

Trends

Quotes for Ukrainian sovereign and corporate Eurobonds were broadly lower over the last two weeks. The selling pressure came both from the US Federal Reserve signals for higher interest rates this year and from increased geopolitical tensions. Russia is insisting that NATO must never grant membership to Ukraine ahead of security talks with the United States this week. US Deputy Secretary of State Wendy Sherman is set to meet Russian Deputy Foreign Minister Sergey Ryabkov in Geneva today (Jan 10). Monday's talks will be followed by a meeting in Brussels on Wednesday of the NATO-Russia council, representing the first such meeting since 2019. There will also be a meeting of the Organization for Security and Cooperation in Europe chaired by Poland in Vienna.

Ukraine's 10-year 2032 Eurobonds slumped 4.7% to 87.5 (9.5% YtM) from their late December level, and the medium-term Ukraine-26s issue lost 4.9% to close at 94.0 (9.4% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) dropped by 5.2% to 89.4 cents on the dollar.

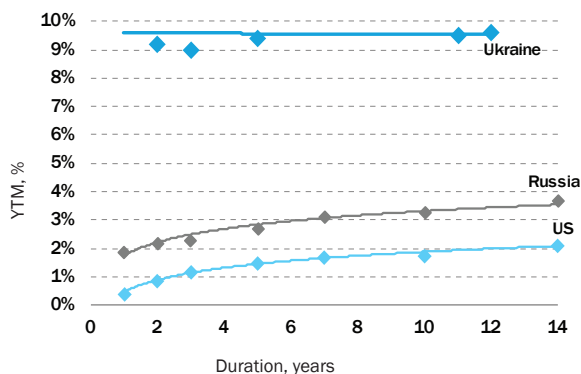
In corporate Eurobonds, distressed DTEK Energy-27s fell 4.1% to 51.8 (19.5% YtM) as the turmoil in Kazakhstan added new risk to coal imports to Ukraine. Meanwhile, Metinvest-26s edged down only 0.8% to 103.1 (7.55 YtM) due to the upward momentum in the iron ore price, which has risen from USD 112 to USD 126 per tonne for the 62% Fe benchmark contract. Iron ore prices rose as demand in China propelled spot prices of the metal to a 2-month high.

Bid/ask quotes for the 1-year domestic government bonds on the secondary market remained at 12.7%/11.7%, where they had ended 2021. The Finance Ministry will perform its first weekly primary auction for domestic bonds on Jan 11, offering debt papers with lengths from 3 months to 4 years.

The hryvnia opened the year on a soft note, declining by 0.7% to 27.50 UAH/USD last week amid the ongoing geopolitical concerns. However, the National Bank encouraged the market with a report that the country's foreign currency reserves stood at a solid level of USD 30.9bn as of Jan 1.

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	9.0%	0.0 p.p.	0.0 p.p.
UAH 1-year bond	12.7%/11.7%	0.0 p.p.	0.0 p.p.
Ukraine-2025	9.4%	0.5 p.p.	0.5 p.p.
Ukraine-2028	9.5%	0.3 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.50	0.7%	0.7%
EUR/UAH	31.15	0.6%	0.6%

Source: Eavex Capital

Highlights

- > Poroshenko Facing Arrest if He Returns to Ukraine Next Week
- > Ukrainian Gov't Over-Delivers FY21 Budget Revenue by 3%

Poroshenko Facing Arrest if He Returns to Ukraine Next Week

by Will Ritter
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NEWS

A Kyiv district court last week froze unspecified assets of former President Petro Poroshenko, including real estate and corporate holdings, the General Prosecutor's Office (PGO) announced on Thursday (Jan 6). The PGO, headed by President Zelenskiy's appointee Irina Venediktova, is charging Poroshenko with treason for allegedly facilitating the government's purchase of some USD 50mn worth of coal from mines located in the separatist-occupied territories of Donetsk and Lugansk provinces during the winter of 2014-15. Also charged in the scheme is the Energy Minister at the time, Volodymir Demchyshin. Poroshenko is currently outside of Ukraine (as of the end of December he was in Warsaw), but has promised to return on Jan 17. Poroshenko, who leads the European Solidarity opposition faction in Parliament, wrote on social media last week that will be coming back "not to defend myself against Zelenskiy, but to defend Ukraine from incompetent leadership." Zelenskiy has not commented publicly on the case.

