EAVEX capital

Fixed Income Weekly Monitor

June 22, 2021

Trends

The major driver for the fixed income universe last week was the rise in US Treasury yields, as market participants began betting that the Federal Reserve will act to clamp down on inflation pressures. The yield for the benchmark 10-year US Treasury moved back up to near 1.5%, although it remains below its local spring peak near 1.7%. In the last 5 years, the 10-year US Treasury yield peaked at 3.25% in 2018 (pre-COVID) and bottomed at 0.52% in mid-2020 amid the Fed's massive support of the bond market. Quotes for Ukrainian Eurobonds declined to reflect the higher projected risk-free rate.

Ukraine-28s decreased in value by 1.5% to 119.0 (6.6% YtM) and the medium-term benchmark Ukraine-26s slipped by 1.2% to 110.7 (5.3% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) showed a resistance to the correction, inching up by 0.2% to 117.9 cents on the dollar.

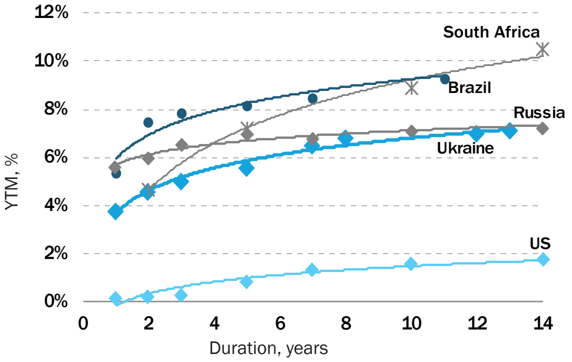
In corporate debt papers, the troubled DTEK Energy-27s slumped 5.3% to 63.7 (13.7%) after Fitch Ratings upgraded the issue to only 'CCC' from 'RD' (Restricted Default) after DTEK Energy completed its debt restructuring last month. Metinvest-29s shed a moderate 0.5% to 108.6 (6.4% YtM). MHP-26s inched up by 0.2% to 105.3 (5.8% YtM) and EUR-denominated issue NaftoGaz-24s gained 0.3% to close at 104.2 (5.6% YtM).

The primary auction for Ukraine's domestic treasuries brought in UAH 8.0bn to the national budget. The largest proceeds came from a placement of 1-year bonds at 10.97%. The achieved yield was 23 bps lower than at the previous several auctions. The Finance Ministry filled 16 out of 19 bids for the 1-year debt papers. The secondary market reacted with a 10 bps decrease in the offered yields to bid/ask of 11.5%/11.0%. The primary placement of the 3-year treasuries was at the unchanged yield of 12.30%. A rare offering of a EUR-denominated domestic bond with maturity next June was at 2.50%, bringing EUR 60mn in proceeds.

On the interbank currency market, the hryvnia devalued by 1.0% to 27.30 UAH/USD after the dollar rallied against major world currencies, notching its largest two-day gain of the year after US central bank officials brought forward the anticipated timing of the Federal Reserve's first post-COVID interest rate rise. The Fed said it will also reduce its USD 120bn-a-month "quantitative easing" bond purchases, which have been supporting financial markets since March 2020.

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	11.5%/11.0%	-0.1 p.p.	0.0 p.p.
Ukraine-2025	5.2%	0.3 p.p.	0.3 p.p.
Ukraine-2028	6.6%	0.3 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.30	1.0%	-3.4%
EUR/UAH	32.76	0.0%	-5.7%

Source: Eavex Capital

Highlights

- Biden-Putin Summit Resets US-Russian Relations
- UkrAvtodor Issues USD 700mn State Guaranteed Eurobonds at 6.25%

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Biden-Putin Summit Resets US-Russian Relations

by Will Ritter
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NEWS

US President Joseph Biden held his first face-to-face meeting with his Russian counterpart Vladimir Putin in Switzerland on Wednesday (Jun 16) in a highly anticipated event at a Geneva castle. The talks were described as constructive by both sides, although major new agreements were not announced. One immediate outcome of the meeting was that the sides agreed to reinstate their respective ambassadors in each other's capitals; the ambassadors had been withdrawn several months ago amid deteriorating relations. A Russian spokesman also said that fresh nuclear arms control talks are expected to begin in the coming weeks. From the Ukrainian side, Foreign Minister Dmytro Kuleba praised Biden for refusing to make any deals involving Ukraine with Putin without Kyiv's involvement. A controversy erupted in the US media after a major national outlet, Politico, reported that the US had frozen USD 100mn in military aid to Ukraine as a concession to the Kremlin after the meeting, and the story quickly spread into Ukraine's domestic media. Official White House press representative Jennifer Psaki strenuously denied that a freezing of the aid had occurred, pointing to the release of a USD 150mn tranche of military aid the previous week.

