capital

Fixed Income Weekly Monitor

June 14, 2021

Trends

Quotes for Ukrainian sovereign Eurobonds moved higher last week after the US Department of Defense released a USD 150mn package in military aid which includes counter-artillery radars and unmanned aerial systems. The news once again underlined the Biden administration's commitment to backing Ukraine against Russian aggression.

On the economic front, Ukraine's 12-month inflation was reported at 9.5% YoY for May. The National Bank's monetary policy board is due to examine its key refinancing rate on Thursday (Jun 17). We assume that the rate will be put on hold at 7.5%.

The actively traded Ukraine-28s sovereign increased in value by 1.0% to 120.8 (6.3% YtM) and the medium-term benchmark Ukraine-26s edged up by 0.4% to 112.1 (5.1% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) advanced by a firm 5.3% to a new all-time high of 117.7 cents on the dollar, as market players are intrigued by the derivative's potential to pay enormous returns in case Ukraine's annual GDP growth rises above 5%. Some analysts are placing the target price for the VRIs as high as 190 cents.

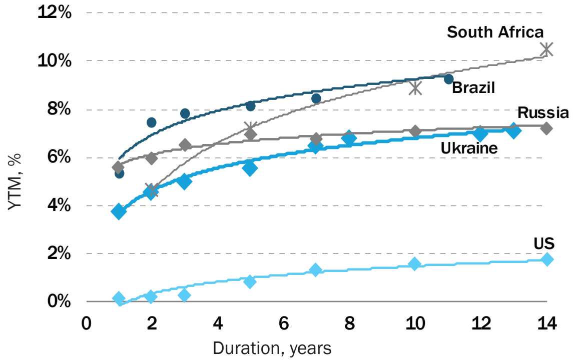
Strong prices for steel and iron ore continue to prop up quotes for Metinvest-29s, which gained 1.0% to 109.1 (6.3% YtM) last week. In other corporate debt Eurobonds, MHP-29s were flat at 99.3 (6.5% YtM) while the EUR-denominated NaftoGaz-24s rose by 0.6% to 103.9 (5.7% YtM).

The Finance Ministry attracted a rather large amount of UAH 19bn from its domestic bond auction held on Jun 8, including USD 182mn raised from the sale of a USD-denominated 1-year issue at 3.70%. For UAH-denominated bonds, the yield sat at the same level of the last two months - 11.20% for 1-year papers and 12.30% for 3-years. A rare offering of a medium-term bond with maturity in 2026 was placed at 12.52%. MinFin filled 27 out of 35 bids for the medium-term bond, capping the yield at 12.59% for the auction. On the secondary market, the yield for a 1-year bond remained at 11.6%/11.1%.

The hryvnia appreciated by 0.9% over the week to close at 27.04 UAH/USD, with the National Bank once again using the weakness of the dollar to buy up hard currrencies. Ukraine's foreign currency reserves were at USD 27.8bn on Jun 1. The reserves cover an equivalent of 4.2 months of future imports, which considered an ample amount.

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	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	11.6%/11.1%	0.0 p.p.	+0.1 p.p.
Ukraine-2025	4.9%	-0.1 p.p.	0.0 p.p.
Ukraine-2028	6.3%	-0.2 p.p.	0.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.04	-0.9%	-4.4%
EUR/UAH	32.76	-0.9%	-5.7%

Source: Eavex Capital

Highlights

- Zelenskiy Finally Gets His White House Invitation
- Ukraine's 12-Month Inflation Reaches 9.5% in May

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Zelenskiy Finally Gets His White House Invitation

by Will Ritter
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NEWS

US President Biden has formally invited President Zelenskiy to visit Washington for talks next month, according to multiple media reports. The invitation came during a call between the two leaders last week ahead of Biden's trip to the G7 summit in Britain. In related news, the US Defense Department last week detailed the usage of USD 150mn in military aid grants to Ukraine. The "defensive lethal assistance" will cover the provision of counter-artillery radars, communications and electronic warfare equipment, counter-drone systems, and training. Biden is currently attending the NATO summit in Brussels and is due to meet Russian President Putin in Switzerland on Wednesday (Jun 16).

