EAVEX capital

Fixed Income Weekly Monitor

September 13, 2021

Trends

There was a moderate decline in the value of Ukrainian sovereign Eurobonds last week. Although the news flow was uneventful, it was announced that the IMF monitoring mission in Ukraine on the first revision of the stand-by arrangements plans to start work on Sept 21. The next tranche from the IMF should be USD 700mn. The country also expects to receive the second tranche of EU macro-financial assistance in the amount of EUR 600mn. Taking into account that the National Bank's foreign currency reserves stood at USD 31.6bn at the beginning of this month, covering an equivalent of 4.4 months of future imports, Ukraine has enough cash to meet the short term need of USD 3.6bn to service the government's foreign currency debt through the year-end.

The actively traded Ukraine-28s issue decreased by 0.6% to 120.6 (6.2% YtM) and the short-term Ukraine-22s with maturity next September ticked down by 0.1% to 104.5 (3.1% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were flat at 113.9 cents on the dollar.

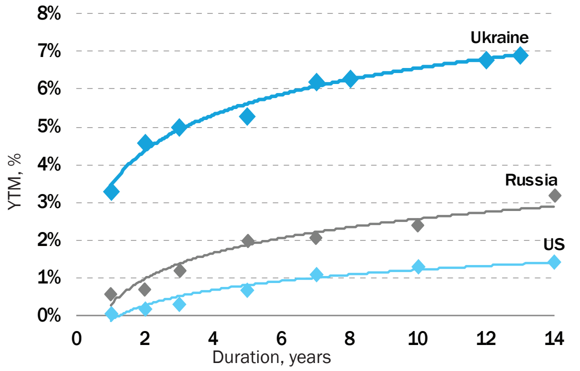
The state-guaranteed Eurobonds Ukrainian Road Agency-28s were traded at 100.6% (6.2% YtM), remaining essentially unchanged since their placement in June. The quasi-sovereign debt papers of Ukrainian Railways (RAILUA-24s) inched up by 0.1% to 104.2 (6.6% YtM). Kernel-27s were unchanged at 107.8 (5.3% YyM) and MHP-29s edged up by 0.3% to 101.3 (6.1% YtM).

The Finance Ministry raised a total of UAH 1.37bn at the primary UAH-bond auction held on Sept 7 - once again, far below the average for the weekly auctions. Proceeds from a sale of the 1-year treasuries were just UAH 54mn as the offered yield remained at 11.15%. Investors were inactive at the auction as they waited for the inflation data for August and the decision of the National Bank regarding its review of the key policy rate. The NBU announced on Thursday (Sept 9) that it had increased the key rate from 8.0% to 8.5%, aiming to rein in inflation expectations. The key policy rate has grown from 6.0% to 8.5% since the start of this year. Meanwhile, UkrStat reported that the headline 12-month inflation was at 10.2% in August. The National Bank has a 5.0% target for inflation for the medium-term. On the secondary market the bid/ask yield remained at 12.0%/11.0% for 1-year UAH-denominated bonds.

The hryvnia had a positive reaction to the key rate increase, gaining 0.8% last week to 26.68 UAH/USD. Nevertheless, we reiterate our forecast that the hryvnia will begin its seasonal devaluation pattern later this month.

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	8.5%	+0.5 p.p.	+2.5 p.p.
UAH 1-year bond	12.0%/11.0%	0.0 p.p.	+0.4 p.p.
Ukraine-2025	5.0%	0.1 p.p.	0.1 p.p.
Ukraine-2028	6.2%	0.1 p.p.	-0.1 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.68	-0.8%	-5.6%
EUR/UAH	31.61	-1.1%	-9.0%

Source: Eavex Capital

Highlights

- CNN Reports on Failed Ukrainian Operation to Arrest Russian Mercenaries
- Ukraine's Consumer Inflation Remains at 10.2% YoY After August Data

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CNN Reports on Failed Ukrainian Operation to Arrest Russian Mercenaries

by Will Ritter
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NEWS

US-based television news network CNN last Tuesday (Sept 7) reported details of a clandestine operation by Ukrainian intelligence services to kidnap Russian Donbass mercenary fighters in Belarus in July 2020 and fly them to Ukraine to face charges. CNN cited anonymous sources in Ukrainian military intelligence for the report, who said the Ukrainian side had set up a fake company offering highly-paid oil security jobs in Venezuela for Russians who could prove their war-fighting experience. Around 30 such Russians responded, the report said. However, the plan fell apart when, in news that was widely publicized at the time, Belarusian special forces arrested the Russians outside Minsk on charges of planning to disrupt Belarus's approaching presidential election. President Zelenskiy then demanded that Belarus President Lukashenko hand over the arrested Russians to Ukraine, but Lukashenko refused, and they were eventually returned to Russia. Following the CNN report last week, Russia's Federal Security Service issued a statement accusing Ukraine of conducting a state terrorist operation.

