

Trends

Quotes for Ukrainian sovereign Eurobonds saw only minor changes last week. However, the general trend of rising yields remained in place as concerns regarding high inflation pace persisted on the fixed income market. Meanwhile, Ukraine finally received the second EUR 600mn installment in its program of COVID macro-financial assistance from the EU. The European Commission last year allocated an assistance package of EUR 3.0bn to ten candidate countries and members of the Eastern Partnership to help these countries overcome the economic consequences of the COVID-19 epidemic. Ukraine received EUR 1.2bn from this package.

The actively traded Ukraine-28s issue inched down by 0.2% to 116.0 (7.0% YtM) and the short-term Ukraine-22s due next September were virtually flat at 103.5 (3.4% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by a further 0.4% to 105.5 cents on the dollar as forecasts for Ukraine's economy growth worsened as a result of the new spike in COVID-19 cases in the country.

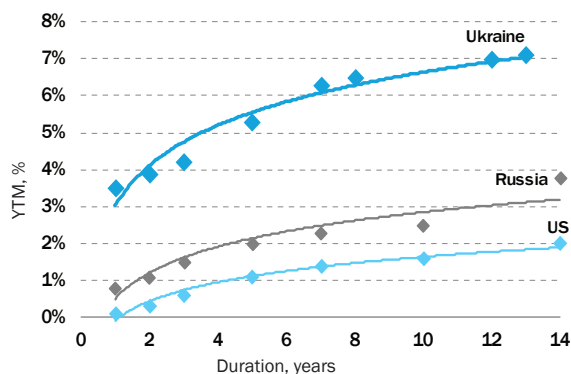
Among corporate Eurobonds, the Kernel-2027 issue finally reacted positively to the company's outstanding financial performance reported 2 weeks ago, advancing by 3.5% to 106.8 (5.5% YtM), and quotes for MHP-29s moved up by 0.3% to 101.5 (6.1% YtM). The debt papers of the state railway operator Ukrainian Railways (RAILUA-24s) inched down by 0.2% to 103.2 (6.9% YtM).

Last Tuesday, the Finance Ministry offered UAH-denominated domestic bonds with maturity in 2027 at 13.10% as the recent pattern of weak treasury sales volume continued. The offered yield for the 1-year bond remained at 11.50%. The 2-year bond was placed with yield of 12.47%. Brokers had bid/ask quotes for the 1-year domestic bond at 12.2%/11.3% on the secondary market.

On the interbank currency market, the hryvnia inched up by 0.1% to 26.27 UAH/USD as the foreign currency inflow from grain exports remained a positive factor for the country's trade balance. Ukraine has exported 17.8mn tonnes of grain since July, including 11.5mn tonnes of wheat.

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	12.2%/11.3%	-0.3 p.p.	+0.6 p.p.
Ukraine-2025	5.5%	0.0 p.p.	0.6 p.p.
Ukraine-2028	7.0%	0.1 p.p.	0.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.27	-0.1%	-7.1%
EUR/UAH	30.53	-0.3%	-12.1%

Source: Eavex Capital

Highlights

- > Germany, France Criticize Ukraine's Drone Strike on Donbass Target
- > Ukraine's Industrial Output Down 0.7% YoY in September; Retail Growth Slows to 6% YoY

Germany, France Criticize Ukraine's Drone Strike on Donbass Target

by Will Ritter
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NEWS

The foreign ministries of Germany and France last week issued statements criticizing Ukraine's use of an unmanned Turkish-built drone aircraft to strike a target in separatist-held Donetsk province. The strike, which hit a separatist artillery position, was publicly announced by Ukraine's military on Wednesday (Oct 27) as having been directly ordered by President Zelenskiy. There was additional diplomatic fallout on Saturday (Oct 30) when Turkey's foreign minister demanded that Ukraine's media stop referring to the drone as "Turkish" in order for Turkey not to be associated with the attack. The US Embassy in Kyiv called on both sides in the conflict to observe the July 2020 cease-fire agreement, while noting that the separatists have also been using drones in violation of the deal. In related news, the Washington Post reported on Saturday (citing anonymous sources) that new Russian troop movements near the Ukrainian border have been observed, without specifying the dates or exact locations. The article quoted Foreign Minister Dmytro Kuleba as denying Kremlin charges that Kyiv has a plan to re-take the Donbass territories by force, and Zelenskiy also denied that the drone strike represented the start of an offensive operation, saying that it was purely defensive in nature, in comments posted on the presidential website.

