EAVEX capital

Fixed Income Weekly Monitor

February 7, 2022

Trends

Ukrainian sovereign and corporate Eurobonds ended higher last week, recovering a bit more ground from their sharp drop seen in January. However, news emerged that the previous rebound in short-term Ukraine-22 sovereigns was actually driven by the Finance Ministry buying up these bonds to take advantage of the below-par discount, rather than by outside investors. MinFin said that Ukraine's state and state guaranteed debt currently amounts to an equivalent of USD 98.0bn, putting the relative public debt burden at an estimated 51% of GDP, which is considered an affordable level. The share of UAH-denominated debt was near 40% of the state debt as of Jan 1.

The benchmark 10-year Eurobonds increased in value by 2.2% to 84.2 (10.0% YtM) and the 5-year issue gained 2.3% to 88.7 (11.0 YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) advanced by 6.4% to 76.6 cents on the dollar after UkrStat reported a preliminary GDP growth figure of fat 5.9% YoY for 4Q21, which leaves some hope that the full-year GDP growth could exceed 3%, thus offering a payout on the VRIs. Taking into account the rising interest rate environment, Ukraine's GDP growth in 2022 is unlikely to exceed 3.5% YoY, we think.

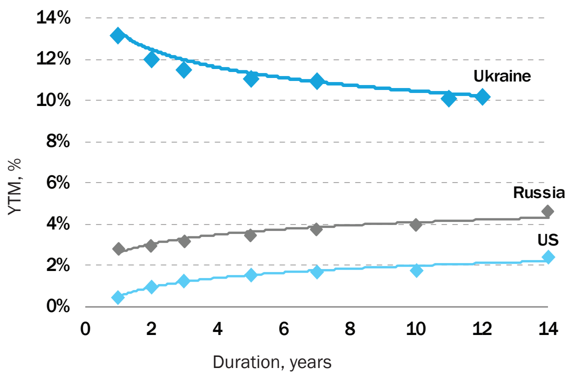
In the corporate Eurobond universe, MHP-26s rose by 3.0% to 90.7 (10.0% YtM), trading below the sovereign yield curve. On the downside, Metinvest-26s shed 0.6% to 88.4 (12.2% YoY) after the company had a conflict with the State Fiscal Service regarding the level of its production tax. In a press release, Metinvest claimed that it had paid a total of UAH 52.7bn (USD 1.9bn) in taxes and fees to national and local budgets of Ukraine in 2021, which was 2.4x more than in 2020.

There was no demand for government treasuries at the primary auction last week. Market players put their minimal bid at 12.4% for 1-year bonds and the Finance Ministry refused to accept that level. On the secondary market, the bid/ask quotes for the 1-year bond stood at 15.0%/12.0%. For 5-year UAH-denominated bonds, the quotes widened to bid/ask of 18.0%/ 14.0% from the firm offer at 15% over the preceding week.

On the currency front, the hryvnia strengthened by 1.4% against the dollar to 28.12 UAH/USD. On the other hand, the hryvnia fell 0.6% against the euro to 32.12 UAH/EUR after the European Central Bank dropped its forward guidance for monetary tightening. The hryvnia is down by less than 3% against the dollar since the start of the year thanks to heavyweight intervention from the National Bank to defend the currency. The exact amount of foreign reserves spent by the NBU on interventions in January should become clear later this week.

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	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year bond	14.2%/12.0%	0.0 p.p.	+0.8 p.p.
Ukraine-2026	11.0%	-0.8 p.p.	2.1 p.p.
Ukraine-2032	10.0%	-0.4 p.p.	0.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.12	-1.4%	2.9%
EUR/UAH	32.12	0.6%	3.7%

