

Trends

Quotes for Ukrainian sovereign Eurobonds were lower for the second straight week as inflation fears persisted and expectations grew that the US Federal Reserve will tighten policy in the coming months. Another negative factor for fixed income instruments is the rising credit risk that requires a premium to compensate for it. Globally, credit quality continues to recover slowly from a lower ratings base amid yet another wave of COVID-19 infections.

Meanwhile, in Ukraine the National Bank published its regular business activity expectations index. The data showed that businesses remained upbeat about their performance outlook on the back of robust consumer demand, a favorable external environment, and ongoing growth in investment activity in the country.

The actively traded Ukraine-28s issue lost 1.8% to close at 116.5 (6.9% YtM) and the medium-term Ukraine-26s issue declined by 1.5% to 108.2 (5.7% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) dropped by 4.0% to 108.3 cents on the dollar.

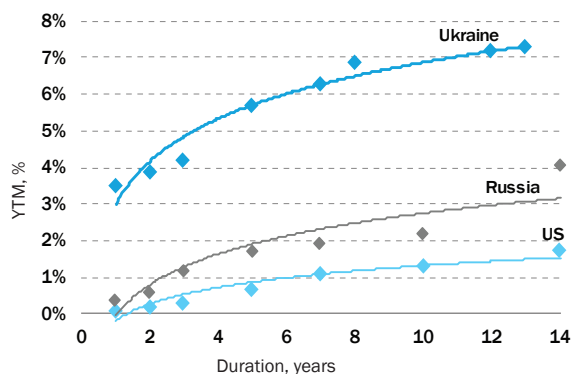
Corporate Eurobond issues were also lower following the decline in the sovereigns. Kernel-27s edged down by 0.5% to 107.0 (5.4% YtM) ahead of the company's earnings report for its full-year 2021 (which ended in June). The distressed issue DTEK Energy-27s fell 2.4% to 60.3 (15.3% YtM) and debt papers of state-owned railways operator Ukrainian Railway (RAILUA-24s) declined by 0.6% to 103.0 (7.0% YtM).

The offered yield for the 1-year UAH-denominated treasuries was flat at 11.50% at the regular bond auction held on Sept 28. The largest proceeds of UAH 2.48bn came from the 6-year bond placement at 13.04%. On the secondary market, the 1-year bonds traded at bid/ask of 12.0%/11.5%.

On the interbank currency market, the hryvnia surprisingly gained 0.4% against the dollar to close at 26.63 UAH/USD. We assume that solid grain exports this season are helping the country to increase foreign currency inflows.

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	12.0%/11.5%	0.0 p.p.	+0.6 p.p.
Ukraine-2025	5.5%	0.5 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	26.63	-0.4%	-5.8%
EUR/UAH	30.89	-1.3%	-11.1%

Source: Eavex Capital

Highlights

- > Razumkov Set to be Fired as Parliament Speaker This Week
- > MinFin Needs to Raise USD 20bn to Cover Budget Gap in 2022

Razumkov Set to be Fired as Parliament Speaker This Week

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

NEWS

Dmitry Razumkov, the Speaker of Ukraine's Verkhovna Rada (Parliament), will likely be removed from his post by the majority People's Servant party this week, domestic media have reported in recent days. The procedures to remove Razumkov are expected to be initiated today (Oct 4). The Speaker came under fire from the administration of President Zelenskiy in September for delaying the passage of Zelenskiy's so-called oligarch law, which restricts the political activity of individuals with high net worth above USD 80mn. Razumkov sent the draft law to be reviewed by the Venice Commission, where it is likely to receive criticism related to rights of political freedom. At a meeting of People's Servant MPs held at a resort in Western Ukraine this weekend, Zelenskiy said that Razumkov "is no longer a member of the team... [People's Servant] MPs have a million questions to him". The likely successor to Razumkov is reported to be current Deputy Speaker Ruslan Stefanchuk.

