

## Trends

Ukrainian sovereigns regained some ground last week after their 2-week correction, as the growing pool of negative-yielding debt is making Ukrainian Eurobonds more attractive among return hungry international market players. In country specific news, there was publication of the new polls saying that only about 40% of Ukrainians believe that joining NATO would be the best security guarantee for their country, while 36% see Ukraine's security in its non-aligned status and around 7% spoke in favor of a military union with Russia and other CIS countries. This is down from 46% of Ukrainians saying in 2018 that they would like their country to join NATO. We assume that President Zelenskiy is unlikely to push Ukraine's access to NATO as aggressively as ex-President Poroshenko. However, from his steps so far, we think that Zelenskiy is clearly a pro-Western politician.

The longest outstanding Ukrainian Eurobonds with maturity in 2032 rose by 1.7% last week after losing 4.9% in the preceding two weeks. The issue now trades at 96.4/97.1 (7.9%/7.8%). Medium-term Ukraine-24s gained 1.0% to close at 107.9/108.6 (7.0%/6.8%), and the recently-placed EUR-denominated bonds with maturity in 2026 added 1.7% to 104.9/105.7 (5.8%/5.7%). The generally more volatile VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) advanced by an impressive 7.0% to 86.3/87.0 cents on the dollar after the previous week's news that Ukrainian GDP jumped by 4.6% YoY in the second quarter.

In corporate Eurobonds, DTEK-24s edged up by 0.7% to 98.2/100.2 (10.0%/9.4%) while the Eurobonds of steel group Metinvest with maturity in 2026 declined by 0.6% to 101.5/102.5 (8.4%/8.2%).

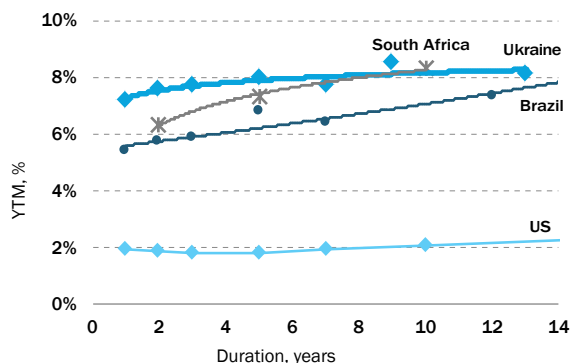
In quasi-sovereign banking issues, quotes for UkrEximBank-25s inched up by 0.3% to 104.2/105.2 (8.0%/7.5%) and OschadBank-23s were unchanged at 99.4/104.0 (9.9%/9.3%).

The yield on the government's 1-year UAH-denominated treasuries remained at bid/ask of 17.70%/16.50%. The Finance Ministry sold 1-year UAH-denominated bonds at 16.16% last week, which was a tiny change of 2 bps lower than a week earlier, and there was also a placement of 3-year UAH-denominated bonds at 16.19%.

On the interbank currency market, the hryvnia gained 0.2% against the dollar to close at 25.12 UAH/USD.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at [sales@eavex.com.ua](mailto:sales@eavex.com.ua).

## SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	6.9%	-0.3 p.p.	-3.6 p.p.
Ukraine-2028	8.2%	-0.3 p.p.	-2.6 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	25.12	-0.2%	-9.2%
EUR/UAH	28.01	0.3%	-11.7%

Source: Eavex Capital

## Highlights

- › Trump Administration Pushing Zelenskiy to Open Political Investigations
- › Ukraine's Current Account Deficit Improves to 0.3% of GDP in 1H19

## Trump Administration Pushing Zelenskiy to Open Political Investigations

by Will Ritter  
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### NEWS

A key representative of US President Trump, his lawyer Rudolph Giuliani, met in recent weeks with a personal envoy of President Zelenskiy in Washington and called on Zelenskiy to pursue a pair of criminal investigations that could help Trump in his re-election effort next year, the New York Times reported on Thursday (Aug 21). The first case concerns a claim that as Vice President, US Democratic presidential candidate Joseph Biden pressured President Poroshenko to fire then-General Prosecutor Victor Shokin in an effort to advance a Biden family member's personal interest in a Ukrainian natural gas company; the second case is related to efforts by Ukrainian government officials - in particular Poroshenko Bloc MP Serhiy Leschenko - to "interfere" in the 2016 US presidential election by taking deliberate steps to damage the Trump campaign. Giuliani said he had coordinated his activity with the US State Department.

