EAVEX capital

Fixed Income Weekly Monitor

February 14, 2022

Trends

Ukrainian sovereign Eurobonds came back under pressure last week, as the Ukraine-related news flow in Western media was flooded by the White House statement warning that a Russian invasion into Ukraine could happen at any time, and could begin with bombing from the air. Russia characterized such allegations as “provocative speculation”. However, most staff have been ordered to leave the US Embassy in Kyiv, and Canada is also moving its embassy staff to Lviv. Meanwhile, Kyiv does not feel like a city in crisis, as most Ukrainians believe that the neighboring country has no plans to invade.

The medium-term 5-year Ukrainian Eurobonds lost 2.5% to trade at 86.5 (10.6% YtM), while the shortest issue due this September fell 3.1% to 94.5 (12.9% YtM). Surprisingly, long-term Ukraine-32s gained 1.0% to 85.0 (9.9% YtM). The VRI derivatives (linked to Ukraine’s future GDP growth with expiration in 2040) decreased by 3.0% to 74.3 cents on the dollar.

Quotes for corporate Eurobond issue were mostly higher with Kernel-27s rebounding by 6.8% to 91.0 (8.9% YtM) and MHP-29s jumping 5.6% to 86.5 (8.8% YtM). Metinvest-26s added 0.7% to 89.0 (11.5% YtM). Rising iron ore prices that moved from USD 130 to USD 150 in the last two weeks were a positive factor for Metinvest’s mining segment.

The Finance Ministry had to rely on a placement of an ultra-short domestic bond as investors were unwilling to purchase the government debt papers at the offered yield at the primary auction held on Feb 8. The government raised only UAH 1.6bn from a sale of 3-month bonds at 11.50%. Demand for the 1-year bond at 12.0% was negligible, as well as for the 2-year bond at 13.0%. On the secondary market, the bid/ask quotes for the 1-year UAH-denominated treasuries stood at 13.9%/11.8%.

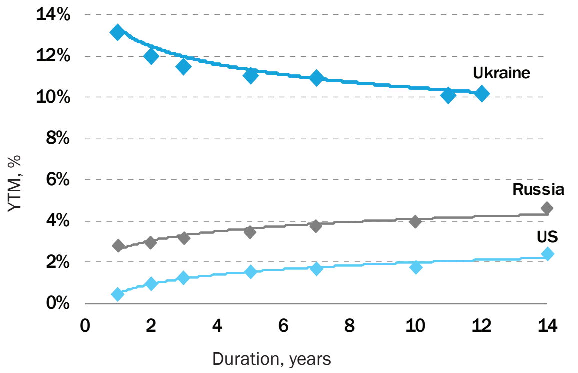
The hryvnia inched up by 0.2% against the dollar to close at 28.06 UAH/USD, as the National Bank admitted that it had spent a hefty USD 1.51bn from its foreign reserves to support the hryvnia on the interbank market in January. The NBU’s forex reserves decreased from USD 30.9bn to USD 29.3bn last month.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at research@eavex.com.ua.

Highlights

- Ukraine Tensions Spike Amid Deadlock over Minsk Peace Agreement
- Ukraine Headline Inflation Stays at 10.0% on Rising Commodity, Energy Prices

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg. Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year bond	13.9%/11.8%	-0.2 p.p.	+0.6 p.p.
Ukraine-2026	10.6%	-0.4 p.p.	1.7 p.p.
Ukraine-2032	9.9%	-0.1 p.p.	0.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.06	-0.2%	2.7%
EUR/UAH	31.95	-0.5%	3.2%

Source: Eavex Capital

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Ukraine Tensions Spike Amid Deadlock over Minsk Peace Agreement

by Will Ritter
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NEWS

Tensions regarding the Russian military buildup around Ukraine rose sharply on Thursday (Feb 10) after a meeting in Berlin of the so-called “Normandy 4” format to discuss ways to resolve the Donbass conflict in Eastern Ukraine. The format consists of Ukraine and Russia plus Germany and France. Russia used the meeting to demand that Ukraine implement the 2015 Minsk peace agreement, the crucial tenet of which is for the currently occupied Donbass territories to receive special autonomous status within Ukraine. For the last 6 years, Kyiv has refused to take the steps outlined in the Minsk deal unless Russia first withdraws its military forces from the territories. Despite being pressed by Germany and France to offer some compromise, the Ukrainian delegation led by presidential administration chief Andrey Yermak refused, and the meeting ended with no results after 9 hours of talks. On Friday morning (Feb 11), major Western media outlets began reporting US assessments that a large-scale Russian attack against Ukraine could occur within days, and the US and several other Western countries pulled their diplomatic staff out of Kyiv, in some cases moving them to the far west of the country. On Saturday (Feb 12), US President Biden spoke by telephone with Russian President Putin to emphasize the costs to Russia of a new attack on Ukraine, and Biden then spoke with Zelenskiy on Sunday (Feb 13) to reiterate US support for Kyiv. In recent days, the governments of France, Britain and Germany have also made strong statements backing Ukraine, and new German Chancellor Olaf Scholz is due in Kyiv today (Feb 14) to meet with Zelenskiy.

