

Trends

Ukraine's sovereign bonds continue to lose value amid no clear picture of how these Eurobonds would be ultimately restructured. Indicative quotes for the benchmark issue Ukraine-34s decreased by 2.6% to 15.2 (56% YTM) over the week. Ukraine-26s issue declined by 1.8% to 16.4 (110% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were down by 7.8% to 21.2 cents on the dollar.

In corporate Eurobonds, there was a 1.1% increase in DTEK Energy -27s to 35.7 (39% YTM) while Metinvest-26s dropped by 2.8% to 62.2 (30% YTM). Metinvest's Eurobonds with maturity in 2029 had a wide bid/ask quotes of 45.0 (27% YTM) / 60.0 (19% YTM).

In the political developments, while exploring endgames, Ukraine says it rejects any push for peace talks — including from China — that would freeze the current front lines and Russia's gains. Opinions range widely among military strategists about whether Ukraine is likely to regain territory after more than a year of war. However, US and European officials are also suspicious of calls for peace talks that do not include a demand that the Russian military first withdraws from Ukrainian territory, which is the position of President Volodymyr Zelensky. During his latest trip, Zelensky pressed European partners to supply Kyiv with advanced war planes. Joe Biden's administration has so far ruled out delivering F-16 fighters. The Netherlands has said it is considering Kyiv's request. Ukrainian sources believe EU countries will overcome their hesitancy and eventually agree, as they did with the delivery of battle tanks and long-range artillery.

The Finance Ministry raised UAH 28.5bn through the government bond placement last week. The 2-year UAH-denominated bond offered a yield of 19.7% and the 1-year bond was sold at an 18.5% yield. The half-year USD-denominated domestic bond was placed at 4.75% bringing in USD 179mn to the national budget.

On the cash currency market, the hryvnia gained by 0.3% to 37.51 UAH/USD.

Highlights

- Zelenskiy, Scholz Showcase Improved Ties Despite Fighter Jet Refusal
- Ukraine's Headline Inflation Slows to 17.9% in April from Peak of 26.6% Seen in December

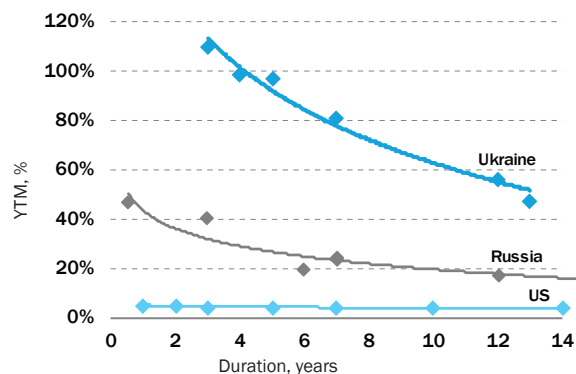
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/about/support-the-armed-forces

The National Bank also opened fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	0.0 p.p.
UAH 1-year war bond	18.5%	0.0 p.p.	+2.5 p.p.
Ukraine-2026	109.9%	0.3 p.p.	28.2 p.p.
Ukraine-2034	56.4%	0.6 p.p.	11.0 p.p.

CASH EXCHANGE RATES

	Last, UAH	1W chg.	YTD
USD/UAH	37.51	-0.3%	-7.6%
EUR/UAH	41.21	-0.8%	-3.0%

Source: Eavex Capital

Zelenskiy, Scholz Showcase Improved Ties Despite Fighter Jet Refusal

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

NEWS

President Zelenskiy embarked on a tour of Western European capitals late last week, visiting Rome, Berlin, and Paris, with an additional stop today (May 15) in London. The trip, Zelenskiy's longest abroad since the start of the full-scale war last winter, brought promises of new tranches of military aid from the largest EU member states. Notably, it was Zelenskiy's first wartime visit to Germany after a period of poor Ukrainian-German relations that saw Kyiv accuse the government of Chancellor Olaf Scholz of deliberately slow-walking military assistance and even of prioritizing economic relations with Russia. During the visit, at which Zelenskiy was received by Scholz with military honors, Germany announced its largest military aid package for Ukraine to date, worth USD 3bn, making the country Ukraine's largest donor after the United States. However, Scholz refused to move from his previous position of declining to provide Ukraine with fighter aircraft, despite Zelenskiy's statement that he believes in a "European coalition" to strengthen Ukraine's air force.

COMMENTARY

Zelenskiy's European diplomatic offensive is clearly aimed at shoring up Western support in the context of the possible extension of the war's time horizon into 2024 and beyond. Showing that the major Western countries are prepared to continue funding Ukraine indefinitely strikes a psychological blow against the Putin regime in Moscow, which has been counting on its ability to outlast the West's attention span. In general, if the war is costing each side an estimated 150-200bn per year, this is currently seen as a relatively cheap price for the West, but an enormous one for Russia as a percentage of GDP.

