

## Trends

A rising benchmark for the risk-free rate pulled Ukrainian sovereign yields higher last week. The US 10-year yield reached 1.64%, nearing its 2021 high, and yields on US 5-year bonds rose to 1.18%, their highest levels since the pre-COVID month of February 2020, extending a 2-week rise. Money markets now place the probability of a 25-bps rate hike by the US Federal Reserve in the coming months at around 40%.

Among Ukrainian sovereign Eurobonds, the 10-year proximity issue fell 1.2% to close at 102.9 (7.1% YtM) and the 5-year sovereign decreased by 1.1% to 108.1 (5.7% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) dropped by 2.4% to 105.9 cents on the dollar after the National Bank lowered its projection for the country's GDP growth to 3.1% YoY for 2021. The 3.0% level is the minimum threshold condition under which the VRIs would offer a payout to investors for this year.

The Kernel-2027 corporate Eurobonds had no reaction to the publication of the company's mixed operational results for the Jul-Sept quarter. Kernel-27s traded at 103.2 (6.1% YtM). On the upside, Metinvest-29s gained 1.2% to 106.6 (6.7% YtM). Quasi-sovereign banking issue OschadBank-23s edged down by 0.7% to 103.1 (5.5% YtM).

Proceeds from a placement of UAH-denominated government bonds remained below the average volumes at the auction held on Oct 19. MinFin sold the 1-year debt papers at 11.50% and the 2-years at 12.40%. Meanwhile, on the secondary market the yields for the 1-year government bonds increased by 20 bps to bid/ask of 12.5%/11.7%. Market participants were inactive last week in UAH-denominated bonds as they waited for the NBU's decision on the key policy rate, which was put on hold at 8.50% after the monetary board meeting on Thursday (Oct 21).

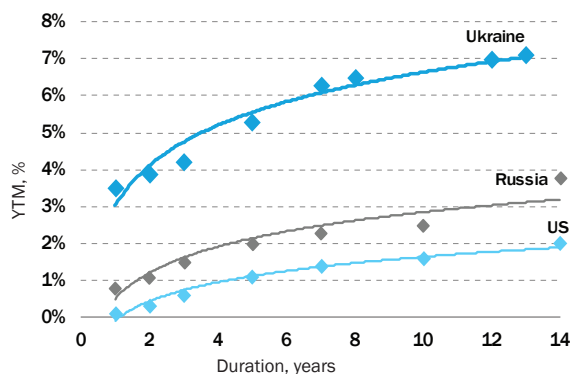
On the currency market, the hryvnia was once again surprisingly firm, gaining 0.3% to 26.30 UAH/USD. The Ukrainian currency has strengthened by 7.0% so far this year as the record high grain harvest combined with the global rally in soft commodities have been improving the country's trade balance.

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

- > Ukraine Hits New COVID Peak as Gov't Downgrades 2021 GDP Growth
- > Kernel's Oilseed Processing Down Sharply in Jul-Sept Quarter

### 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	12.5%/11.7%	+0.2 p.p.	+0.9 p.p.
Ukraine-2025	5.5%	0.2 p.p.	0.6 p.p.
Ukraine-2028	6.9%	0.4 p.p.	0.6 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.30	-0.3%	-7.0%
EUR/UAH	30.62	0.2%	-11.9%

Source: Eavex Capital

## Ukraine Hits New COVID Peak as Gov't Downgrades 2021 GDP Growth

by Will Ritter  
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### NEWS

Ukrainian COVID-19 official statistics reached a new peak last week, surpassing the levels seen during the March/April wave, according to Health Ministry data. COVID new case numbers above 23,000 and fatalities above 500 were registered on Thursday and Friday, before dropping back somewhat on the weekend, which is a typical pattern due to the reporting process. Ten of the country's provinces, as well as the city of Kyiv, are back in lockdowns, with schools and restaurants shuttered. The government's reported vaccination numbers also increased markedly last week, with daily national counts well above 100,000 after they had languished in the 20-30,000 range for months, amid new coercive methods in provincial cities and villages, where vaccination rates are the lowest. In an acknowledgement of the seriousness of the situation, the National Bank slashed its full-year 2021 GDP growth forecast from 3.8% to 3.1% last week.

