EAVEX capital

Fixed Income Weekly Monitor

June 29, 2021

Trends

Quotes for Ukrainian sovereign Eurobonds declined last week as investors rebalanced their portfolios amid rising US Treasury yields. Ukrainian Eurobonds had to compete with higher-yielding Brazilian sovereigns as bond players seek inflation-beating returns. The Brazilian 10-year USD-denominated issue currently offers a 9.2% yield, while Ukraine-32s, which are a proxy for the 10-year benchmark, edged down in value by 0.5% last week to close at 104.0 (7.0% YtM). The medium-term Ukraine-26s also shed 0.5% to 110.2 (5.4% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) decreased by 0.4% to 117.4 cents on the dollar, leaving the papers just below their all-time high.

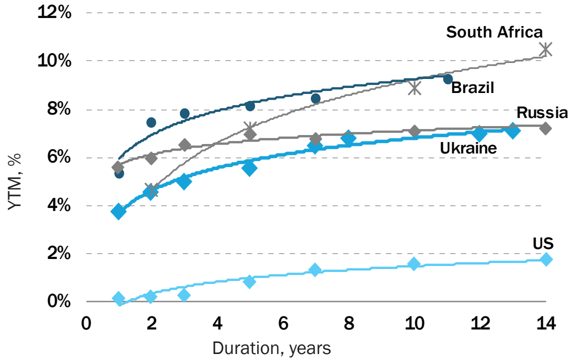
Ukrainian corporate Eurobonds were little changed, with MHP-26s inching up by 0.2% to 105.5 (5.7% YTM) while Metinvest-26s inched down by 0.1% to 113.9 (5.2% YtM). In banking names, quotes for UkrEximBank-25s were flat at 107.4 (7.3% YtM). On the upside, DTEK Energy-27s advanced by 1.9% to 64.9 (13.4%) as the country's electricity market regulator increased the cap price on the so-called day-ahead electricity market.

The Finance Ministry continued to enjoy solid demand for domestic bonds. The primary auction held last Tuesday attracted a total amount of UAH 11.4 bn, including proceeds from a placement of 1-year USD-denominated treasuries at 3.70%. The offered yields for UAH-denominated bonds were the same as at the preceding auction. The 1-year bond was issued at 10.97% and the 3-year bond at 12.30%.

On the currency front, the hryvnia edged down by 0.2% to 27.35 UAH/USD as the dollar continued to rise on a global scale. Last week's highest point was 27.56 UAH/USD and the lowest was at 27.32 UAH/USD. The National Bank intervened on the interbank market to prevent heavier fluctuations in the rate.

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%	0.0 p.p.	0.0 p.p.
Ukraine-2025	5.4%	0.2 p.p.	0.5 p.p.
Ukraine-2028	6.7%	0.1 p.p.	0.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.35	0.2%	-3.3%
EUR/UAH	32.74	-0.1%	-5.8%

Source: Eavex Capital

Highlights

› Ukraine's Industrial Output Rises 5.4% YoY in May, Confirming Expectations

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Ukraine's Industrial Output Rises 5.4% YoY in May, Confirming Expectations

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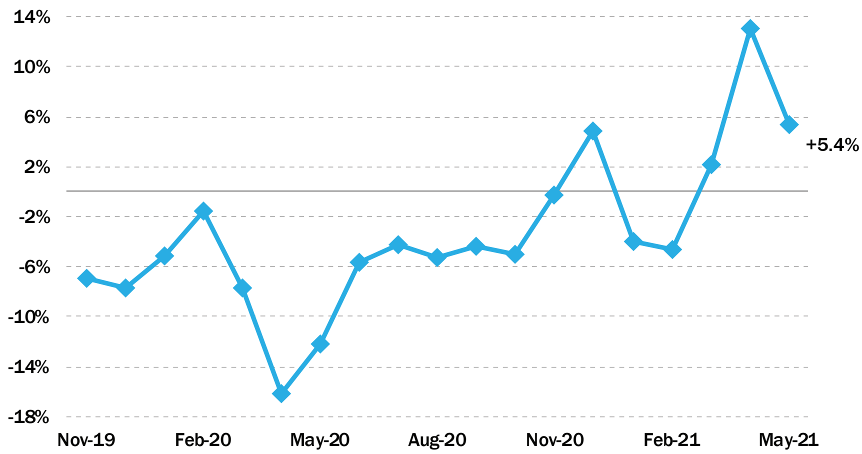
NEWS

Ukraine's overall industrial output measured by UkrStat rose by 5.4% YoY in May, rebounding further from the slump seen in May 2020 when the industrial production index contracted by 12.2% YoY. Compared to April, industrial output in the country decreased by 3.4%, mostly due to the traditional holiday period in early May. The Ukrainian industrial production index has grown by 2.2% YoY so far this year, according to the State Statistics Committee data.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The industrial data for May was largely in line with expectations. Although we would be glad to see an even firmer industrial output increase amid the favorable market conditions for Ukrainian steel, the utility sector constrained the overall IP index performance. The seasonal pattern and an increase in energy prices resulted in a 2.5% YoY decline in the utility sector supply in May. In the month-on-month comparison, the electricity and natural gas supply volumes dropped by 11.2% in May compared to April. It was also interesting to note that Ukraine's food production decreased by 13.3% YoY in May, which might be an indication of a lower demand for food, as many Ukrainians resumed their travels to Europe to seek jobs; data from the National Bank regarding a rise in the inflow of remittances to Ukraine supports this assumption. The remittance inflow to Ukraine was estimated at USD 11.6bn in 2020, which in relative terms was equivalent to a very substantial 7.5% of GDP. The remittances amounted to USD 3.8bn in 4M21, helping the national currency, hryvnia, to gain 3.3% since the start of the year.

In other macroeconomic statistics, retail sales volume soared by 22% YoY in May, as the statistic again benefited from the COVID quarantine comparison base. The retail sales index is up by 14.3% YoY in 5M21.

Meanwhile, the agro sector's output as measured by UkrStat decreased by 4.5% YoY in the January-May period.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	104.7	-0.4%	3.7%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.2	-0.5%	5.4%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	118.1	-0.8%	6.7%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.0	-0.5%	7.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	117.4	-0.4%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	109.0	0.0%	5.1%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.5	0.2%	5.7%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	99.4	0.2%	6.4%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.9	1.9%	13.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.9	-0.1%	5.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.5	-0.1%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.2	0.0%	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	99.3	-0.1%	7.6%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.4	0.0%	7.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.9	-0.1%	6.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.8	0.0%	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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