COMMENTARY

It always looked quite strange that Razumkov, only 37, was able to rise to what is officially the second-highest government position in Ukraine with very little experience in politics or name recognition. Razumkov's main qualification was that he ran a consulting firm which advised Zelenskiy's candidacy in the 2019 election, after which Zelenskiy placed him at the head of the newly-created Servant of the People party. However, reports of Zelenskiy and Razumkov not being on the same page began to emerge as early as the autumn of 2020, and the situation with the oligarch law, a key piece of Zelenskiy's reform agenda, was apparently the final straw. In our view, Razumkov needed to either have his own political base or be extremely loyal to Zelenskiy in order to hold onto the Parliament speaker post, but since neither was the case, his time in the job was always likely to be relatively brief. We doubt that Razumkov could become a serious competitor to Zelenskiy in the next presidential election, although he may well end up cooperating with other factions in Parliament and thus take on the role of a rather tricky opposition figure, given his first-hand knowledge of the Zelenskiy political operation.

MinFin Needs to Raise USD 20bn to Cover Budget Gap in 2022

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

NEWS

Ukraine's Finance Ministry presented its plan last week for covering UAH 553bn (USD 21bn at the current exchange rate) in national budget financing for 2022 in addition to expected tax revenue. According to the presentation, the government has the following financial needs next year:

- domestic debt repayments of UAH 321bn (an equivalent of USD 12bn);
- external debt repayments of USD 2.7bn;
- a national budget general fund deficit of UAH 160bn (USD 6.0bn).

The Finance Ministry stated that it can raise UAH 420bn (USD 15.8bn) of domestic debt through government bond placements and USD 4.7bn on the international market. There is also a plan to attract USD 300mn through privatization in 2022.

COMMENTARY

The unveiled figures imply that the Finance Ministry will need to place an average of UAH 8.1bn (USD 300mn) at the weekly domestic bond auctions in 2022. In September, the weekly auctions brought in an average of just UAH 3.6bn. In our opinion, the government will be forced to offer a higher yield for the UAH-denominated bonds to attract more proceeds from the placements. On the other hand, MinFin is counting on large demand for domestic treasuries from the big state-owned banks, which will use funds from the redemption of the outstanding treasuries for purchasing new issues. The yield for UAH-denominated bonds maturing in May 2027 was set at 13.04% at the auction held on Sept 28. For the 1-year bond, the offered yield was at 11.50%. We assume that the government will increase the offered yield for the 5-year UAH-denominated bond to 14.25% and for the 1-year bond to 12.3% in the coming months. Taking into account that Ukrainian banks have only a few financial instruments in which to invest their hryvnias, UAH-denominated bonds remain the primary instrument for their securities portfolios. Currently there is UAH 985mn (USD 37bn) of outstanding government bonds. Ukrainian banks are the largest holders of these bonds with a share of 51%. The National Bank holds UAH 312bn (32%) of the government bonds, while non-resident investors hold UAH 98bn (10%), and the balance of 7% is held by domestic corporations and private investors. At the current interest rates and amid exchange rate stability, Ukrainian government UAH-denominated bonds continue to offer a solid real interest rate in the environment of the negative real interest rates in developed markets.

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	103.8	-0.3%	3.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	108.2	-1.5%	5.7%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	116.5	-1.8%	6.9%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	102.1	-2.7%	7.2%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	108.3	-4.0%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.0	-0.5%	5.4%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.9	-1.2%	5.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	102.0	-0.7%	6.0%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	60.3	-2.4%	15.3%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	110.1	-2.3%	5.8%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.3	-0.6%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	100.0	-2.1%	7.2%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.0	-0.6%	7.0%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.1	0.0%	6.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	108.5	0.0%	4.9%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.8	-0.5%	4.1%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.5	-0.5%	4.8%	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	99.9	12.0%	11.6%	S/A	20 Jul 2022	13,415
UA4000199210	103.2	103.6	12.0%	11.6%	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	106.9	108.9	13.7%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	91.6	13.8%	12.2%	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

Eavex Capital

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

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
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

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

RESEARCH
Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua

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