Source: Eavex Capital

Highlights

- Macron in Moscow as China Backs Putin Against NATO Enlargement
- Danyliuk Warns on Russian Strategy of Using Donbass Against Kyiv
- Ukraine Posts Small BoP Surplus of USD 487mn for FY21

www.eavex.com.ua

Kyiv, Ukraine.
(+380 44) 590-54-54, (+380 44) 590-54-64
research@eavex.com.ua

Macron in Moscow as China Backs Putin Against NATO Enlargement

by Will Ritter
w.ritter@eavex.com.ua

NEWS

French President Emmanuel Macron traveled to Moscow today (Feb 7) to meet with Russian President Putin in hopes of defusing the security crisis brought on by the concentration of Russian armed forces near Ukraine's northern border in both Russia and Belarus. Russian officials have indicated that they are expecting substantial new proposals from Macron that will take Russia's alleged security interests into account after the US administration and NATO both rejected the Kremlin's demand for a binding agreement to keep Ukraine from joining the Atlantic military alliance on the grounds of NATO's "open door policy". Putin and Macron are expected to hold a joint press conference later today. In other diplomatic news, Putin and Chinese leader Xi Jinping met on Friday (Feb 4) at the Beijing Olympics, and they issued a joint statement calling on the US to "abandon the ideologized approaches of the Cold War" and for NATO to cease further expansion. The statement did not specifically mention Ukraine.

COMMENTARY

It appears that Macron has seized the initiative in an environment where the Biden administration has staked out a hard-line position and NATO Secretary-General Jens Stoltenberg (whose term ends in 4 months) has made no statements of any real diplomatic substance on the crisis beyond reflecting Washington's official line. Germany has also been rather inactive, as new Chancellor Olaf Scholz continues to get his coalition government up and running. In our view, NATO's claim of an open-door policy to membership for Ukraine or other nations looks untenable, as NATO has already stated that it is not prepared to actually fight Russia over this ideological principle, giving the appearance that the alliance is too weak back up its positions. The key point to watch today in Moscow will be whether there is any concrete language from Macron on the possibility of a deal to keep Ukraine out of NATO; we note that Macron has the power to float such a concession if he so chooses, as new members are accepted into NATO only by unanimous consent of existing members. Macron is expected in Kyiv tomorrow (Feb 8) to meet with President Zelenskiy and fill him in on his discussions with the Kremlin. Zelenskiy was relatively quiet last week compared to his high-profile clashes with the Biden administration in January, but he did state that any new Russian aggression would not be limited to Ukraine, and would become a "full-fledged European war". Zelenskiy and Foreign Minister Dmytro Kuleba have been quite aggressive in trying to force Western governments - specifically France, Germany, and the US - into more hawkish positions, and it will be interesting to see whether the Macron-Zelenskiy meeting tomorrow will feature any open disagreements.

Danyliuk Warns on Russian Strategy of Using Donbass Against Kyiv

by Will Ritter
w.ritter@eavex.com.ua

NEWS

President Zelenskiy's former National Security Council (RNBO) chief Oleksandr Danyliuk warned that the Kremlin's strategy of forcing Kyiv to implement the 2015 Minsk peace deal to resolve the Donbass conflict represents a threat to the stability of the Ukrainian government, in an article published in the US national media outlet Politico on Thursday (Feb 3). Danyliuk said that the Minsk agreement platforms requiring Ukraine to offer special autonomy to the occupied Donbass could be used as a pretext for Ukrainian nationalist radicals working in concert with Russian special forces to launch an operation to overthrow the Zelenskiy government. Such a radical nationalist coup and the resulting chaos would then provide the Kremlin with a justification for invading Ukraine, Danyliuk said. Danyliuk was an early supporter of President Zelenskiy in 2019, but he left the RNBO after only 4 months in the job due to clashes within the new administration. He had previously served as Finance Minister in during the Poroshenko presidency.

COMMENTARY

Danyliuk's article was notable because this angle, which we consider to be an accurate reflection of the Kremlin's strategy against Ukraine, has received little coverage in Western media amid the much louder noise about the Russian (and now also Belarusian) buildup of military power on the Ukrainian border. We think Danyliuk is right to remind the West that the Kremlin's preferred option is still internal destabilization of Ukraine via nominally anti-Russian militants, as this scenario gives Russia plausible deniability that might allow it to avoid the crushing Western sanctions that an unprovoked attack against Ukraine would surely bring.

