EAVEX capital

Fixed Income Weekly Monitor

September 6, 2021

Trends

Quotes for Ukrainian Eurobonds increased notably last week amid a generally robust situation on the international financial market. The impressive performance of risk assets was highlighted by the 50th all-time high for the S&P500 index in 2021. The gauge has risen by 20% so far this year. Thus, current conditions suggest that the US 10-year Treasury yield, a benchmark for interest rates globally, is unlikely to move sharply higher off its recent level of 1.3%.

The Ukraine-32s issue, which is a proxy for the 10-year benchmark, grew by 1.8% to 107.3 (6.6% YtM) and the medium-term Ukraine-26s advanced by 1.3% to 111.9 (5.0% YoY).The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) picked up 0.6% to close at 114.0 cents on the dollar.

In the corporate debt universe, DTEK Energy-26s dropped by 5.9% to 60.6% (14.2% YtM) after the company reported a need to import a large volume of expensive coal from Poland and Kazakhstan. Meanwhile, the Metinvest-29s issue gained 1.7% to 110.4 (6.1% YtM) after the company posted an EBITDA of USD 3.79bn for 1H21, meaning that the group's Net Debt-to-EBITDA ratio fell to just 0.2x. Metinvest had a total debt of USD 2.46bn and cash of USD 1.44bn as of 30 June 2020.

Proceeds from UAH-denominated treasury placements remained low last week. The Finance Ministry sold just UAH 94mn of the 1-year debt papers at an offered yield of 11.15%. Proceeds from a sale of the 6-year bonds at 12.75% were just UAH 252mn. On the secondary market the bid/ask yield stands at 12.0%/11.0% for 1-year UAH-denominated bonds. In municipal debt papers, UAH-denominated bonds of city of Lviv with maturity in December 2022 were offered at 12.7%. The National Bank's monetary board will be discussing the level of the key rate on Sept 9. We forecast that the regulator will raise the key rate from 8.0% to 8.5%.

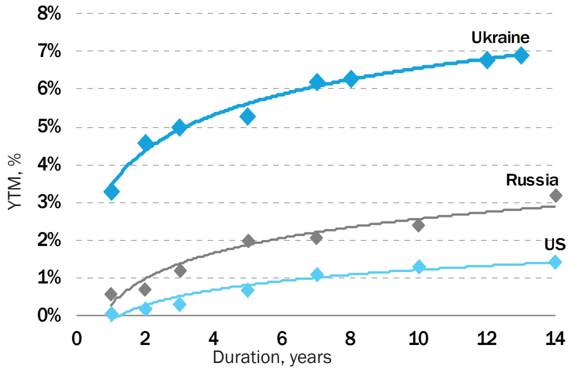
On the currency front, the hryvnia was volatile, touching 27.05 UAH/USD over the week before closing at 26.90 UAH/USD on Friday (Sept 3). Taking into account that Ukraine has to import a large volume of natural gas ahead of the winter season, we think that the hryvnia will be under seasonal pressure in the coming weeks. We also believe that the dollar is set to strengthen against other major world currencies. The USDX index, which measures the dollar against the basket of other currencies, bottomed at 92 points on Friday, opening the way to a rebound by at least 1.5% in the short term.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at research@eavex.com.ua.

Highlights

> Zelenskiy Avoids Controversy in Visits to White House, Silicon Valley

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	12.0%/11.0%	0.0 p.p.	+0.4 p.p.
Ukraine-2025	4.9%	-0.3 p.p.	0.0 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.90	-0.1%	-4.8%
EUR/UAH	31.97	0.9%	-8.0%

Source: Eavex Capital

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Zelenskiy Avoids Controversy in Visits to White House, Silicon Valley

by Will Ritter
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NEWS

President Zelenskiy met at the White House for two hours with President Biden in Washington on Wednesday (Sept 1), and then flew to the San Francisco area where he met the following day with Apple CEO Tim Cook and delivered a speech at Stanford University. Biden and Zelenskiy did not face the press together after their meeting, although a detailed joint statement on goals for the US-Ukraine relationship was released, and Zelenskiy spoke to reporters by himself. He said that Biden had responded to his request for a NATO membership plan with “support, but no timeframes... I feel that [Biden] personally supports Ukraine in granting NATO membership, but it is difficult for me to say what the path will be,” the US government-funded RFE/RL news site reported. After the meeting, the White House announced a new grant of USD 60mn for the purchase of military hardware to be added to some USD 400mn due to be distributed to Ukraine by the end of 2021.

COMMENTARY

Zelenskiy’s visit to the White House turned out to be a relatively low-profile event compared to his previous US visit in September 2019, which was an absolute media circus due to the controversy involving his discussions with then-President Donald Trump. This time, the media was heavily preoccupied with the US military withdrawal from Afghanistan as well as with major flooding in the south of the country, which allowed Biden and Zelenskiy to conduct their diplomacy without particularly heavy scrutiny. The lack of a joint press conference also denied Zelenskiy the opportunity to air his complaints to a wide US audience about Biden’s refusal to sanction Germany over the Nord Stream 2 energy pipeline. We think that Biden managed to convince Zelenskiy that opposition to Ukraine joining NATO is not coming from the US administration, but from Western European members of the alliance, and the joint statement was clearly designed to provide assurances on the key issues for Zelenskiy: military assistance and energy security. We believe that the visit was largely a success from the public point of view, as there were no controversial incidents that could have damaged the relationship. Also, Zelenskiy did not give the appearance of trying to involve himself in US domestic politics by going over Biden’s head and appealing to members of Congress on the Nord Stream issue. The next in-person meeting between Biden and Zelenskiy could well be in Kyiv, as Biden expressed interest in making the trip, although a specific date was not mentioned. No US President has visited Ukraine since George Bush in 2008.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	104.6	-0.7%	3.2%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	111.9	1.3%	5.0%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	121.3	1.1%	6.1%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	107.3	1.8%	6.6%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	114.0	0.6%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.8	0.3%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.8	0.6%	5.6%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.0	1.2%	6.2%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	60.6	-5.9%	14.2%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	114.2	0.2%	5.0%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	110.4	1.7%	6.1%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.5	0.7%	5.5%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	104.1	0.3%	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	108.8	0.7%	4.9%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.5	0.5%	4.1%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	109.1	0.1%	4.4%	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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