

Trends

Ukrainian sovereign Eurobonds were sharply lower last week as international investors continued to try lower their exposure to Ukraine-related risks. Ukraine's top security official Oleksiy Danilov accused Russia of staging provocations in conflict-hit eastern Ukraine to try to provoke Ukraine's military to respond, but added that Kyiv would stick to peaceful methods to defuse the crisis.

The benchmark Ukraine-32s fell 6.7% to 79.3 (11.0% YtM) and the 5-year debt papers lost 3.2% to 83.7 (12.2% YtM). The country's yield curve turned took on an inverse shape, with the short-term yield for bonds due this September reaching 18%. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) slumped by 8.2% to 68.2 cents on the dollar.

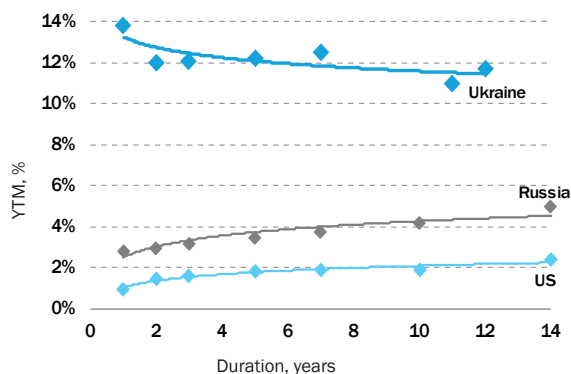
Corporate Eurobonds followed the downward move in sovereigns. Metinvest-29s dropped by 3.7% to 81.5 (11.4% YtM) and MHP-26s declined by 2.2% to 90.8 (10.0% YtM).

The primary weekly auction for the government bonds once again was unsuccessful for the Finance Ministry. The total proceeds last Tuesday were a negligible UAH 67mn. There was no demand for 1-year UAH-denominated bonds at the offered yield of 12.0%. On the secondary market, the bid/ask quotes for the 1-year UAH-denominated treasuries stood at 14.9%/11.8%.

The hryvnia remained vulnerable to news flow regarding a possibility of Russian military aggression against Ukraine. The hryvnia devalued by 1.3% against the dollar over the week to 28.43 UAH/USD as the National Bank spent a massive USD 500mn from the foreign reserves to prevent a larger decline. A potential invasion of Ukraine by Russia would be felt across global markets, from wheat and energy prices to safe-haven assets and stock markets. Four major exporters - Ukraine, Russia, Kazakhstan and Romania - ship grain from ports in the Black Sea which could face disruptions from any military action or sanctions. Ukraine is projected to be the world's third largest exporter of corn in the 2021/22 season and the fourth largest exporter 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	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year bond	14.9%/11.8%	+0.5 p.p.	+1.1 p.p.
Ukraine-2026	12.2%	1.6 p.p.	3.3 p.p.
Ukraine-2032	11.0%	1.1 p.p.	1.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.43	1.3%	4.1%
EUR/UAH	32.26	1.0%	4.2%

Source: Eavex Capital

Highlights

- > Putin Moves to Recognize Occupied Donbass Republics

Putin Moves to Recognize Occupied Donbass Republics

by Will Ritter
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NEWS

Russian President Putin convened a meeting of the country's National Security Council on Monday (Feb 21) to discuss officially recognizing the independence of the self-declared Donetsk and Lugansk People's Republics (DNR/LNR). The territories have been controlled by pro-Russian separatists since 2014. Various top Russian officials, including former president Dmitry Medvedev and Defense Minister Sergey Shoigu, argued in favor of the step at the meeting, which ended with Putin saying that a decision will be announced later today. On Thursday (Feb 17), DNR president Dennis Pushilin had ordered the evacuation of civilians from the republic's territory to Rostov province in Russia, claiming that the government of President Zelenskiy is planning an offensive military operation against the DNR. Zelenskiy and Foreign Minister Dmytro Kuleba repeatedly denied that any such operation is planned. Late on Sunday (Feb 20) there were reports that French President Macron had arranged a summit between Putin and US President Biden to discuss the crisis, but today the Kremlin declined to confirm that such a meeting has been scheduled.

COMMENTARY

This move by Russia, if it occurs, will effectively bring an end to the Minsk peace agreements signed in 2015 which stopped the full-scale war in Donetsk and Lugansk. These accords have never been fully implemented, as former President Poroshenko, and now Zelenskiy, have refused to grant the Donbass special autonomy without first obtaining the withdrawal of the Russian military. We see the move as Putin challenging Zelenskiy to deal with the domestic Ukrainian fallout of the irrevocable loss of the occupied territories and calls from nationalist hard-liners to restart war in the Donbass, which is clearly not in Ukraine's interest. We think that Putin is hoping to see Zelenskiy overthrown by militant radicals, so that the Kremlin could then deny responsibility for invading Ukraine and avoid some of the most punishing Western economic sanctions. In a worst-case scenario, these massive sanctions would certainly be triggered by a full-scale Russian attack and subsequent hostile occupation of Kyiv and Central Ukraine, which would result in tens of thousands of civilian deaths and a massive refugee flow into the EU. This chaotic scenario would likely have an immediately enormous negative effect on both Western markets and the Russian economy. For this reason, we think that Putin does not favor such a option, and instead wishes to use the Donbass to put Zelenskiy between a rock and a hard place by exposing him to the anger of the most radical elements in Ukraine. Whether Zelenskiy and the anti-war majority of Ukrainian society will be able to resist the pressure from these elements - and how much diplomatic urging Zelenskiy will get from the West to do so - remains to be seen.

SELECTED UKRAINIAN EUROBONDS								
Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	95.0	0.5%	18.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	83.7	-3.2%	12.2%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	89.3	-2.1%	12.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	79.3	-6.7%	11.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	68.2	-8.2%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	91.5	0.5%	8.8%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	90.8	-2.2%	10.0%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	85.1	-1.6%	9.0%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	48.9	-2.0%	20.9%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	86.3	-3.0%	12.8%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	81.5	-3.7%	11.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	77.2	-5.4%	19.1%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	89.9	0.6%	13.5%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	96.1	-1.3%	11.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	94.3	-1.6%	12.0%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	93.6	0.3%	19.6%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	93.0	-0.2%	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	99.0	100.2	14.1%	11.0%	S/A	20 Jul 2022	13,415
UA4000199210	100.5	102.2	14.5%	11.6%	S/A	12 Oct 2022	14,993
UA4000201255	101.5	104.7	15.2%	12.2%	S/A	24 May 2023	6,470
UA4000201255	90.0	94.5	16.0%	13.3%	S/A	22 May 2024	18,105
UA4000204150	100.0	105.0	16.5%	14.3%	S/A	26 Feb 2025	41,080
UA4000207518	77.5	84.9	17.0%	14.5%	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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