

Trends

Ukrainian sovereign Eurobonds moved solidly higher last week in line with the global trend after the market started to price in the possibility of an interest rate cut by the US Federal Reserve later this year. The futures market now shows that traders see a 72% chance of a rate cut at the Fed's July 31 meeting, and a 23% probability of a rate cut at the June 19 meeting. The US central bank's policy rate currently stands between 2.25% to 2.50%, while the 10-year UST note is trading at 2.08%, near its lowest levels since Sept 2017.

In Ukrainian news, the Finance Ministry said it would try to issue bonds with a longer term and amortization payment schedule to lower refinancing risk. The country is facing peak payments on state debt: in 2019 – UAH 483bn (USD 17.6bn), in 2020 – UAH 492bn (USD 17.4bn), in 2021 – UAH 483bn (USD 16.4bn) and in 2022 – UAH 481bn (USD 16bn). In relative terms, state debt payments in 2019 are estimated at 12% of GDP and 52.7% of state budget revenues, while in 2020 this would be 10.8% of GDP and 47.9% respectively.

The benchmark Ukraine-2028 Eurobonds gained 2.0% last week to close at 103.8/104.5 (9.3%/9.2%), and medium-term Ukraine-24s rose 1.4% to 94.9/95.7 (9.2%/9.0%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) shed 0.8% to 62.6/63.4 cents on the dollar.

Corporate debt papers were also mostly higher, with MHP-26s adding 0.7% to 91.3/92.3 (8.8%/8.6%). Kernel-22s edged up 0.5% to 99.7/100.7 (9.0%/8.6%) after the company reported fairly good financial results for Jan-Mar quarter. The company's net debt to EBITDA ratio was 2.5x as of 31 March 2019.

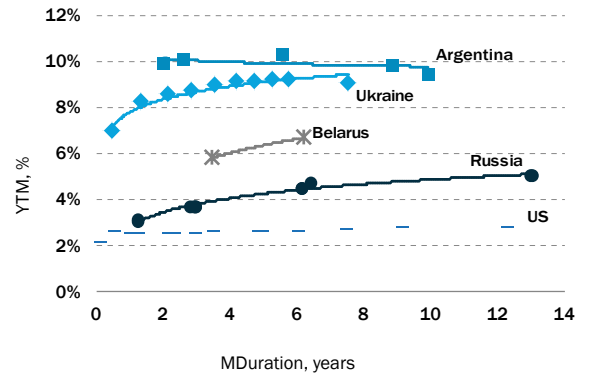
In quasi-sovereign banking issues, OschadBank-25s increased by 1.0% to 99.2/100.2 (10.3%/9.7%).

The government's 1-year UAH-denominated treasuries remained at bid/ask of 19.50%/18.00%. The Finance Ministry sold 3-year local UAH-denominated bonds at 17.00% and 1-year debt papers at 18.50% on June 4. MinFin also placed a small amount of USD-denominated 2-year bonds at 7.75%.

On the interbank market, the hryvnia gained 1.4% against the dollar to 26.50 UAH/USD after the National Bank left its key rate unchanged at 17.50% at the monetary policy meeting on June 5. The NBU's big drop in foreign currency reserves of USD 1.12bn to USD 19.4bn in May did not affect the market, with expectations having previously priced it in.

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

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.0 p.p.	-0.5 p.p.
Ukraine-2024	9.2%	-0.2 p.p.	-1.3 p.p.
Ukraine-2032	8.9%	-0.4 p.p.	-1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.50	-1.4%	-4.3%
EUR/UAH	29.93	0.1%	-5.6%

Source: Eavex Capital

Highlights

- > Opposition Bloc Re-Unites as Zelenskiy's Party Leads Race
- > MinFin Targets Reduction of Debt-to- GDP from 52% to 47% by End-2020

Opposition Bloc Re-Unites as Zelenskiy's Party Leads Race

by Will Ritter
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NEWS

Ukraine's two largest Russian-oriented political parties, the Opposition Bloc and the Platform For Life, said on Friday (Jun 7) that they would re-join forces for the parliamentary election scheduled for Jul 21. The parties, which are the successors to ex-President Yanukovich's Party of Regions, were formerly a single entity under the OppoBloc brand, but had split into two factions last autumn after they were unable to agree on a single presidential candidate. They will also be joined by the Renaissance faction, a grouping of mostly Eastern Ukrainian MPs who were elected from geographic districts. The Platform For Life is the largest faction of the three and is led by energy industrialist Yuriy Boyko and pro-Russian politician Victor Medvedchuk, while the OppoBloc (the reduced version) represents the interests of steel & coal magnate Rinat Akhmetov and is fronted by his long-time ally Alexander Vilkul. Recent polling has given the Platform for Life alone near 11% support nationally, with the OppoBloc at 3-4%. Overall, new President Zelenskiy's Sluha Naroda (Service to the People) party is well out in front of all others, with the most recent polling giving SN somewhere in the range of 40% support in the party list competition, while Petro Poroshenko's European Solidarity and Yulia Tymoshenko's Batkivschyna are in the high single digits and Sviatoslav Vakarchuk's Holos (Voice) is near the 5% minimum barrier. The election was moved forward by 3 months after Zelenskiy dismissed Parliament on the day of his inauguration.

COMMENTARY

Zelenskiy's dissolution of Parliament was clearly unconstitutional, and his attempt to justify the move on the grounds that it has popular support sounds quite poor to us; we are concerned that disregard for the rule of law in this manner could eventually come back to bite Ukraine. The idea was clearly to hold the election quickly before Zelenskiy's support starts to decline as he is forced to begin making concrete policy choices. Most observers expect the vote to go forward next month despite a pending Constitutional Court challenge. So far we see that Zelenskiy is working hard to keep as much of Ukraine's patriotic pro-Western electorate on his side as possible by saying all right things in regard to Russia, the European Union, and geopolitical issues. However, Zelenskiy also needs to avoid losing too much of his support among his core base of Russophile Ukrainians, and we detect something of a "wink-and-nod" strategy toward this electorate implying that once the vote has passed, Zelenskiy will become one of theirs again. Zelenskiy's parliamentary campaign is unfolding much like his presidential campaign: with a lot of pleasant-sounding generalizations. Thus far he is yet to be tested on where he really stands, and in our view, he still seems to resemble his imaginary television presidential persona more than a real-life politician.

MinFin Targets Reduction of Debt-to-GDP from 52% to 47% by End-2020

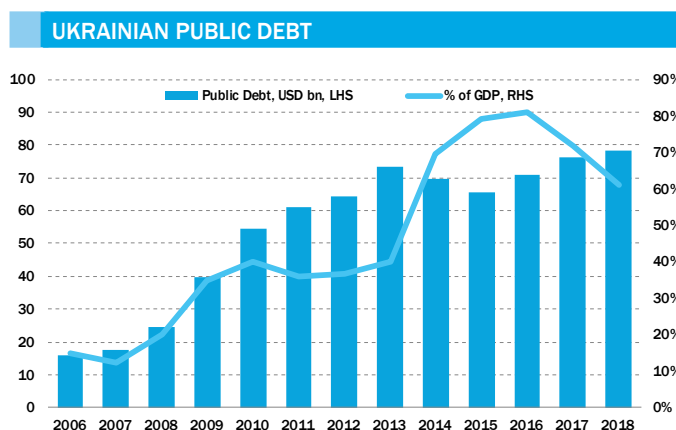
by Dmitry Churin
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NEWS

The Finance Ministry aims to reduce the country's government debt-to-GDP ratio from the current level of near 52% to 47% by the end of 2020, according to the Medium Term Strategy for State Debt Management for 2019-2022 approved by the Cabinet on June 5.

The Strategy includes the following steps:

- Increasing the proportion of the state debt in the domestic currency.
- Attracting foreign investors into domestic government bonds denominated in the local currency.
- Extending the average term length of government securities and ensuring a uniform schedule of repayment of the state debt.
- Implementing operations for active state debt management in order to reduce the peak load on the budget and stimulate demand for government securities.
- Ensuring full access of Ukraine to the international capital market.
- Increasing long-term privileged financing by expanding cooperation with international financial institutions (in particular, the World Bank, IMF, EBRD, EIB) and partner countries.



Source: MinFin

COMMENTARY

We were somewhat confused by the fact that MinFin has not included the state guaranteed debt of USD 11.1bn into its calculation of the debt to GDP ratio. If included, then the current level of public debt to GDP stands at 60%. Government Debt to GDP in Ukraine averaged 42% from 1997 until 2018, reaching an all time high of 81% in 2016 and a record low of 12% percent in 2007. The overall Ukrainian public debt was reported at USD 78.3bn at the beginning of this year. The share of internal debt was 35.6% and the external debt share was 64.4%. In the structure of the USD 67.2bn state debt, domestic hryvnia-denominated debt accounted for 33%, followed by Eurobonds (33%), debt to IFIs (22%), domestic forex-denominated debt (8%) and 'other debt' (3%). The country's debt redemption and servicing payments are estimated at UAH 390bn (USD 14.5bn) in the next 12-month period. MinFin is due to pay UAH 243bn (USD 9.1bn) to cover the country's internal debt and USD 5.4bn for the external obligations in the period.

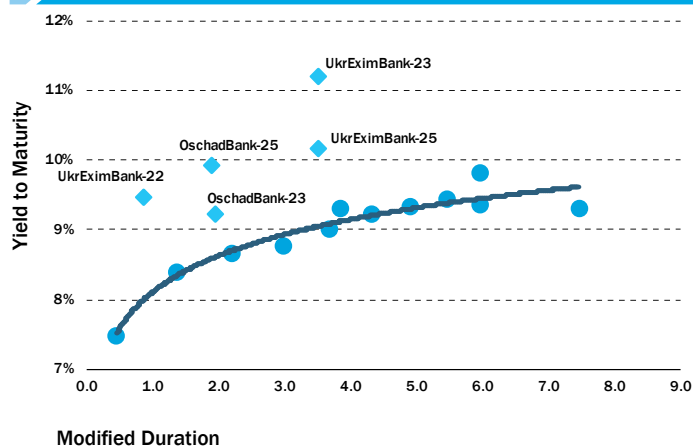
SELECTED UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds										
Ukraine, 2020	98.9	99.7	2.3%	8.8%	8.1%	7.75%	1 Sept 2020	1,365	USD	Caa1/B-/B-
Ukraine, 2024	94.9	95.7	1.4%	9.2%	9.0%	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2028	103.8	104.5	2.0%	9.3%	9.2%	9.75%	1 Nov 2028	1,600	USD	Caa1/B-/B-
Ukraine, 2032	89.0	89.8	1.5%	8.9%	8.8%	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	62.6	63.4	-0.8%	2.3%	2.2%	0.00%	31 May 2040	3,214	USD	/B-/
Corporate Eurobonds										
Kernel, 2022	99.7	100.7	0.5%	9.0%	8.6%	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2026	91.3	92.3	0.7%	8.8%	8.6%	6.95%	4 Apr 2026	550	USD	B3/B/B
DTEK, 2024	95.6	97.1	0.6%	10.6%	10.2%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	98.8	99.8	1.3%	8.9%	8.7%	8.50%	23 Apr 2026	648	USD	B3//B
UZ Rail, 2021	98.1	99.2	-1.4%	12.3%	11.0%	9.88%	15 Sept 2021	350	USD	/CCC+/CCC
Bank Eurobonds										
UkrEximBank, 2022	99.9	100.9	0.1%	9.9%	9.2%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	93.0	95.0	0.7%	12.6%	10.9%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	97.6	98.6	0.8%	11.1%	10.6%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	98.5	99.5	0.3%	10.5%	9.8%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.2	100.2	1.0%	10.3%	9.7%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

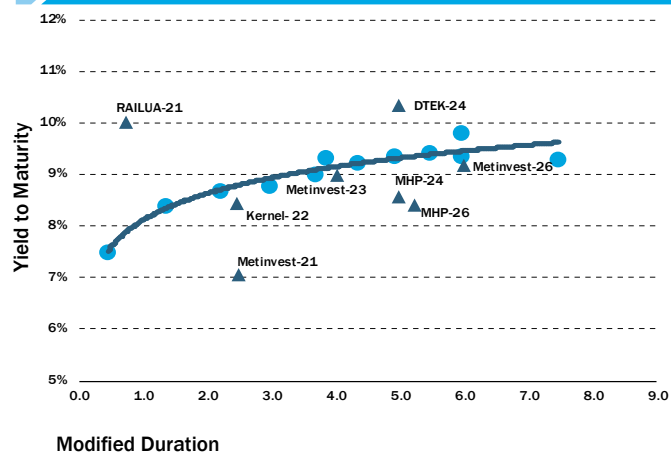
¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EUROBONDS



SOVEREIGNS vs. CORPORATE and MUNICIPAL EUROBONDS



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									
UA4000195580			19.50%	18.00%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.50%	18.00%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.50%	18.30%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			7.50%	5.15%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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