COMMENTARY

Biden's decision to invite Zelenskiy to Washington in the opening 6 months of his term comes in line with our expectations, as Biden clearly wants to indicate the high priority which his administration places on US support for Ukraine following the controversies of the Trump years. The timing of the invitation gives it the appearance of somewhat of a consolation prize, given Biden's recent decision not to try to block the completion of the Nord Stream 2 energy pipeline from Russia to Germany, which represents a clear diplomatic defeat for Zelenskiy. In political terms, Zelenskiy has an opportunity to make substantial gains from the high-profile visit, which could help him domestically at a time when he is surely starting to consider a strategy for his re-election. Although Zelenskiy's approval has now fallen below 50 percent, he is still notably out-performing Petro Poroshenko's rating at a similar point in his term, and we do not as-yet see a potential challenger capable of outflanking Zelenskiy on the mainstream national-patriotic front.

We believe that Zelenskiy would be unwise to overplay his hand during the White House visit in regard to his government's NATO aspirations, as both Washington and major Western European NATO countries have repeatedly indicated that Ukraine is simply too large an animal for the alliance to swallow at the present time. Also at issue is the sincerity of Zelenskiy's stated desire for Ukraine to join NATO, as he appears to view membership in the alliance as a political shortcut of convenience, rather than as part of a fundamental process of reforming Ukraine's governmental and military structures.

Ukraine's 12-Month Inflation Reaches 9.5% in May

by Dmitry Churin
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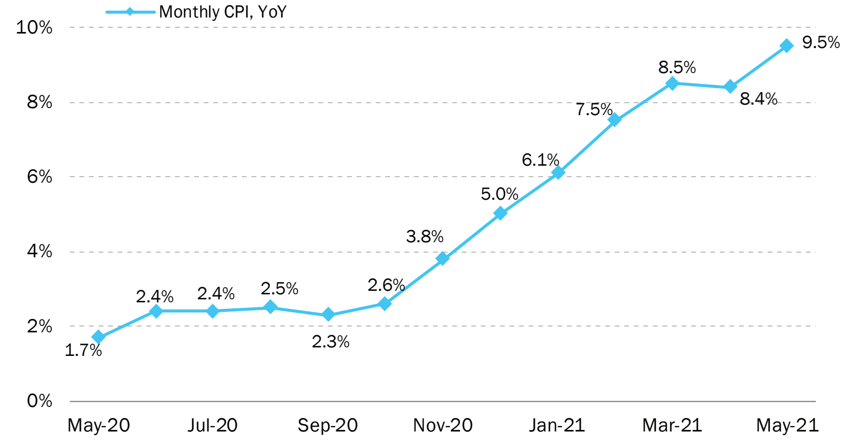
NEWS

Ukraine's rolling 12-month "headline" consumer inflation reached 9.5% YoY in May, accelerating from 8.4% registered for April, according to the State Statistics Committee's data. In May alone, the Ukrainian CPI jumped by a notable 1.3% on a month-on-month basis as food prices continued to grow; the aggregate food & beverage price index rose 1.7% MoM.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The current inflationary trend - not only in Ukraine but globally - is unsurprising, following the creation of the equivalent of trillions of dollars by central banks to mitigate the COVID-19 crisis. Food prices are moving higher around the world on the back of soaring costs for soft commodities, which are driving cost increases throughout the whole food production chain. The global wheat price is up by 15% YoY to USD 210 per tonne, and corn prices have almost doubled over the year. Energy prices are another reason for the higher consumer inflation, as the Brent crude oil benchmark has jumped by 70% to USD 72/bbl from the last year's average level of USD 42/bbl.

In the major consumer basket categories, the food price index in Ukraine grew by 9.9% YoY in May and the utility service price index increased by 35% YoY. The main restraint on overall inflation was provided by the clothing price index, which fell 3.8% YoY.

Although we see an acceleration of inflation in the country, we assume that the National Bank will leave its key refinancing rate unchanged at 7.5% at the monetary policy board meeting this Thursday (Jun 17). However, we do not rule out that the regulator could surprise the market with a 50 bps rate increase to 8.0%.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	105.4	0.1%	3.2%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	112.1	0.4%	5.1%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	120.8	1.0%	6.3%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	106.5	0.1%	6.7%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	117.7	5.3%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	108.8	0.3%	5.2%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.1	0.6%	5.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	99.3	0.0%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	67.3	3.1%	13.6%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	114.2	0.7%	5.1%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	109.1	1.0%	6.3%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	103.9	0.6%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	104.2	0.3%	7.0%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.4	0.1%	7.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.6	0.1%	5.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.4	0.3%	4.8%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.0	0.0%	6.5%	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			11.6%	11.1%	n/a	n/a	S/A	11 May 2022	12,917
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
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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