### COMMENTARY

In our view, the current COVID wave is being made worse due to its coinciding with the traditional influenza outbreak season, and the government is likely no longer making a particular effort to distinguish between flu and COVID cases. We doubt that depriving the poorest Ukrainians of their jobs (the strategy currently being employed in smaller cities and rural areas) in order to force them to vaccinate, can be a sustainable strategy in political terms. Therefore, we see the government's actions as a quick temporary push to raise the national vaccination rate, currently below 20%, up to something closer to the averages in other Eastern European countries (40-60%); the experience of Western Europe has proven that COVID vaccination sharply reduces fatality rates from the disease, even if the effect on overall infection rates is less clear. As for the downgrade in GDP growth, it looks obvious that the 3.1% figure was cherry-picked in order not to alarm the holders of Ukraine's VRI derivative securities, who receive no payout on these instruments if the official GDP rise in a year is less than 3%.

## Kernel's Oilseed Processing Down Sharply in Jul-Sept Quarter

by Dmitry Churin  
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### NEWS

Kernel Holding, Ukraine's largest grain and sunflower oil exporter, reported mixed operational results for the July-September quarter, with the company's grain exports growing by 5% YoY to 2.23mn tonnes in the period while sunflower oil sales dropped by 25% YoY to 220,700 tonnes, according to the update published on Oct 22. Kernel's sunflower seed processing decreased by 27% YoY to 482,300 tonnes. The company blamed a shortage of seeds for this notable decline in its key operational sector.

KERNEL OPERATIONAL UPDATE			
Volume	1Q FY21	1Q FY22	Change
Grain exports, tonnes	2,125,650	2,226,755	+5%
Sunflower oil sales, tonnes	296,241	220,708	-25%
Oilseed crush, tonnes	662,613	482,266	-27%
Export terminals throughput, tonnes	1,868,593	2,206,913	+18%

Source: Companies' data

### COMMENTARY

We view Kernel's operational results for the quarter as unimpressive. Although there were advance signals that the company's sunflower oil processing segment was facing lower profitability and lower volumes, we had assumed that the seed-crushing volume would not decrease by more than 15% YoY. On the grain segment side, we had projected higher export volumes, so the 5% YoY growth fell in the lower band of our estimates. Nevertheless, among encouraging information in the update, there was a statement that Kernel's crop yields in the farming segment are expected to increase for all three major crops: corn, sunflower, and wheat. The company operates a land bank of some 500,000 hectares. Its wheat yield this season rose by a hefty 26% YoY to 6.2 tonnes per ha, and the corn yield increased by 6.5% YoY to 8.5 tonnes/ha. Kernel is due to publish its financial results for the Jul-Sept quarter on Nov 26.

Kernel's outstanding Eurobonds with maturity in 2027 had a NEUTRAL reaction to to the operational update release, trading at 103.2 (6.1% YtM).

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, 2022	103.6	-0.1%	3.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	108.1	-1.1%	5.7%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	116.2	-1.9%	6.9%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	102.9	-1.2%	7.1%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	105.9	-2.4%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2027	103.2	0.1%	6.1%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.9	-0.3%	5.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.2	0.2%	6.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	60.2	0.0%	15.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.3	-0.1%	5.4%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	106.6	1.2%	6.7%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	100.4	0.0%	7.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.4	0.0%	6.9%	8.25%	9 Jul 2024	500	USD	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	100.0	0.0%	6.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	105.3	0.0%	6.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	103.1	-0.7%	5.5%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.3	-0.4%	6.1%	9.63%	20 Mar 2025	250	USD	B2//B

<sup>1</sup> 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
<b>UAH denominated Bonds</b>							
UA4000203236			10.7%	9.7%	S/A	05 Jan 2022	10,887
UA4000204002	102.7	103.8	12.0%	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	102.7	103.6	12.3%	11.3%	S/A	12 Oct 2022	14,993
UA4000201255	104.8	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
<b>USD denominated Bonds</b>							
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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