### COMMENTARY

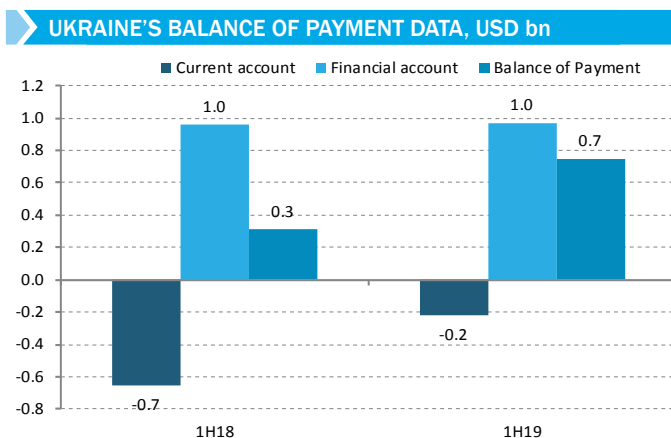
It looks to us like Donald Trump is trying to extract political favors from Zelenskiy in exchange for a high-profile White House invitation before the end of this year. As we have written previously, both of these "crimes" appear to be farcical: the Biden case rests on the anti-corruption credibility of Shokin, who is possibly the most lowly-regarded Ukrainian government official of the post-EuroMaidan era. As for Giuliani's election interference claim, he fails to mention the total incompetence of those doing the interfering; ultimately, the efforts of Leschenko and Alexandra Chalupa (a US citizen with Ukrainian ethnic roots) to smear Trump campaign manager Paul Manafort turned out to be more of a gift to Trump's 2016 election campaign than a hindrance. This situation will present an early test of Zelenskiy's diplomatic judgement, and it will certainly be interesting to see how he handles it. We think Zelenskiy can scarcely afford to refuse to play ball with Trump, and therefore we expect to hear some more noise on this topic once Zelenskiy's appointee for General Prosecutor takes office (probably in October). Overall, our view is that Trump's efforts to derail the Biden campaign via Ukraine smack of desperation, and they show that Trump understands he is facing an uphill battle to win re-election if Biden indeed becomes the Democratic nominee.

**Ukraine's Current Account Deficit Improves to 0.3% of GDP in 1H19**

by Dmitriy Churin  
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**NEWS**

Ukraine's current account (C/A) trade deficit amounted to USD 221mn in 1H19 (0.3% of GDP) compared to a C/A deficit of 1.1% of GDP for 1H18, according to the latest data from the National Bank of Ukraine. Ukraine's balance of payments (BoP) surplus was reported at USD 744mn for 1H19, which is 2.1x YoY higher than a year earlier. The country's financial and capital account surplus was USD 968mn in 1H19 (after a surplus of USD 961mn in 1H18). The NBU reported a decline in foreign direct investments (FDI) into Ukraine by 11% YoY to USD 972mn in the period.



Source: National Bank of Ukraine

**COMMENTARY**

Improvement in the country's current account was mainly achieved as a result of an increase in remittances from Ukrainians working abroad. Meanwhile, the pace of exports growth (+5.9% YoY) was lower than the pace of imports growth (+8.6% YoY) in 1H19. The trade deficit in 1H19 was USD 4.36bn, widening by 13% YoY. The share of EU countries in Ukrainian exports was 38%, while the share of exports to Russia was only about 6% in the period. Ukraine's total exports were USD 22.5bn in 1H19, with agriculture products accounting for 45% of the supplies. On the import side, machinery products accounted for 30% of total imports worth USD 27.7bn in the period.

Currently we do not see substantial reasons for a further improvement in the C/A in 2H19. Therefore we leave unchanged our forecast for the full-year the C/A deficit at around 1.4% of GDP (down from a deficit of 3.3% of GDP in 2018).

