

## Trends

Ukrainian sovereign Eurobonds were hammered last week after high-level diplomatic talks between Washington and Moscow did not bring any clarity on the Russian military presence near the Ukrainian border. Moreover, there were unconfirmed reports that Kremlin-backed separatists in Donbass were amassing weapons in Eastern Ukraine in violation of the 2015 Minsk peace agreement. Official Moscow has repeatedly said that it does not intend to invade Ukraine.

Quotes for Ukraine's 10-year 2032 Eurobonds plunged by 9.4% to 79.3 (10.9% YtM) and Ukraine-28s slumped by 10.0% to 89.2 (12.5% YtM). The short-term and medium-term Eurobonds were also hit hard, with Ukraine-22s falling 4.9% to 93.7 (13.8% YtM) and Ukraine-26s dropping by 9.0% to 85.5 (11.1% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) plummeted by 14.7% to 76.3 cents on the dollar, after having been above 115 cents in the autumn.

All corporate Ukrainian Eurobonds were broadly lower, tracking the sell-off in sovereigns. Metinvest-29s lost 8.0% to close at 90.3 (8.5% YtM), MHP-26s decreased by 5.9% to 92.9 (9.2% YtM), and quasi-sovereign Naftogaz-24s fell 6.2% to 83.6 (15.0% YtM). In banking debt papers, OschadBank-23s dropped by 6.7% to 92.7 (10.1% YtM).

The Finance Ministry raised UAH 3.9bn through the domestic bond placement on Jan 11. The offered yield for the 1-year bond was 11.9% and for the 2-year bond at 12.95%. For the 4-year bond MinFin offered 13.1% yield attracting a small proceeds of UAH 117mn, amid a clearly absurd situation where UAH bonds are yielding less than Eurobonds of the same medium-term maturity. On the secondary market, the yield for the 1-year bond increased by 30 bps to bid/ask of 13.0%/12.0%.

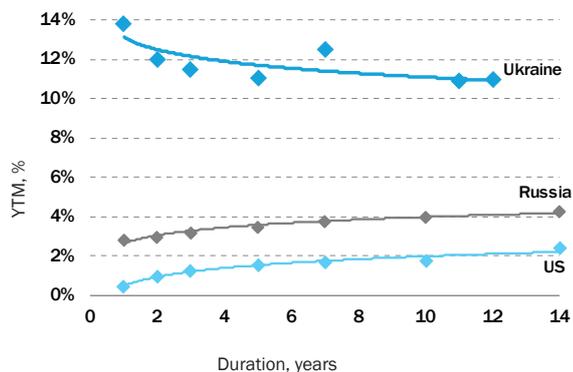
On the currency front, the hryvnia lost 1.9% amid the ongoing geopolitical tensions between Russia and the US, ending trading on Friday at 28 UAH/USD on the nose, which is the currency's lowest level since April 2021. The hryvnia is likely to devalue further unless economic and geopolitical risks ease shortly; we see the NBU as defending the 29.50 level in the coming 2 months to keep the hryvnia clear of the 30 barrier.

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

- > Massive Selloff in Ukraine Bonds after US, Russian Positions Harden
- > Zelenskiy Loses Challenge to Biden in Senate Vote on Nord Stream
- > Ukraine Ends 2021 with Inflation of 10% Despite PPI Surge of 62%

### 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	13.0%/12.0%	+0.3 p.p.	+0.3 p.p.
Ukraine-2025	11.1%	1.7 p.p.	2.2 p.p.
Ukraine-2028	10.9%	1.4 p.p.	1.7 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.01	1.9%	2.5%
EUR/UAH	32.05	2.9%	3.5%

Source: Eavex Capital

## Massive Selloff in Ukraine Bonds after US, Russian Positions Harden

by Will Ritter  
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### NEWS

Ukrainian sovereign bonds suffered stunning losses last week after talks in Geneva and Brussels involving the US, NATO and Russia failed to yield any progress in easing the standoff caused by Russian demands to end NATO expansion and withdraw forces from NATO countries in Eastern Europe. Sovereign yields shot up into the double digits amid drops in price that exceeded 10% in some issues, in a wave of selling that was reminiscent of the initial COVID-19 market panic in March 2020. The long-term benchmark Ukraine-32s ended the week down by 9.4% at 79.3 cents on the dollar, implying a yield of 10.9%, while shorter issues reached yields in the 12-14% range. Investors feared the increased likelihood of military action by Russia, which has built up its forces near the Ukrainian border on three sides. However, the Kremlin denied that it has an intention to launch an invasion. Meanwhile, the US Defense Department announced on Friday (Jan 14) that it had received intelligence that Russia is planning to conduct a “false flag” attack against its own forces in Moldova and/or the occupied Donbass, which it intends to blame on Ukraine in order to justify an invasion.

### COMMENTARY

We suppose that the Kremlin is fully aware that Ukraine has no chance to join NATO, and therefore we see Russia as trying to disguise from the West what it actually wants to gain from its current power play. We continue to believe that Russia will not launch an unprovoked attack against Ukraine, as the costs of such a move in terms of the Western response will simply be too high for the Putin regime to bear. On the other hand, we also see the hard US & NATO stance of defending Ukraine’s right to join NATO, despite the alliance having no intention to invite Ukraine in, as a curious ideological position with little benefit and considerable risk. We cannot rule out that the Putin regime has begun acting recklessly and aggressively because it is under some kind of heavy internal pressure which is not visible from the outside. We continue to believe that the Kremlin’s real underlying strategy is the same as it has been for the last 8 years - to destabilize Ukraine internally by exploiting the country’s domestic political divisions, including by enabling the most hard-line nationalist elements in the political spectrum. Indeed, Western governments have been expressing their alarm over President Zelenskiy’s apparent vendetta against his predecessor Petro Poroshenko at a time when the country’s two most prominent pro-Western politicians should be putting up a front of unity. Poroshenko is due to return to Kyiv today (Jan 17) from Warsaw and is facing arrest on treason charges brought against him by the General Prosecutor’s Office.