COMMENTARY

The Donbass conflict has been largely out of the news for the last 6 months, and we suspect that Kyiv and Moscow both have their own reasons for wishing to bring the situation back to the attention of the major Western powers, thus resulting in the current escalation. Zelenskiy and his administration are likely eager to draw some media oxygen away from the spike in COVID-19 cases in the country and the unpopular forced vaccination measures which are evoking widespread anger against the government, with a large-scale demonstration planned for Nov 3 in Kyiv. For its part, the Kremlin is likely trying to deter the US from increasing its military presence in Ukraine following the visit of Defense Secretary Lloyd Austin two weeks ago amid increased chatter about possible NATO membership for Kyiv. The Donbass peace process has been off line for nearly two years, since the start of the COVID epidemic, and we think that a meeting in the so-called "Normandy format" with Germany and France will probably be held in the coming months in order for the sides to reset their negotiating positions. Still, we see no realistic alternative to the nearly 7-year-old Minsk protocols, which have essentially turned the Donbass into a frozen conflict zone.

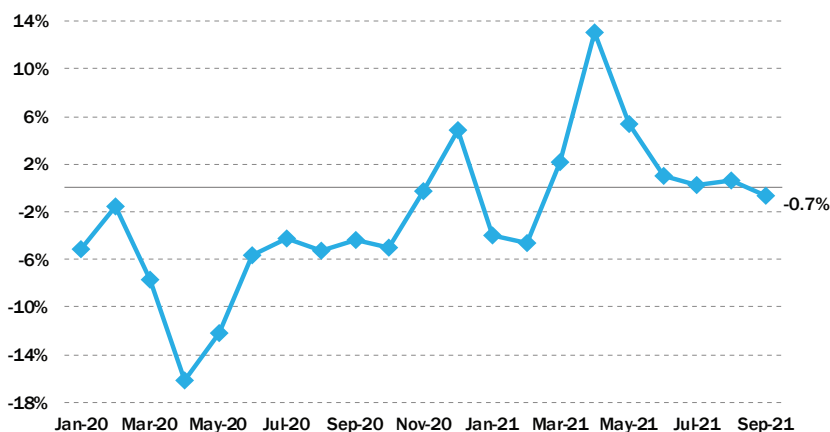
Ukraine's Industrial Output Down 0.7% YoY in September; Retail Growth Slows to 6% YoY

by Dmitry Churin
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NEWS

Ukraine's industrial production index fell back into negative territory in September, declining by 0.7% YoY after a growth of 0.6% YoY registered in August, according to data published by UkrStat. Year-to-date (through 9M21), industrial production in Ukraine has recovered by 1.4% YoY. Extraction sector output rose by 1.0% YoY in September while the manufacturing and the utility sectors declined by 1.1% YoY and 2.4% YoY respectively.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

It was disappointing to see these weak industrial production figures for September after expectations of acceleration in business activity in the country after the traditional vacation season, but the stronger-than-expected 4th COVID wave in Ukraine was likely a factor, and this effect will only increase in the October statistics. Among the worst performing industries, there was a 12.3% YoY drop in coal extraction, which is concerning ahead of the heating season. Thermal generation companies are already facing a shortage of coal supplies on the domestic market. Chemical industry output also contracted by 9.6% YoY amid ballooning natural gas prices. Meanwhile, pharmaceutical production grew by 4.4% YoY in September, recovering some of the sudden output drop seen in August.

In other macroeconomic statistics, UkrStat reported that retail sales rose by 5.9% YoY in September, representing the slowest pace recorded since January. For 9M21, the retail sales index is up by a massive 12.2% YoY.

The agro sector output index increased by 1.9% YoY in 9M21, still largely failing to reflect the impressive grain harvest reported by the largest Ukrainian farmers. The harvesting campaign is still in full mode right now, having been completed on 12.2mn hectares in the country, which is 76% of the total planted area.

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	103.5	-0.1%	3.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	107.9	-0.2%	5.8%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	116.0	-0.2%	7.0%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	102.8	-0.1%	7.1%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	105.5	-0.4%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	106.8	3.5%	5.4%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	106.0	0.1%	5.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.5	0.3%	6.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	61.3	1.8%	15.1%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.3	0.0%	5.4%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	106.7	0.1%	6.6%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	100.2	-0.2%	7.1%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.2	-0.2%	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	105.1	-0.2%	6.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	103.1	0.0%	5.5%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.5	0.2%	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	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
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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