COMMENTARY

In our view, the Biden-Putin summit turned out to be quite uneventful, but it did establish a foundation for more stable US-Russian relations - a reset, to use the language of past such engagements - after the controversies and instability of the Trump years. We think the main goal of the Biden administration is to change the nature of the relationship from the open hostility of the last 7 or 8 years into something more like the adversarial respect of the US-Soviet relationship, and judging from the Russian reaction to the summit, the Kremlin is open to this approach. Despite complaints from some quarters that Biden is being too accommodating to Putin, we believe that a de-escalation in overall US-Russia tensions would be a clearly positive development for Ukraine. We see President Zelenskiy's attempts to focus on Ukrainian entry into NATO as a distraction from more pressing security and reform issues, as Kyiv clearly has no chance to join NATO on any kind of foreseeable timeline. On the other hand, since taking office in January, the Biden administration has been actively engaged in ways to help Kyiv to defend itself from any new potential Russian aggression, which improves Ukrainian security in the immediate and practical sense, rather than the theoretical sense associated with pie-in-the-sky NATO guarantees. We do not rule out that Politico's reporting on the frozen military aid could have been infiltrated with some sort of Russian or even Ukrainian disinformation by actors attempting to undermine the US-Ukrainian relationship.

UkrAvtodor Issues USD 700mn State Guaranteed Eurobonds at 6.25%

by Dmitry Churin
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NEWS

Ukraine's State Agency of Automobile Road (UkrAvtodor) has issued a USD 700mn Eurobond with maturity at 6.25%. The maturity of the bond will be in equal four tranches in December 2026, June 2027, December 2027 and June 2028. UkrAvtodor Eurobond was placed under a sovereign guarantee. Earlier this year, the Ukrainian government approved the provision of guarantees to Ukravtodor for UAH 20bn for loans for up to 15 years and a list of projects for the implementation of which funds can be attracted under these guarantees by increasing the volume of road construction and reconstruction.

COMMENTARY

The achieved pricing for UkrAvtodor's bond was lower than an initially expected yield of 6.65%. The issue received bids for a total amount of USD 2.4b as a result the three times oversubscription led to a lower interest rate. Assuming that the issue is a 7-year Eurobonds, its spread to the sovereign yield curve was just 36bps. It is crucial for the bond that it has a state guarantee as UkrAvtodor's financial results are unpredictable because they solely relay on the transfers from the national budget. UkrAvtodor has an income in form of budget allowances of UAH 11.4bn (USD 423mn) while the company's total income including other budget transfers for road construction was UAH 35.5bn (USD 1.32bn) in 2020. UkrAvtodor has a moderate net profit of UAH 134mn (USD 5.0mn) in 2020. On the cash flow side, UkrAvtodor had a net cash flow from operations in equivalent of USD 13mn in FY20 while a net operating cash flow back in FY19 was negative at USD -140,000. The net debt was USD 2.3bn as of start of the year. Taking into account that UkrAvtodor's bond has a state guarantee, we have a NEUTRAL view on the issue. However, we do think that the bond will be more volatile in a period of the overall market correction.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	105.1	-0.3%	3.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.7	-1.2%	5.3%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.0	-1.5%	6.6%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.5	-1.9%	6.9%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	117.9	0.2%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	109.0	0.2%	5.1%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.3	0.2%	5.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	99.2	-0.1%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	63.7	-5.3%	13.7%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	114.0	-0.2%	5.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.6	-0.5%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.2	0.3%	5.6%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	104.1	-0.1%	6.7%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.4	0.0%	7.6%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.4	-0.2%	7.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	105.0	0.6%	6.3%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.8	2.6%	4.9%	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
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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