

## Trends

Ukrainian sovereign Eurobonds saw a notable decline last week, reacting to ongoing political risk as well as the prospect of a higher interest rate environment in the coming years after the Bank of England was the first among major central banks deciding to hike its key rate since the pandemic. Meanwhile, The European Central Bank left rates unchanged, but said its emergency bond buying plan will end in March. The Ukrainian government heavily relies on opportunities to refinance the state debt, which is currently about 54% of GDP. The Finance Ministry estimated that the total need for debt repayment and servicing stands at UAH 560bn (USD 20.5bn) in 2022 and UAH 574bn (USD 21.0bn) in 2023. Although most debt redemptions are in form of UAH-denominated payments, there are visible concerns about whether there will be enough demand for the government treasuries at a reasonable yield. At the last weekly primary auction for domestic bonds, the Finance Ministry raised UAH 10.8bn in proceeds from placements of bonds with maturities up to 2026 and offered yields of up to 13.0%.

On the Eurobond market, the long-term Ukraine-32s issue lost 3.1% to 91.8 (8.3% YtM) and the medium-term 5-year bond slid by 2.2% to 98.8 (8.0% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were surprisingly unchanged at 94.3 cents on the dollar.

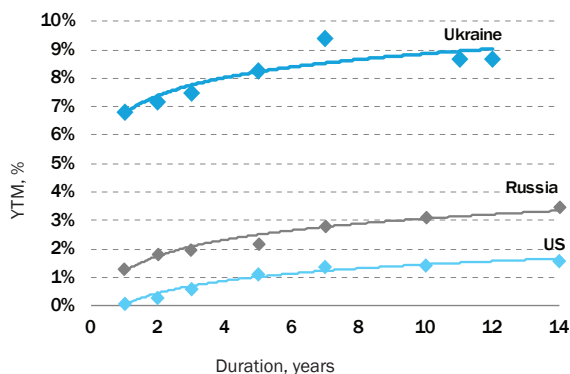
Quotes for Ukrainian corporate Eurobonds finished mixed. MHP-29s gained 2.1% to 94.4 (7.3% YtM) while Metinvest-26s shed 0.4% to 103.9 (7.4% YtM). The Eurobonds of state-owned Ukrainian Railways (RAILUA-24s) were flat at 95.0 (10.5% YtM), ignoring the company's announcement for a radical improvement of profitability next year.

Bid/ask quotes for the 1-year domestic government bonds on the secondary market remained at 12.7%/11.7%.

On the currency front, the hryvnia saw a substantial decline of 1.3% to 27.27 UAH/USD as tough back-and-forth comments between Russia and the West fueled some speculative betting against Ukraine's currency. The National Bank tried to defend the hryvnia by selling USD 132mn on the interbank market.

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).

## SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	9.0%	0.0 p.p.	+3.0 p.p.
UAH 1-year bond	12.7%/11.7%	0.0 p.p.	+1.0 p.p.
Ukraine-2025	8.3%	0.3 p.p.	3.4 p.p.
Ukraine-2028	9.4%	1.1 p.p.	3.1 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.27	1.3%	-3.5%
EUR/UAH	30.83	1.5%	-11.3%

Source: Eavex Capital

## Highlights

- > Germany Gets Tough on Russia as Cruz Forces Vote on Nord Stream Sanctions
- > Ukraine Smashes Harvest Record with 84mn Tonnes in 2021

## Germany Gets Tough on Russia as Cruz Forces Vote on Nord Stream Sanctions

by Will Ritter  
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### NEWS

US Republican-party Senator Ted Cruz reached a deal with Democrats to force a vote by Jan 14 on a new measure to impose sanctions on the Russian-German “Nord Stream 2” natural gas pipeline’s parent company. Cruz, who represents the natural-gas-producing state of Texas, has been trying during most of 2021 to get the administration of US President Biden to impose harsh measures that would prevent the already-built pipeline from going into service by blocking the approval of Biden’s ambassadorial nominees. Meanwhile, the new Socialist-led German government made tough statements on Moscow’s military threats against Ukraine over the weekend, with new Defense Minister Christine Lambrecht saying that officials in the government of Russian President Putin should face “personal consequences” for any new aggression. Also, Economics Minister Robert Habeck stated that the Nord Stream 2 pipeline would face “severe consequences... if there is a new violation of the territorial integrity of Ukraine”, in an interview with the national Frankfurter Allgemeine newspaper. Earlier this month, Germany’s energy regulator put a hold on the commissioning process for Nord Stream 2 until the middle of next year, meaning it could come on line in time for the 2022-23 heating season in Europe.