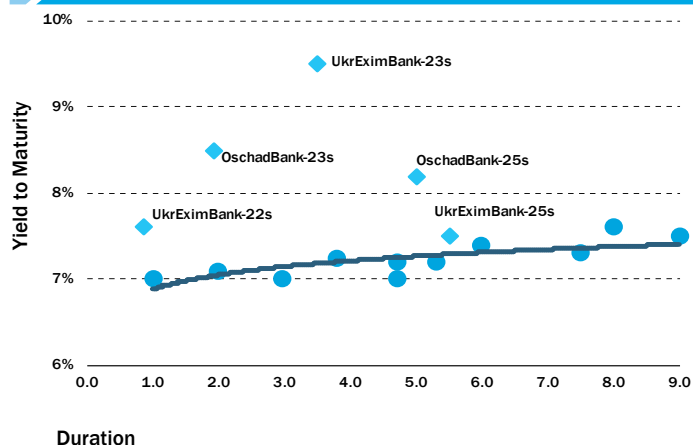
SELECTED UKRAINIAN EURO BONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>										
Ukraine, 2020	98.8	99.6	0.4%	9.2%	8.3%	7.75%	1 Sept 2020	1,365	USD	Caa1/B-/B-
Ukraine, 2024	107.9	108.6	1.0%	7.0%	6.8%	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2028	110.4	111.1	1.6%	8.3%	8.2%	9.75%	1 Nov 2028	1,600	USD	Caa1/B-/B-
Ukraine, 2032	96.4	97.1	1.7%	7.9%	7.8%	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	86.3	87.0	7.0%	0.7%	0.7%	0.00%	31 May 2040	3,214	USD	/B-/
<b>Corporate Eurobonds</b>										
Kernel, 2022	104.8	105.8	-0.2%	6.7%	6.2%	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2026	95.8	96.8	-0.1%	7.9%	7.7%	6.95%	4 Apr 2026	550	USD	B3/B/B
DTEK, 2024	98.2	100.2	0.7%	10.0%	9.4%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	101.5	102.5	-0.6%	8.4%	8.2%	8.50%	23 Apr 2026	648	USD	B3//B
UZ Rail, 2021	99.5	100.3	0.0%	10.8%	9.6%	9.88%	15 Sept 2021	350	USD	/CCC+/CCC
<b>Bank Eurobonds</b>										
UkrEximBank, 2022	100.7	101.7	0.1%	9.3%	8.5%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	97.7	99.7	-0.1%	9.1%	7.3%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	104.2	105.2	0.3%	8.0%	7.5%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	99.6	100.6	0.1%	9.9%	9.2%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.9	100.9	0.3%	9.9%	9.3%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

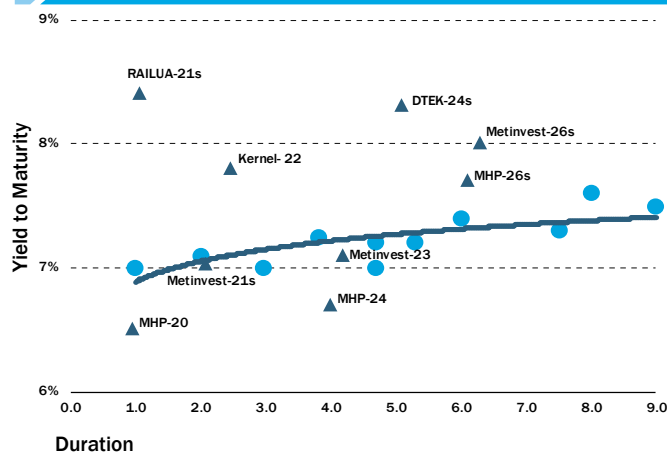
<sup>1</sup> Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EURO BONDS



SOVEREIGNS vs. CORPORATE EURO BONDS



## UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
<b>UAH denominated Bonds</b>									
UA4000203632			17.50%	16.00%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000198006			17.60%	16.45%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.70%	16.35%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
UA4000201743			6.25%	4.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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