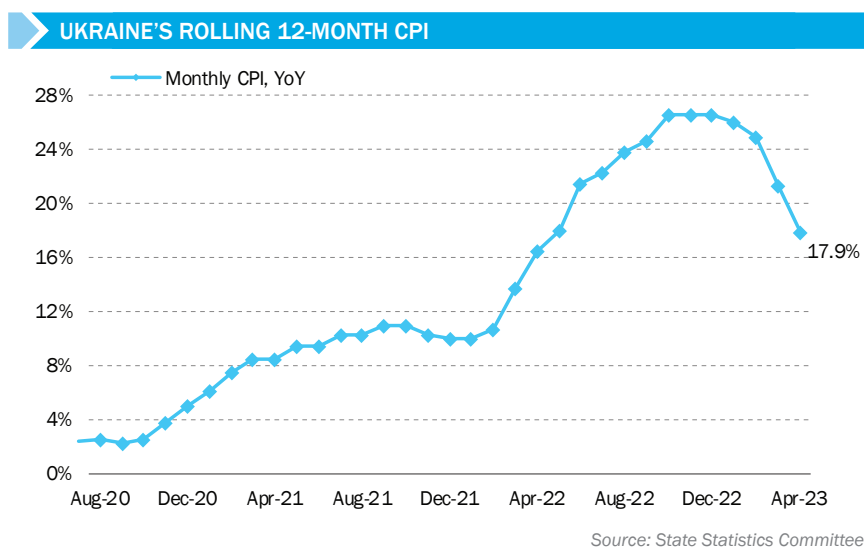
However, Ukraine and the West continue to be at odds over the war's endgame, with Zelenskiy and his government playing for the maximalist outcome of the collapse of the Putin regime and the full restoration of Ukraine's 1991 borders, while none of the major Western governments (and most notably the US) have explicitly endorsed this goal, instead stating vaguely that the war will end with negotiations. We believe that the current fighting season (i.e. the next 3-4 months) will offer a stern test of the domestic stability of the Putin regime amid likely Russian battlefield defeats and at least some territorial gains by Ukraine in its expected counteroffensive in the south and/or the east of the country.

Ukraine's Headline Inflation Slows to 17.9% in April from Peak of 26.6% Seen in December

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

NEWS

Rolling 12-month consumer inflation in Ukraine slows to 17.9% in April from the peak of 26.6% seen in December, according to official data from UkrStat published last week. On a month-on-month basis, inflation was 0.2% in April on the back of a 0.4% increase in food prices. Meanwhile, the transportation price category decreased by 0.7% MoM due to a 2.4% MoM decline in fuel prices for final consumers.



COMMENTARY

The inflation index trajectory became firmly downward providing an argument to expect a further slowdown in the pace of consumer prices increase in Ukraine. Currently, the base case forecast for this year's inflation is 14.8% with a scenario of inflation in the range of 9% - 12% in 2024. Inflation pressures stand to ease despite the revival of economic activity and the pursuit of a loose fiscal policy. This outlook is based on the assumption that security risks will decline in intensity with the arrival of 2024, and takes into account the continued recovery of logistics chains and production capacities in Ukraine.

Monetary conditions in the country will remain rather tight for a protracted time even if cuts to the key policy rate that stands at 25% begin in the fourth quarter. The National Bank admitted that it might ease its monetary policy faster than the current forecast envisages in case the country receives enough FX inflows and the FX market conditions would be favorable.

Recently UkrStat conducted a planned review of the consumer basket that goes into the calculation of the CPI. The revision was aimed at further approximating the index to households' actual expenditures and aligning domestic statistics with global standards. A key innovation that resulted from the review was the inclusion of owner-occupied housing costs (expenses related to purchasing, maintaining, and inhabiting a dwelling) into the CPI. Previously, the index had incorporated only a portion of such costs. Up until now, these changes have had no significant impact on the inflation gauge. This is due to the incremental share of owner-occupied housing costs in the CPI (just 0.43% in 2023). According to data from other countries, however, the weight and impact of this component on overall indicators of inflation may rise.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2024	17.0	-2.3%	346%	7.75%	1 Sept 2024	912	USD	Caa3/CCC/CC
Ukraine, 2026	16.4	-1.8%	110%	7.75%	1 Sept 2026	1,339	USD	Caa3/CCC/CC
Ukraine, 2028	14.5	0.0%	82%	7.75%	1 Sept 2028	1,318	USD	Caa3/CCC/CC
Ukraine, 2030	15.0	-0.7%	81%	9.75%	1 Nov 2030	1,600	USD	Caa3/CCC/CC
Ukraine, 2034	15.2	-2.6%	56%	7.38%	25 Sept 2034	3,000	USD	Caa3/CCC/CC
Ukraine, GDP-linked	21.2	-7.8%			31 May 2040	3,239	USD	//
Corporate Eurobonds								
MHP, 2026	50.4	-0.4%	39%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	53.3	-0.7%	25%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	35.7	1.1%	39%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	62.2	-2.8%	30%	8.50%	23 Apr 2026	648	USD	Caa3//CCC
Metinvest, 2029	45.0	0.0%	27%	7.75%	17 Oct 2029	500	USD	Caa3//CCC
NaftoGaz, 2026	22.1	11.6%	81%	7.625%	8 Nov 2026	500	USD	//
Ukrainian Railways, 2026	19.0	0.0%	98%	8.25%	9 Jul 2026	500	USD	//C
Bank Eurobonds								
UkrEximBank, 2025	54.9	0.2%	58%	9.75%	22 Jan 2025	600	USD	//
OschadBank, 2025	79.4	0.1%	26%	9.38%	20 Mar 2023	150	USD	//

¹ Moody's/S&P/Fitch

Source: Boerse-Berlin, Boerse-Stuttgart. TR Data, Eavex Research

Eavex Capital

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

Telephone: +38 044 590 5454
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

Investing in emerging markets' securities may entail certain risks. There may be limited information available on such securities. Securities of emerging markets' companies may be less liquid and their prices more volatile than securities of comparable developed markets' companies. In addition, exchange rate movements may have an adverse effect on the value of an investment.

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.

Copyright 2023 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015