

Trends

Quotes for Ukrainian sovereign Eurobonds bounced back substantially last week after their decline seen over the previous month on rising interest rate concerns. Although there was no clear signal for the rebound, we assume that the prospect of the renewed IMF program for the country was a key factor for optimism that Ukraine will have a normal solvency in the foreseeable future.

Ukraine-2028 Eurobonds gained 1.5% to 118.5 (6.5% YtM) and Ukraine-32s rose by 2.1% to 104.1 (7.0% YtM). The short-term Ukraine-22s due next September were unchanged at 103.7 (3.5% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) added 1.4% to 108.5 cents on the dollar.

In the corporate debt universe, MHP-29s remained at 101.0 (6.1% YtM) while Metinvest-26s grew by 1.3% to 112.4 (5.5% YtM). DTEK Energy-27s edged down by 0.3% to 60.2 (15.3% YtM) amid the difficult situation on the Ukrainian electricity market due to a coal shortage and high prices for natural gas. The high-yield Interpipe-26s issue was quoted at 94.3 (10.2% YtM).

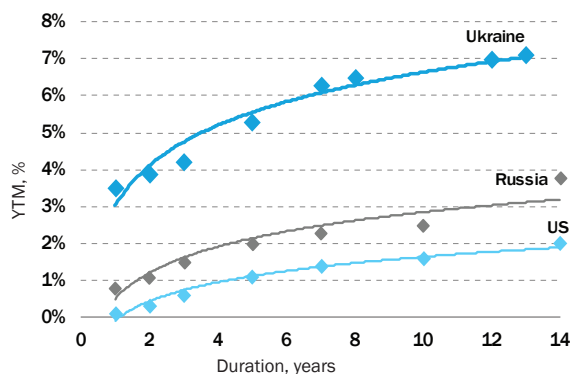
The Finance Ministry saw a low demand for treasuries at the primary auction held on Oct 12. The proceeds were just UAH 514mn for a placement of UAH-denominated bonds. The 5-year government debt papers were offered at 12.75% and the 1-year bonds were offered at 11.50%, drawing little attention from investors who are able to purchase the 1-year bonds at 12.25% on the secondary market.

The hryvnia was little-changed over the short business week in the country, as markets were closed on Oct 14-15 (Thu-Fri) for the Defenders' Day holiday. The hryvnia inched down by 1 kopeck to 26.39 UAH/USD.

On the macroeconomic front, the IMF downgraded Ukraine's GDP growth forecast for 2021 from 4.0% to 3.5%, but bumped up expectations for the growth in 2022 to 3.6% from 3.4%. We think that the IMF forecast for 2022 could be viewed as the base case scenario, leaving the large room for the more optimistic scenario with GDP growth of 5% YoY in 2022 in case the manufacturing sector is able to deliver a more solid recovery next year compared to what we have been witnessing so far this year.

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	8.5%	0.0 p.p.	+2.5 p.p.
UAH 1-year bond	12.3%/11.5%	+0.1 p.p.	+0.7 p.p.
Ukraine-2025	5.3%	-0.2 p.p.	0.4 p.p.
Ukraine-2028	6.5%	-0.3 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.39	0.0%	-6.7%
EUR/UAH	30.56	0.2%	-12.0%

Source: Eavex Capital

Highlights

- > COVID 4th Wave in Full Swing in Ukraine as New Restrictions Loom

COVID 4th Wave in Full Swing in Ukraine as New Restrictions Loom

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NEWS

Ukraine had 2,140 deaths that were blamed on the COVID-19 virus during the past week (Oct 11-17), domestic media reported, rivaling the highest point of the pandemic in the country, which was registered in April of this year. Nationwide, reported new COVID cases averaged about 15,000 per day last week, also slightly below the April peak. In the western city of Lviv, new quarantine restrictions were announced that closed schools until at least Nov 1 and limited mass gatherings to those with proof of vaccination or negative tests. The worst situation, however, is currently in Ukraine's southeast, where Donetsk, Dnipro, Zaporizhia, Odessa, and Kherson provinces have all been declared "COVID red zones", resulting in the forced closure of restaurants and many public businesses.

COMMENTARY

Ukraine's reported overall mortality from COVID is currently near 1,400 per 1 million population, which puts it in notably better condition than most European countries in terms of this metric. However, given Ukraine's low vaccination rate compared to the EU, this gap is beginning to close, as COVID fatalities in Western European nations are now becoming increasingly rare. The Health Ministry reports that some 14.4mn vaccine doses have been administered in Ukraine, which (assuming 2 doses are needed for "full vaccination") corresponds to a national vaccination rate of only about 16%, compared to 50-70% in EU countries. Given that around half of Ukrainians stated that they are unwilling to take a vaccine in a recent survey, we believe that the vaccination rate is unlikely to rise quickly, despite some mandates which have been put in place by the Zelenskiy administration for schoolteachers and healthcare workers. The cheap availability of fake vaccine certificates is also a barrier to a higher real vaccination rate, and there are rumors that health authorities have been including regular influenza cases in the COVID case count amid the start of the normal autumn flu season, thus pushing up the official numbers. We believe that due to the widespread distrust of the vaccines (and government in general) in Ukraine and the unpopularity of mandates, the Zelenskiy administration's hands are tied, and Ukraine will simply have to ride out the current COVID wave using various national and local quarantine restrictions. This is unfortunately quite an unnerving proposition, given that it is unclear how high the current infection peak might rise as Ukraine heads into the most risky part of the year in terms of transmissible diseases.

SELECTED UKRAINIAN EURO BONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	103.7	0.0%	3.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	109.3	1.0%	5.5%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	118.5	1.5%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.1	2.1%	7.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	108.5	1.4%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	103.1	0.1%	6.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	106.2	0.3%	5.4%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.0	0.0%	6.2%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	60.2	-0.3%	15.3%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.4	1.3%	5.5%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	105.3	0.4%	6.9%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	100.4	-0.6%	7.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.4	0.4%	6.9%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.0	0.0%	6.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	105.3	-0.5%	6.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	103.8	0.0%	5.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.7	-0.1%	6.0%	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							
UA4000203236			10.7%	9.7%	S/A	05 Jan 2022	10,887
UA4000204002	103.5	103.8	11.5%	11.0%	S/A	11 May 2022	12,917
UA4000218325	99.6	100.1	12.1%	11.2%	S/A	20 Jul 2022	13,415
UA4000199210	102.8	103.7	12.2%	11.3%	S/A	12 Oct 2022	14,993
UA4000201255	105.0	105.9	13.0%	12.3%	S/A	24 May 2023	6,470
UA4000201255	93.3	94.8	13.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	107.2	109.6	13.6%	12.7%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	89.5	13.8%	12.8%	S/A	20 May 2027	7,018
USD denominated Bonds							
UA4000218333	99.9	100.4	3.8%	3.2%	S/A	14 Jul 2022	USD 336mn

Source: TR Data, Eavex Research

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