Fixed Income Weekly Monitor

April 11, 2022

Trends

Ukrainian sovereign Eurobonds declined in value last week as the war turned the 47th day with no visible diplomatic solution on the table yet. russia plunged Europe into its biggest land war since 1945 by a full-scale invasion on Feb 24. Now it seems that russia is at least seeking to establish a land corridor from Crimea, which it annexed in 2014, and the eastern Donbas region, which is partly held by moscow-backed separatists.

The European Union on Friday (Apr 8) adopted new sanctions against russia, including bans on the import of coal, wood, chemicals and other products. Oil and gas imports from russia remain untouched. Ukraine banned all imports from russia, a key trading partners before the war with annual imports valued at about USD 6.0bn.

The benchmark 10-year Ukrainian Eurobond lost 7.3% last week to close at 37.1 (25.5% YTM) and the medium-term 5-year Eurobond decreased by 7.6% to 38.8 (40.3% YTM). On the flip side, the Ukraine-22s issue due in September rose by 0.7% to 60.3 (228% YTM) on betting that the country might use its foreign reserves or financial aid from international partners to redeem the bond in full. However, we do not rule out that the bond will be restructured. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.6% to 30.0 cents on the dollar.

In corporate debt universe, Kernel-27s Eurobonds had an indicative quote at 53 cents on the dollar implying a yield of 22%. MHP-26s issue traded at 45.7 (35% YTM).

DTEK Energy agreed with bondholders to pay the coupon on its Eurobonds in part, paying 3.5% Cash Interest for the interest periods ending on 31 March 2022 and 30 June 2022 while the remaining 4% interest for such interest period would be paid in the form of PIK Interest. DTEK Energy-27s dropped by 27% to just 13.7 (72% YTM).

Ukraine continues promoting to invest in a special domestic government bond aimed to support the national budget during the war. The special 1-year UAH-denominated bond has a yield of 11% and the special 8-month EUR-denominated bond placed last Tuesday has a yield of 2.5%. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

The cash hryvnia exchange rate strengthened by 1.5% to 32.50 UAH/USD over the week.

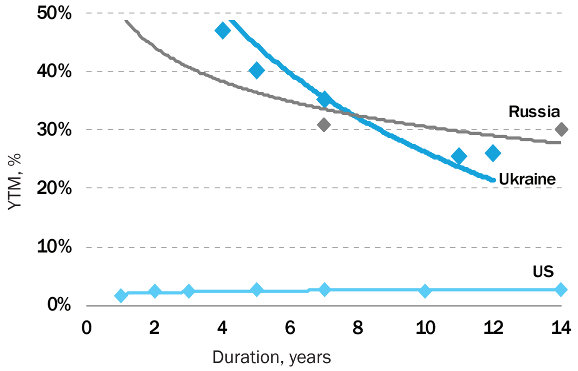
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-spetsrahunok-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

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 war bond	11.0%	0.0 p.p	0.0 p.p
Ukraine-2026	40.3%	3.4 p.p.	31.4 p.p.
Ukraine-2032	25.5%	1.8 p.p.	16.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	32.50	-1.5%	19.0%
EUR/UAH	35.33	-2.7%	14.1%

Source: Eavex Capital

Highlights

POLITICS AND ECONOMICS

- Russians Bomb Dnipro Airport as Ukraine Asks Civilians to Leave Donbass
- Ukraine Foreign Reserves Remain Strong at USD 28bn in April