### COMMENTARY

Cruz’s move to force the Nord Stream 2 vote is symbolic posturing aimed at stirring up political trouble for the Biden administration, which has already made clear that it will defer to Germany regarding a decision about Nord Stream 2. Given that several Democratic senators are likely to break with Biden, Cruz’s measure has a good chance pass in the Senate (which is split 50-50 between Republicans and Democrats), and it would then face a high-profile vote in the House of Representatives. If it were to pass the House, Biden would then be forced to veto the bill, bringing him domestic political criticism for not being tough enough on Russia. Although this would seem to be good news for Ukraine on the surface, in our view it has no real impact beyond US domestic politics, and indeed, Ukraine is better off if the US and Germany keep the threat of shutting down Nord Stream 2 in reserve as a deterrent against the Kremlin. Overall, the tough stance of the new German government in joining the chorus of Biden administration threats of unaffordable economic consequences for Russia in the event of a new military escalation should be viewed as a plus. However, the coming weeks will see negotiations between Moscow and Washington as the former tries to secure some kind of gains from its latest military buildup in terms of a promise from the US not to militarize Ukrainian territory, and Kyiv may be forced to watch this negotiation process from the sidelines.

## Ukraine Smashes Harvest Record with 84mn Tonnes in 2021

by Dmitry Churin  
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### NEWS

Ukraine harvested a record high 84.2mn tonnes of grain in 2021 through November, the Agriculture Ministry announced last week. The volume includes 32.4mn tonnes of wheat, 9.9 mn tonnes of barley, 40 mn tonnes of corn, and smaller volumes of other grains. The average wheat yield was reported at 4.6 tonnes per hectare (ha) and the average corn yield was 7.4 tonnes/ha. In December, farmers were still due to harvest the remaining 2% of the planted corn area, as the harvest campaign was delayed somewhat due to wetter-than-normal weather throughout September.

The world's total wheat harvest in 2021 is forecasted at 785mn tonnes. Therefore, Ukraine accounts for 4.1% of the global wheat output.

### COMMENTARY

The national grain harvest in Ukraine increased by an impressive 30% YoY from 65mn tonnes reported last year, a figure which itself would have been considered exceptional 10 years ago. Grain exports could jump to 61.5mn tonnes in the 2021/22 July-June marketing year, from 44.7mn tonnes in 2020/21, helping the country to attract more foreign currency income to balance the current account in 1H22. According to the State Customs Service, Ukraine has already exported 29.2mn tonnes of grain since the beginning of the 2021/22 MY. Wheat and corn prices remain at a high level; wheat prices at the Black Sea ports reached USD 330 per tonne in December.

We forecast that Ukraine's grain harvest will decrease by 7% to 78mn tonnes next year, as such an exceptional harvest is unlikely to be immediately repeated. Meanwhile, current weather conditions are providing optimistic expectations for winter crops. In our view, the high grain harvest figure in the country is a positive factor for grain and sunflower oil exporter Kernel (KER). The KER stock price has risen by 14% to PLN 56.40 since the start of the year, which is frankly an unimpressive performance given the enormous grain harvest and elevated soft commodity prices.

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	99.9	-0.5%	7.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	98.8	-2.2%	8.0%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	102.9	-5.2%	9.4%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	91.8	-3.1%	8.7%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	94.3	0.0%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2027	100.5	0.1%	6.7%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	100.8	-0.2%	6.9%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	94.3	2.1%	7.3%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	54.0	-0.4%	18.1%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	103.9	-0.4%	7.4%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	99.2	3.1%	7.9%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	94.0	0.0%	9.8%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	95.0	0.0%	10.5%	8.25%	9 Jul 2024	500	USD	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	98.0	-0.2%	9.5%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	99.8	0.1%	9.9%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	98.9	-0.5%	10.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	101.9	-0.9%	8.8%	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>							
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	101.0	101.6	12.7%	11.7%	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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