COMMENTARY

Over the past week, the fundamental strategy which the Putin regime is using against Ukraine has become abundantly clear: The Kremlin wants to coerce Zelenskiy into implementing the Minsk agreements because Putin believes that forcing Zelenskiy’s “capitulation” on the Donbass will quickly lead to Zelenskiy’s removal from power by armed Ukrainian nationalist militants who vehemently oppose the Minsk accords. On the other hand, if Zelenskiy continues to refuse the Minsk deal, the implicit threat is that there will be a massive Russian military assault against part or all of Ukraine by the encircling armies. However, we note that the latter situation would represent an unprovoked act of war by Russia in plain view of the entire world, making Western unity on extremely heavy economic & personal sanctions against the Putin regime immediately achievable. We therefore believe that the likelihood of such a massive invasion is being overstated - perhaps deliberately - by the US administration, which has also been covering the possibility that the Kremlin could stage its own “false flag” operation to try to justify an attack. All of this implies that Putin’s preferred option is internal destabilization of Ukraine via radical elements, rather than invasion. We must note, however, that the panic being promoted by some US news organizations and NGOs is counter-productive for Ukrainian stability and is already having serious negative economic consequences.

Ukraine Headline Inflation Stays at 10.0% on Rising Commodity, Energy Prices

by Dmitry Churin
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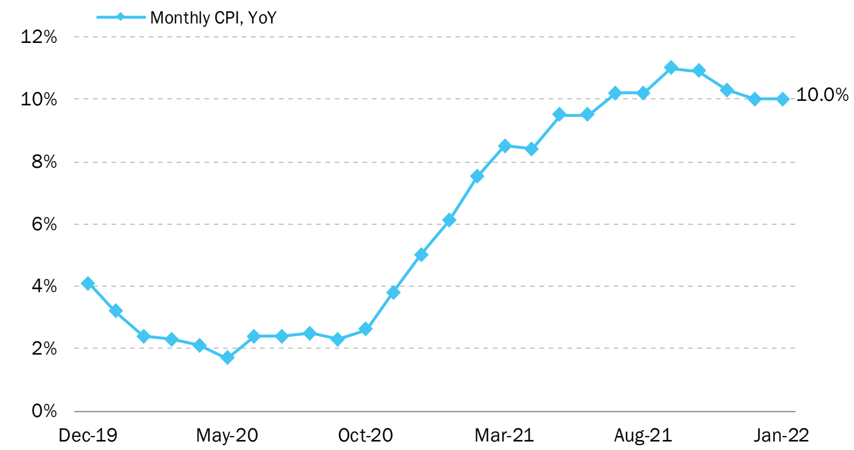
NEWS

Rolling 12-month consumer inflation in Ukraine in January was unchanged from December at 10.0%, according to State Statistics Committee data published last week. January's CPI increase on a month-on-month basis was a notable 1.3% in the period, coming on the back of a 2.4% rise in food prices. In other CPI basket components, prices for footwear and clothes dropped by 5.7% MoM while utility service prices grew by 0.7% MoM.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

We had anticipated that inflation would be higher in January, as energy and food prices have been rising globally. US inflation hit its highest level in 40 years in January as prices rose 7.5% from a year earlier. In our opinion, the Ukrainian inflation data for January was somewhat distorted by the introduction of a new structure of the consumer basket for the CPI calculation. Meanwhile, the National Bank is still saying that inflation could slow to 7.7% YoY by the year-end. We do not have much faith in this optimistic scenario, as the producer price inflation in Ukraine was at an elevated level of 69.1% YoY in January, meaning that sooner or later the high PPI will translate into higher final consumer prices. The National Bank has been tightening its monetary policy since early 2021, when the regulator raised the key rate from its bottom at 6.0% to 6.5%. Last month the key rate was increased from 9.0% to 10.0%. The next monetary policy Board meeting will be on Mar 3. We forecast that the key rate will be put on hold at 10.0%. On the other hand, it is still possible to foresee two further 50-bps interest rate increases by the end of 2022 to a level of 11.0%.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	94.5	-3.1%	12.9%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	86.5	-2.5%	10.6%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	91.2	-4.1%	12.0%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	85.0	1.0%	9.9%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	74.3	-3.0%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	91.0	6.8%	8.9%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	92.8	2.3%	9.3%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	86.5	5.6%	8.8%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	49.9	1.8%	20.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	89.0	0.7%	11.5%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	84.6	0.4%	10.8%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	81.6	0.1%	16.5%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	89.4	-1.2%	13.7%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	97.4	0.1%	10.2%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	95.8	3.0%	12.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	93.3	1.5%	18.1%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	93.2	4.1%	15.3%	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							
UA4000218325	99.2	100.1	13.5%	11.3%	S/A	20 Jul 2022	13,415
UA4000199210	100.5	102.2	14.5%	11.8%	S/A	12 Oct 2022	14,993
UA4000201255	100.7	104.3	16.0%	12.7%	S/A	24 May 2023	6,470
UA4000201255	87.5	95.4	17.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	96.8	106.9	18.0%	13.5%	S/A	26 Feb 2025	41,080
UA4000207518	74.7	86.2	18.0%	14.0%	S/A	20 May 2027	7,018
USD denominated Bonds							
UA4000215909	99.2	100.6	4.7%	3.3%	S/A	2 Feb 2023	USD 330mn

Source: TR Data, Eavex Research

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