

Trends

Ukrainian sovereign and corporate Eurobonds saw another wave of selling last week as the Russian war against Ukraine still shows no clear endgame for both countries, although talks are due to continue in Istanbul early this week. Some preliminary estimates state that Ukraine's transport infrastructure damage has already reached USD 40bn. The head of Ukrainian military intelligence said Russia was trying to split Ukraine in two to create a Moscow-controlled region after failing to take over any of the country's 10 largest population centers.

The 10-year Ukrainian Eurobonds decreased by 10.5% over the week to 33.4 (28.0% YTM) and Ukraine-28s dropped by 6.7% to 35.0 (39.4% YTM). Both issues remain well above their early-March bottoms near 20 cents. Meanwhile, the Ukraine-22s issue due in September increased by 2.2% to 51.0 (47.2% YTM), as some investors speculated that Kyiv will try to repay this bond by using financial aid from the US and the EU. We think that the government will initiate some restructuring deal on its foreign debt, or would use force majeure circumstances to delay repayment. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) are the worst-performing sovereign, declining by 9.1% to 23 cents on the dollar. On Mar 2, the VRI bottomed at 12 cents, after having traded well above par during much of 2021 with a high-water-mark of 118 cents on the dollar registered last June.

Metinvest-26s tumbled by 21.5% to 37.3 (43.0% YTM) as the company faces a serious disruption in its operations. The group's two steel mills located in Mariupol have been shut down amid the worst destruction seen in any Ukrainian city. MHP-26s fell 16% to 38.8 (41.3% YTM) and DTEK Energy-27s declined by 3.7% to 13.0 (75% YTM).

The Finance Ministry placed UAH 6.0bn in UAH-denominated special bonds last week for financing the national budget gap during the war. This special 1-year bond has a yield of 11.0%.

On the currency front, the official hryvnia exchange rate remained frozen at 29.25 UAH/USD. The indicative exchange rate on the cash market increased from 32.50 UAH/USD to 33.00 UAH/USD over the week.

The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-spetsrahnok-dlya-zboru-koshtiv-na-potrebi-armiyi

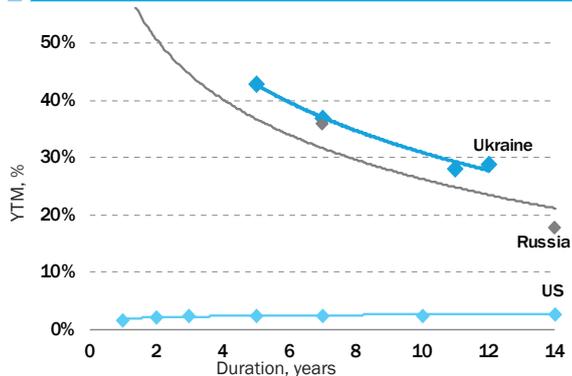
The National Bank also opened fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-rahunok-dlya-gumanitarnoyi-dopomogi-ukrayintsyam-postrajdalim-vid-rosiyskoyi-agresiyi

Highlights

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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	n/a	n/a	n/a
Ukraine-2026	43.9%	3.7 p.p.	35.0 p.p.
Ukraine-2032	28.0%	2.7 p.p.	18.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	33.00	1.5%	20.8%
EUR/UAH	36.30	-0.1%	17.2%

Source: Eavex Capital

Zelenskiy Backs Off Demand for Russian Withdrawal from Eastern Donbass, Crimea

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NEWS

President Zelenskiy conducted a lengthy video interview with Russian opposition media on Sunday (Mar 27) in which he called for the withdrawal of Russian troops back to their pre-invasion (pre-Feb 24) positions. However, he admitted that trying to force the “full withdrawal” of Russia from the territories in the eastern Donbass and Crimea which were seized in 2014 would lead to an escalation of the conflict, or as he put it, “World War 3”. Also in the interview, Zelenskiy said that major Russian industrialists, including steel magnate Roman Abramovich, had offered to provide funding to the Ukrainian army and to relocate some of their businesses to Ukraine. The Russian government’s media oversight agency RosKomNadzor quickly issued an order banning Russian news outlets from distributing the Zelenskiy interview, and it is unclear how widely it is being viewed in Russia. Talks on ending the war between Ukrainian & Russian delegations are due to continue early this week in Istanbul with the mediation of the Erdogan government. In military news, Russia last week appeared to have slowed or abandoned its efforts to capture major Ukrainian cities, including Kyiv, and instead refocused its efforts further east, perhaps to create a new north-south demarcation line and cut off the Ukrainian army units positioned in the Ukrainian-controlled western Donbass. A particular focus of Russian attacks has become the small city of Izyum on the border between Kharkiv and Lugansk provinces. The success of such an operation would expand Russian control of Ukraine to most or all of the two Donbass provinces.

COMMENTARY

Zelenskiy’s call for a Russian withdrawal back to the pre-Feb 24 positions represents an important change in his negotiating position, as this is the first time in nearly 8 years that either Zelenskiy or his predecessor Petro Poroshenko have acknowledged that Crimea and the eastern Donbass may be irretrievable for Ukraine. In theory, this should lay the groundwork for real progress in peace talks in Turkey this week. Zelenskiy will doubtless face some criticism for this declaration, which breaks a taboo of Ukrainian domestic politics, but his political capital is so high at the moment that it is unlikely to damage his standing, in our view. Zelenskiy’s public relations victories over the regime of Russian President Putin in Western media continue to be absolutely devastating, resulting in much heavier sanctions and economic pain in Russia than Putin likely expected, as well as donations of Western weapons that are being used to blunt the Russian assault. Whether the huge economic, military, and reputational losses being suffered by Russia could undermine the stability of the Putin regime in the near term remains to be seen. In any case, the threat of Russian airstrikes across Ukraine continues, and a Russian push to capture new territory in the Donbass presents ongoing risks. We note that although Ukrainian securities are trading at distressed levels, they are well above their lows touched during the first 10 days of March, and we believe there is now some basis for speculation that sovereign Eurobonds and top equity names (Ferrexpo, Kernel, MHP) could see a sharp recovery in valuation.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price change since Mar 7	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	51.0	2.2%	472.0%	7.75%	1 Sept 2022	1,384	USD	//
Ukraine, 2026	35.5	-7.8%	43.9%	7.75%	1 Sept 2026	1,318	USD	//
Ukraine, 2028	35.0	-6.7%	39.4%	9.75%	1 Nov 2028	1,600	USD	//
Ukraine, 2032	33.4	-10.5%	28.0%	7.38%	25 Sept 2032	3,000	USD	//
Ukraine, GDP-linked	23.0	-9.1%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	38.8	-16.0%	41.3%	6.95%	4 Apr 2026	550	USD	//
DTEK Energy, 2027	13.0	-3.7%	75.0%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	37.3	-21.5%	43.0%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	15.0	0.0%	66.7%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	20.0	33.3%	125.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	30.0	0.0%	87.8%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	21.0	40.0%	525.0%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	21.2	6.0%	105.0%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	26.4	1.1%	337.0%	9.38%	10 Mar 2023	700	USD	//

¹ Moody's/S&P/Fitch

Source: Boerse-Berlin, Boerse-Stuttgart, cbonds, TR Data, Eavex Research

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