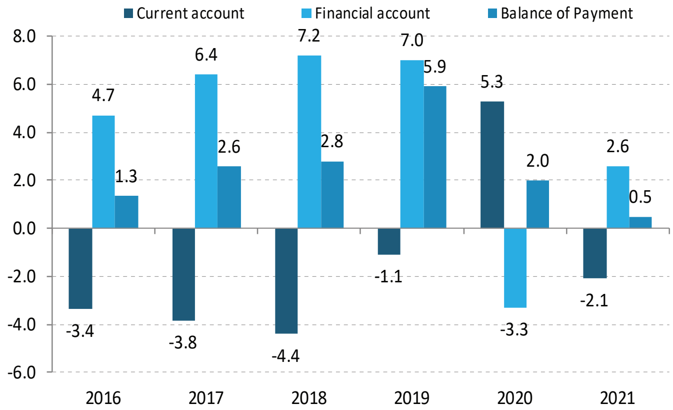
Ukraine Posts Small BoP Surplus of USD 487mn for FY21

by Dmitriy Churin
d.churin@eavex.com.ua

NEWS

The National Bank reported that Ukraine had a balance of payments (BoP) surplus of USD 487mn for full-year 2021, down substantially from the surpluses of USD 2.0bn seen in FY20 and USD 5.9bn for FY19. The country had a current account (C/A) deficit of USD 2.1bn in 2021 (compared to a C/A surplus of USD 5.3bn for FY20). Ukraine's financial/capital account surplus was USD 2.6bn in FY21 (after a deficit of USD 3.3bn in FY20). The National Bank said that it had registered a foreign direct investment (FDI) inflow into Ukraine of USD 6.0bn.

UKRAINE'S BALANCE OF PAYMENT DATA, USD bn



Source: National Bank of Ukraine

COMMENTARY

In our view, the figure of USD 6.0bn FDI into Ukraine last year looks surprisingly high. However, the National Bank attributed this FDI figure to USD 4.2bn reinvestments of foreign capital into the country. Therefore we continue to believe that foreign direct investment into Ukraine is lower than what it should be in terms of the country's economic potential.

The current account (trade) deficit of USD 2.1bn for 2021 represents a deficit of 1.1% of GDP in relative terms. Ukraine's overall merchandise exports grew by 40% YoY to USD 63.1bn while the overall imports increased by 35% to USD 69.8bn in 2021. Agriculture and food exports accounted for 44% of Ukraine's total exports and steel exports accounted for 25% in the period. In major import categories, machinery and automobile imports represented 31% of total imports.

We forecast that the high energy costs this year will have a negative impact on Ukraine's current account balance, as the need to import at least 12bn cubic meters of natural gas in 2022 will be a very challenging task both technically and financially. We think that the C/A deficit will widen to 3.5% of GDP in 2022, putting additional pressure on the national currency. These pressures could push the hryvnia down by as much as 10% over the year to the 30 UAH/USD level, even without any major political disruptions. The currency has already edged down by 2.8% against the dollar so far this year, with the losses limited by heavy NBU intervention.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	97.5	1.6%	14.9%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	88.7	2.3%	11.0%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	95.1	3.4%	11.1%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	84.2	2.2%	10.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	76.6	6.4%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	85.2	-0.2%	10.4%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	90.7	3.0%	10.0%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	81.9	-0.7%	9.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	49.0	-1.2%	20.8%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	88.4	-0.6%	12.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	84.3	1.0%	10.7%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	81.5	4.2%	17.9%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	90.5	0.0%	13.1%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	97.3	1.9%	10.1%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	93.0	-0.1%	12.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	91.9	-0.5%	17.6%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	89.5	0.2%	17.9%	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)	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds							
UA4000204002	100.7	101.6	14.5%	11.2%	S/A	11 May 2022	12,917
UA4000218325	99.1	99.9	13.2%	11.8%	S/A	20 Jul 2022	13,415
UA4000199210	100.1	102.1	16.5%	12.0%	S/A	12 Oct 2022	14,993
UA4000201255	100.7	104.3	16.0%	12.7%	S/A	24 May 2023	6,470
UA4000201255	87.5	95.4	17.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	96.8	106.9	18.0%	13.5%	S/A	26 Feb 2025	41,080
UA4000207518	74.7	86.2	18.0%	14.0%	S/A	20 May 2027	7,018
USD denominated Bonds							
UA4000215909	99.2	100.6	4.7%	3.3%	S/A	2 Feb 2023	USD 330mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464

E-mail: research@eavex.com.ua

Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board

SALES & TRADING
Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

RESEARCH
Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua