

## Trends

Ukrainian sovereign Eurobonds declined on global trading platforms last week after an official IMF representative refused to name a possible date of the mission for the first revision of the current stand-by loan program. The revision is necessary before Kyiv can receive any additional IMF funds. The IMF is calling on President Zelenskiy to demonstrate the political will to protect the independence of the National Bank and the integrity of the National Anti-Corruption Bureau (NABU) and Special Anti-Corruption Prosecutor's office (SAP) to ensure that corruption does not erode reform progress.

The Ukraine-25s medium-term Eurobond dropped by 0.5% to 105.0 (6.6% YtM) and the Ukraine-28s issue declined by 0.3% to 114.2 (7.5% YtM). The country's shortest Eurobonds, which are due next September in just under a year, shed 0.5% to 103.0 (4.5% YtM), and the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) fell 1.2% to 95.8 cents on the dollar.

Ukraine's largest steel&mining group Metinvest conducted a new 7-year Eurobond placement for USD 333mn at 7.95%. The yield was notably lower than the initially expected range of 8.25-8.50%. The group will use the proceeds for refinancing, buying back its higher-yield Eurobonds maturing in 2021 and 2023 for a total amount of some USD 290mn.

The Eurobonds of Ukraine's largest agro holdings were little-changed, with Kernel-22s inching up by 0.1% to 105.7 (4.6% YtM) and MHP-26s declining by 0.3% to 104.2 (6.1% YtM). The quasi-sovereign issue OschadBank-25s gained 0.3% to 104.5 (7.5% YtM) while UkrEximBank-25s were flat at 104.3 (6.6% YtM).

UAH-denominated treasuries were unchanged over the week, with quotes for 1-year debt papers standing at bid/ask of 10.0%/9.0%. At the primary auction held on Sept 15, the Finance Ministry sold UAH 2.0bn in short-term bonds at 7.82% and 1-year USD-denominated domestic bonds in the amount of USD 112mn at 3.5%.

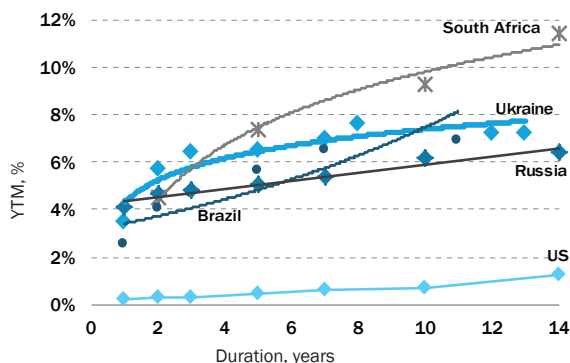
On the currency front, the hryvnia fell through the UAH 28 line against the dollar, declining by 0.9% to 28.20 UAH/USD amid the above-mentioned negative IMF news flow.

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

## Highlights

- > Calls to Scrap Ukraine's EU Visa-Free Travel over Zelenskiy Corruption Failures
- > NaftoGaz Transit Income Expectation for 2020 Falls to USD 2bn

### SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.0%/9.0%	0.0 p.p.	-1.1 p.p.
Ukraine-2025	6.6%	0.1 p.p.	0.0 p.p.
Ukraine-2028	7.5%	0.0 p.p.	0.5 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.20	0.9%	19.0%
EUR/UAH	33.28	0.5%	26.0%

Source: Eavex Capital

## Calls to Scrap Ukraine's EU Visa-Free Travel over Zelenskiy Corruption Failures

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### NEWS

The EU ratcheted up pressure on the government of President Zelenskiy last week, with members of the European Parliament stating that Zelenskiy's failure to maintain the independence of the country's anti-corruption bodies could result in the cancellation of visa-free travel to Europe for Ukrainian passport holders. The visa-free regime was instituted in 2017 on the condition of Kyiv undertaking various reforms, including and especially to the country's judicial system. The EU is concerned that the search process to replace recently-resigned head of the Special Anti-Corruption office (SAP) Nazar Kholodnytskiy will ultimately lead to the appointment of a non-independent figure subordinate to the presidential administration. The IMF also weighed in on the situation, with a Fund spokesman refusing to name a date for a resumption of the review mission of Ukraine's loan program, without which Kyiv will not be able to obtain any new IMF financing.

### COMMENTARY

Zelenskiy attempted to blame the European Union's rebuke of his corruption-fighting record on maneuvering by former President Petro Poroshenko, an excuse which appears rather limp to us. Of particular concern to the IMF and Western governments here are two points: Zelenskiy's failure to take on the so-called "judicial mafia" in an influential Kyiv district court, and the sharp rise in physical attacks against top anti-corruption activists since Zelenskiy took office 16 months ago, none of which have been prosecuted. News on the domestic political front for Zelenskiy has not been encouraging of late, with the People's Servant party seeing its support sliding in favor of both Poroshenko's European Solidarity faction and the pro-Russian Opposition/For Life party of oligarch Victor Medvedchuk; People's Servant is facing the likelihood of embarrassing defeats in municipal elections next month in Ukraine's largest cities. Even Zelenskiy's personal approval rating, long seen to be immune from dissatisfaction with the general situation in the country among ordinary Ukrainians thanks to his celebrity persona, has now fallen below 50 percent. Overall, 16 months in, we see the Zelenskiy presidency unfolding in a rather expected manner; he increasingly appears to be a well-intentioned but ultimately weak and detached leader who is unable to stand up to the powerful oligarchic interests that continue to wield outsized influence in all areas of Ukraine's economy and society.

**NaftoGaz Transit Income Expectation for 2020 Falls to USD 2bn** **NEWS**

by Dmitry Churin  
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Ukraine's state-owned natural gas giant NaftoGaz expects to receive around USD 2bn from Russia for gas transit services to Europe, NaftoGaz CEO Andriy Kobolev said in an interview last week. Kobolev said that the "take or pay" principle embedded in the transit contract for 2020-2024 was important for the country in terms of obtaining a guaranteed income from the Ukrainian gas pipeline system. The agreement between Naftogaz and Gazprom foresees that Russia will pump minimum transit volumes of 65bn cubic meters (cu-m) in 2020, and 40bn cu-m per year in 2021-2024.

**COMMENTARY**

Previously the expectation was that Ukraine would receive USD 3bn per year for gas transit services, but it seems that the sharp drop in energy prices earlier this year has negatively affected NaftoGaz's transit business as well. Ukraine is entering the new heating season with 25bn cu-m of gas in underground gas storage facilities. In the Jan-Aug period, gas imports increased by 30% YoY to 12.5bn cu-m, a volume which is 63% above the average in 2016-2019. Imports from Slovakia surged by 35% YoY in the period to 8.0bn cu-m, from Hungary by 20% YoY to 3.2bn cu-m, and from Poland by 34% YoY to 1.4bn cu-m. These "European" gas imports are effectively re-imports of Russian gas that was exported to buyers in the mentioned EU countries. The current 25bn cu-m of gas in the country's storage facilities is well above the level of recent years. This implies that NaftoGaz will be prepared to ensure stable gas transit to Europe even in case of colder weather conditions this winter than in the past several years, with temperatures having been above the historical average since.

In other gas-related news, spot gas prices in Europe have already risen by 20% this month, and by 60% since mid-June, reaching USD 142 per thousand cu-m. This trend forced NaftoGaz to raise its gas tariff for the households by 45% to USD 165 per thousand cu-m. Only 3 months ago, Ukraine was able to import gas from Europe for USD 88 per thousand cu-m. However, as natural gas stocks in the EU reservoirs are at 80% capacity, which is a high indicator, we believe that this factor will hold down the prices at the level of current quotations for the next several months.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>								
Ukraine, 2021	103.0	-0.5%	4.5%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	105.0	-0.5%	6.6%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	114.2	-0.3%	7.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	100.3	-0.3%	7.4%	7.38%	25 Sept 2032	3,000	USD	B3//B
Ukraine, GDP-linked	95.8	-1.2%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2022	105.7	0.1%	4.6%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	104.2	-0.3%	6.1%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	98.7	-0.1%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	69.6	-0.3%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	103.9	0.3%	7.8%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	99.2	0.1%	7.4%	7.125%	19 Jul 2024	600	EUR	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	99.6	0.0%	7.4%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	104.3	0.0%	6.6%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	102.4	0.0%	7.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	104.5	0.3%	7.5%	9.63%	20 Mar 2025	250	USD	B2//B

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

Source: Boerse-Berlin, 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
<b>UAH denominated Bonds</b>									
UA4000200174			9.5%	8.5%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.0%	9.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			10.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.0%	10.5%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			12.5%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.2%	3.2%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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