COMMENTARY

Zelenskiy's chances to win a second term as President are approaching a critical juncture, in our view; we think that 2022 will be the decisive year in determining Zelenskiy's political future, as a number of his anti-establishment allies during his successful 2019 run have already called on him to keep his promise made at the time, and serve only a single 5-year term. In this vein, Zelenskiy appears intent on consolidating his power by his weakening potential rivals. We believe that it is not an accident that the PGO is pursuing Poroshenko at the current moment, as the Western media is preoccupied with the Russian military build-up around Ukraine and the high-level talks set to take place this month between the US and Russia on the big picture for European security. Indeed, thus far Zelenskiy seems to have gotten a free ride from the West for what appears to be politically-motivated harassment of an opponent, although the criticism could increase if Poroshenko is actually arrested and imprisoned. Importantly, we believe that Zelenskiy will be unable to survive politically if the Western diplomatic and business community turn wholesale against him, and he therefore cannot afford to be seen as openly indulging in a vendetta against Poroshenko. As for the actual case against Poroshenko regarding the coal purchases, we doubt that it could have the kind of resonance needed to discredit the former President even if he is implicated in the scheme. In late 2014, Ukraine was facing a security situation vis-a-vis Russia that was considerably more dangerous than even the current standoff; there were several existential crises, one of which was a critical energy shortage heading into the winter, and the supply of Donbass coal was surely badly needed for the state. In order for the case to have resonance, it would have to be proven that Poroshenko was involved in the coal scheme from a business standpoint and personally profiting from it, we believe.

Ukrainian Gov't Over-Delivers FY21 Budget Revenue by 3%

by Dmitry Churin
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NEWS

The Ukrainian government exceeded the planned national budget revenue by some UAH 30bn (2.8%), collecting UAH 1.084tn (USD 39.7bn) in 2021, according to preliminary data provided by the State Treasury Service. The largest proceeds for the national budget came from the State Customs Service. Customs payments amounted to UAH 409bn (USD 15bn), including UAH 380bn received in the form of value-added tax and UAH 26.6bn in form of import duties.

The revenues of the State Tax Service amounted to UAH 614bn (USD 22.5bn) with the breakdown presented below:

- personal income tax and military fees: UAH 138bn (USD 5.0bn);
- corporate profit tax: UAH 148bn (USD 5.4bn);
- fees for the use of mineral resources: UAH 54bn (USD 2.0bn);
- excise tax on goods produced in Ukraine: UAH 69bn (USD 2.5bn);
- value-added tax: UAH 156bn (USD 5.7bn).

The State Treasury Service also reported that the expenditures of the national budget amounted to UAH 1.259tn (USD 46.1bn) in 2021, which was 1.5% less than planned for the year. However, the financing of social expenditures, defense expenditures, debt service expenditures, and transfers to local budgets was carried out in full, following the budget plan based on payment orders.

Separately, the Finance Ministry said that the country's borrowing plan underperformed by 14% in 2021, with a total UAH 603bn (USD 22.1bn) in debt raised during 2021. The external debt raised was USD 7.1bn, including USD 3.4bn in loans from the IMF.

Ukraine's public debt repayments in 2021 were at UAH 441bn (USD 16.2bn), and debt servicing payments amounted to UAH 150bn (USD 5.5bn).

COMMENTARY

The preliminary data indicates that Ukraine's national budget for 2021 was executed with a deficit of UAH 168bn (USD 6.2bn) compared to the planned deficit of UAH 221 (USD 8.1bn) for the year. In relative terms, we estimate the budget deficit at 3.2% of GDP, which can be viewed as a moderate deficit in the current macroeconomic environment. The government spent a total amount (equivalent) of USD 21.7bn for debt redemption/servicing, while the proceeds from new borrowing was USD 22.1bn in 2021. On the one hand, the Finance Ministry managed to effectively refinance the debt redemptions, but this result was largely achieved primarily due to resumed cooperation with the IMF as well as a separate receipt from the IMF of USD 2.7bn in form of a general SDR allocation. Moreover, we should note that 2021 was favorable for emerging market countries in terms of foreign debt attraction at quite low interest rates. Conversely, this year is likely to see higher interest rates across the board, meaning new debt for Ukraine will be more expensive. The expected external debt payment total for Ukraine is USD 4.6bn in 2022, with the largest repayments of USD 810mn and USD 1.9bn due in March and September respectively. Although the debt schedule for Ukraine this year looks more difficult than in 2021, we think that the domestic debt redemptions will be refinanced, while for the external debt repayment, Ukraine holds foreign currency reserves of USD 30.9bn to start the year.

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	98.5	-1.4%	10.1%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	94.0	-4.9%	9.4%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	99.1	-3.7%	10.2%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	87.5	-4.7%	9.5%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	89.4	-5.2%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	98.0	-2.5%	7.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	98.7	-2.1%	7.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	92.4	-2.1%	7.7%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	51.8	-4.1%	19.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	103.1	-0.8%	7.5%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	98.1	-1.1%	8.1%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	89.1	-5.2%	12.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	95.0	0.0%	10.6%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.6	1.6%	7.5%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	100.6	0.8%	9.4%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	99.4	0.5%	9.8%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	99.4	-2.5%	10.1%	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							
UA4000204002	101.9	102.2	11.4%	10.5%	S/A	11 May 2022	12,917
UA4000218325	99.8	100.3	12.0%	11.0%	S/A	20 Jul 2022	13,415
UA4000199210	101.0	101.6	12.7%	11.7%	S/A	12 Oct 2022	14,993
UA4000201255	103.5	105.1	13.5%	12.3%	S/A	24 May 2023	6,470
UA4000201255	93.3	95.2	13.8%	12.8%	S/A	22 May 2024	18,105
UA4000204150	105.4	108.3	14.1%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	83.7	88.7	14.7%	13.2%	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

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