COMMENTARY

The CNN report is embarrassing for the Zelenskiy administration first of all because the operation - which would surely have been approved by Zelenskiy himself - likely failed due to infiltration of Ukrainian intelligence by Russia, and second of all because three military intelligence officers apparently went to CNN with the story. Although the sources are anonymous, and a representative of Zelenkiy, Mikhaylo Podolyak, challenged the veracity of the report in comments made to US news site RFE/RL, the story sounds plausible to us, as the only real alternative is that CNN was tricked by fake Russian sources. However, we cannot say that the CNN report is really explosive news, as rumors of a Ukrainian special operation gone awry had surfaced last summer at the time of the highly publicized arrest of the mercenaries. Indeed, Zelenskiy may be fortunate that this operation was not successful, as the consequences of such a brazen move could have been quite unpredictable. What the story does reveal beyond any doubt is the cynicism of Lukashenko's public claim that the Russian mercenaries had been sent to Belarus to destabilize the country, when he surely knew the real story and was intervening on the Kremlin's behalf.

Ukraine's Consumer Inflation Remains at 10.2% YoY After August Data

by Dmitry Churin
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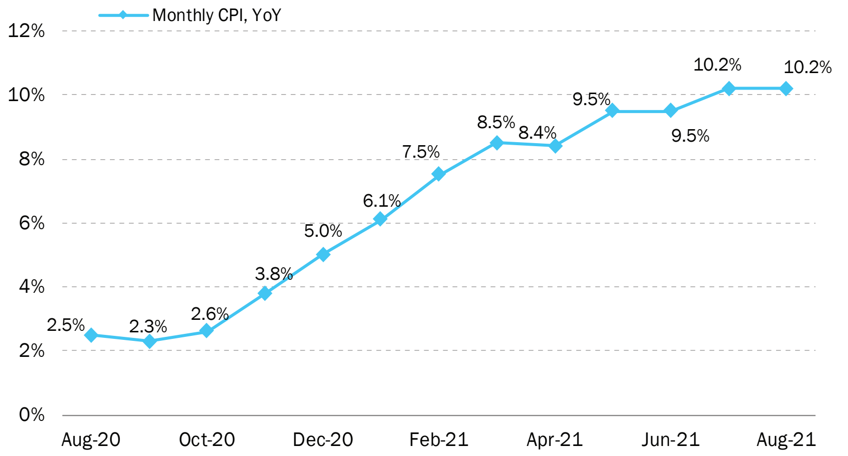
NEWS

Ukraine's State Statistics Committee (UkrStat) said that 12-month "headline" consumer inflation remained at 10.2% for August after the same figure for July. On a monthly basis, the consumer price index edged down by 0.2% in August. UkrStat reported that food prices grew by 11.7% YoY in August, and that utility service prices jumped by 29% YoY as the natural gas price for households doubled amid skyrocketing gas prices in Europe, which reached a new historical high of USD 700 per 1,000 cubic meters. In other inflation basket categories, healthcare services went up in price by 5.5% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

As we had forecasted, the National Bank decided to increase its key policy rate from 8.0% to 8.5% last Thursday (Sept 9) in a response to accelerating inflation pressure. The key rate has risen from 6.0% to 8.5% since the start of this year. The tighter monetary policy is aimed at reining in inflation expectations and bringing price growth back toward the 5% target for 2022. Wages continue to rise at a fast pace in the country, with the rapid growth in household income supporting domestic demand. This is evidenced, among other things, by the sharp pickup in retail trade (+13% YoY in 7M21) and high demand for durable goods.

The next meeting of the NBU Board on monetary policy issues is scheduled for Oct 21. We forecast that the key rate will be put on hold at 8.5% in October. Meanwhile, we think that the Finance Ministry will be forced to increase its offered yield for 1-year UAH treasuries by 50 bps to 11.65% to raise more money on the domestic market. Separately, the National Bank admitted that it sees major risks to the economy in the potential declaration of much tighter quarantine measures in Ukraine and worldwide, and a longer and stronger-than-expected surge in global inflation.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	104.5	-0.1%	3.1%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	111.3	-0.5%	5.2%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	120.6	-0.6%	6.2%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	106.5	-0.7%	6.6%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	113.9	-0.1%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.8	0.0%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	106.3	0.5%	5.4%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.3	0.3%	6.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	61.3	1.2%	14.9%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	114.6	0.4%	5.0%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	110.7	0.3%	6.0%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.4	-0.1%	5.4%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	104.2	0.1%	6.6%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.1	0.0%	6.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	108.5	-0.3%	5.2%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.0	-0.5%	4.1%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	109.0	-0.1%	4.3%	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			11.9%	11.2%	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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