## Zelenskiy Loses Challenge to Biden in Senate Vote on Nord Stream

by Will Ritter  
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### NEWS

The US Senate on Thursday (Jan 13) rejected a bill that would have placed new sanctions on the Nord Stream 2 energy pipeline from Russia to Germany, aimed at blocking the project from coming into service. The bill failed by a margin of 55-44 (it required 60 votes to pass) despite the personal lobbying of senators by President Zelenskiy and Ukrainian energy officials. The measure was strongly opposed by the Biden administration, which conducted its own campaign to keep Democratic Party senators in line. Senator Christopher Murphy, a close Biden ally, openly criticized Zelenskiy's attempted intervention in the vote, saying Zelenskiy "mis-reads US politics". The Biden administration contended that sanctions against a key European ally (Germany) would be damaging from a diplomatic standpoint, and also said that it needs to hold the threat of blocking Nord Stream 2 in reserve as leverage to prevent Russia from making aggressive military moves against Ukraine. The bill was sponsored by Republican senator Ted Cruz and was supported by the entire Republican Senate caucus, joined by 6 Democrats.

### COMMENTARY

It looks quite absurd to us that Zelenskiy actively joined with US Republicans in trying to blow up the Biden administration's strategy for defending Ukraine from Russian attack. The comments from Sen. Murphy, though understated, indicate the clear annoyance of the US administration with what it likely sees as Zelenskiy's lack of strategic competence. In our view, Zelenskiy is clearly missing the forest for the trees here, as he appears to be motivated by the relatively paltry sum of USD 1.5bn per year in natgas transit fees which Ukraine stands to lose from Nord Stream 2, rather than by maintaining strong relations with the US administration at a time when Washington and Kyiv absolutely need to be on the same page. Despite Biden's current domestic political difficulties, he showed rather emphatically that he is still firmly in charge of US foreign policy by preventing Democratic defections and shutting down Cruz's bill. In the larger scheme of the current confrontation between the West and Russia, the squabbling over Nord Stream 2 is a mere sideshow.

## Ukraine Ends 2021 with Inflation of 10% Despite PPI Surge of 62%

by Dmitry Churin  
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### NEWS

Ukraine's officially reported consumer price inflation has come in at 10.0% YoY for full-year 2021 following the December data published by the State Statistics Committee (UkrStat) last week. The rolling 12-month inflation figure accelerated from 6.1% in January to 10.9% in October with a moderate contraction in the November-December period due to the high comparison base. Major consumer price categories showed the following full-year performances: food +12.7%, clothing -3.5%, utility services +9.8%, healthcare +6.1%. The highest jump in subcategories was in sunflower oil, which jumped in price by 38.8% in 2021. For December alone, the CPI index moved up by 0.6% MoM. Meanwhile, in producer prices, there was a huge 62% YoY hike in 2021. In major producer price categories, extraction sector prices grew by 56%, aggregate manufacturing prices increased by 28%, and utility sector prices surged by 2.9x YoY over 2021.

### UKRAINE'S ROLLING 12-MONTH CPI INFLATION



Source: State Statistics Committee

### COMMENTARY

The actual FY21 consumer inflation came above the government's target of 7.3% YoY inflation, while falling exactly in line with our initial forecast of 10.5% YoY figure. The main factor behind the higher inflation last year was a substantial increase in food and energy prices worldwide. Our current projection for consumer inflation in 2022 is 9.5%, which should be considered as quite an optimistic scenario as huge producer price index growth last year is expected to translate into a corresponding increase in final consumer goods prices this year.

A separate big challenge for Ukraine in 2022 is natural gas imports. The country started the year with 13.5bn cubic meters (cu-m) of gas in the underground storages, while in December alone there was 2.5bn cu-m taken from the storages. Currently the gas price benchmark in Europe stands at USD 1,030 per 1,000 cu-m, which is three times higher than a year ago. Ukraine's energy-inefficient economy is struggling to bear this high natural gas price, forcing the government to subsidize households and certain industries.

SELECTED UKRAINIAN EUROBONDS								
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	93.7	-4.9%	13.8%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	85.5	-9.0%	11.1%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	89.2	-10.0%	12.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	79.3	-9.4%	10.9%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	76.3	-14.7%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2027	94.8	-3.3%	8.0%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	92.9	-5.9%	9.2%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	89.3	-3.4%	8.3%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	46.9	-9.5%	20.3%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	97.5	-5.4%	8.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	90.3	-8.0%	8.5%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	83.6	-6.2%	15.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	95.0	0.0%	10.6%	8.25%	9 Jul 2024	500	USD	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	97.5	-2.1%	7.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	96.2	-4.4%	10.6%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	92.7	-6.7%	10.1%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	98.9	-0.5%	10.4%	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	101.3	102.0	11.8%	10.8%	S/A	11 May 2022	12,917
UA4000218325	99.7	100.2	12.2%	11.2%	S/A	20 Jul 2022	13,415
UA4000199210	101.0	101.6	13.0%	12.0%	S/A	12 Oct 2022	14,993
UA4000201255	104.1	105.1	13.1%	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	102.4	103.4	15.4%	15.0%	S/A	26 Feb 2025	41,080
UA4000207518	81.6	82.6	15.5%	15.2%	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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