H21. OschadBank-25s inched up by 0.1% to 108.8 (4.6% YtM) after the bank reported a moderate UAH 513mn (USD 19mn) net profit for 1H21. The bank's total assets amounted to USD 9.1bn as of Jun 30.

Demand for domestic treasures significantly decreased as market players are waiting for a higher offering yield from the government. The primary auction proceeds on Aug 3 amounted to just UAH 1.9bn. The lion's share of proceeds came from a placement of the 1-year bond at 11.15%. which implies a 16 bps increase in the yield compared to the offered yield in July. On the secondary market, the 1-year bond is quoted at 11.8%/11.3% (bid/ask).

The hryvnia strengthened to 26.83 UAH/USD amid solid foreign currency inflow from the agro exports.

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	5.9%	0.6 p.p.	1.0 p.p.
Ukraine-2028	6.6%	0.1 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.83	-0.1%	-5.1%
EUR/UAH	31.58	-1.1%	-9.1%

Source: Eavex Capital

Highlights

› Zelenskiy Silent on Lukashenko after Belarus Activist Found Dead in Kyiv

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Zelenskiy Silent on Lukashenko after Belarus Activist Found Dead in Kyiv

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NEWS

President Zelenskiy's administration did not react publicly last week after Belarus opposition activist Vitaliy Shishov was found dead by hanging in Svyatoshinskiy Park on the western edge of Kyiv on Tuesday (Aug 3). Shishov had headed an organization of Belarus exiles in Ukraine who oppose the rule of longtime Belarus leader Aleksander Lukashenko. Initial law enforcement assessments called the death a murder set up to appear as a suicide. In comments made on Sunday (Aug 8), Lukashenko denied involvement in Shishov's death, calling him a "nobody", and demanded that Ukraine conduct an investigation to explain the situation. Lukashenko also repeated previously-made accusations against Zelenskiy that Ukraine's security agencies are sending weapons and trained fighters across the border into Belarus. The apparent murder of Shishov comes during an active period for Belarus, as the one-year anniversary of the Minsk protests has just passed, and a Belarusian athlete at the Tokyo Olympics received heavy media coverage after declaring that it was unsafe for her to return to Belarus after criticizing the country's national Olympic committee.

COMMENTARY

Zelenskiy's passivity in the face of Lukashenko's increasing belligerence toward Ukraine is a sign of the difficulty which the Belarus instability presents for Kyiv, in our view. If for many years Lukashenko could have been considered neutral, or even an ally, in Ukrainian efforts to keep Russian aggression at bay, this dynamic has now changed for the worse. If, as seems likely, Belarusian and/or Russian security agents are responsible for Shishov's death, this represents an alarming new escalation in hostilities. We have little faith that European and US pressure is capable of dislodging Lukashenko from power in Minsk, despite a recent publicized tour of Western capitals made by exiled opposition leader Svetlana Tikhanovska; ultimately, we think only the Kremlin's hard power could force Lukashenko out, giving the Putin regime a strong card to play in the ongoing Belarus saga. What is clear is that Zelenskiy needs to find an effective policy that neither provokes Lukashenko unnecessarily, nor allows his agents to carry out murders on Ukrainian territory. Unfortunately, we think the danger of combined Russian/Belarusian aggression against Ukraine is now an issue which needs to be addressed by both the Zelenskiy administration and Ukraine's Western supporters.

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	-0.4%	3.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	109.8	-0.4%	5.5%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.3	0.7%	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	116.5	0.3%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.8	-0.2%	5.3%	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	99.3	-0.8%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.7	0.0%	13.6%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.3	-0.9%	5.3%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	107.8	-0.6%	6.5%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	103.7	-0.2%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.8	0.2%	6.9%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.1	0.0%	7.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.9	0.8%	5.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.4	0.0%	6.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.8	0.1%	4.6%	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

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