Kyiv, Ukraine.
(+380 44) 590-54-54, (+380 44) 590-54-64
research@eavex.com.ua

Russians Bomb Dnipro Airport as Ukraine Asks Civilians to Leave Donbass

by Will Ritter
w.ritter@eavex.com.ua

NEWS

The main airport in Dnipropetrovsk province in east-central Ukraine was heavily damaged by Russian rocket attacks on Sunday (Apr 10), prominent social media accounts reported. Military analysts stated that the attack on the airport was likely a precursor to heavy fighting in the northern & western part of the Donbass region currently controlled by Ukraine. The government called on civilians in Donbass cities to evacuate in order to avoid being trapped in a war zone. The largest cities under threat from a new Russian offensive are Slavyansk, Kramatorsk, Severodonetsk, and Constantinovka. Meanwhile, British Prime Minister Boris Johnson paid an unannounced visit to Kyiv on Saturday (Apr 9), taking a walk around the city center with President Zelenskiy, who has continued to request more weaponry from Western countries to help fight the invasion. Zelenskiy kept up his public relations offensive in the West, appearing on the US national media program 60 Minutes.

COMMENTARY

This week's news flow on the war was notable for the absence of reports about any kind of peace process to build on the talks in Istanbul which took place at the end of March. Somewhat paradoxically, Zelenskiy's insistence on refusing the key Russian demand of formally ceding the eastern Donbass (DNR/LNR) territories looks likely to result in the loss of additional territory in the western Donbass, where Ukraine lacks the advantages that allowed it to defeat Russia in north-central Ukraine in March. That Kyiv has called on civilians to evacuate implies that it expects military units to embed in residential areas, which could result in the kind of mass destruction already seen in Mariupol in the southwestern Donbass. The difficulty here for Ukraine is that it cannot afford to relax its defenses of Kyiv and Odessa/Mykolayiv for the sake of committing more forces to the Donbass. So the question seems to be not whether the Russians will capture more territory, but how much they will capture and how long it will take them to do so, as in the near term, the Putin regime does not appear to be under any major domestic political or economic pressure to cease the invasion. Looking further down the line, assuming Russia does capture at least some new territory, Zelenskiy may then begin to come under increasing pressure from Western governments to agree to a deal that would prevent an open-ended period of hostilities lasting for many years, with massively destructive effects on the global economy. The ideal solution for Ukraine - forcing the collapse of the Putin regime in Moscow in the short term - is unfortunately not in the West's hands, we think.

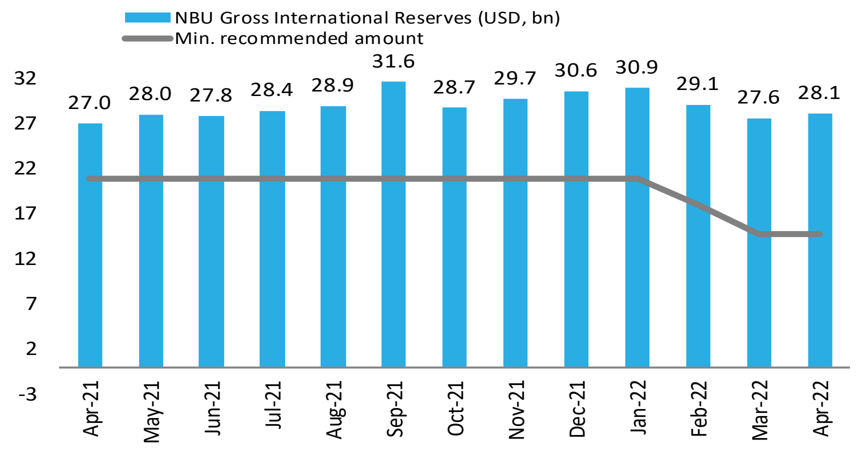
Ukraine Foreign Reserves Remain Strong at USD 28bn in April

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

The Ukrainian National Bank's (NBU) foreign reserves increased by 2% MoM to USD 28.1bn in March, according to official NBU data. The reserves decreased by 9.1% from USD 30.9bn since the start of the year. In March alone, the reserves grew by almost USD 500mn due to the financial assistance Ukraine received from its international partners. The government got USD 3.27bn in FX inflows last month. Specifically, SDR 1.0bn came from the IMF (under the Rapid Financing Instrument), EUR 639mn from the European Investment Bank, EUR 588mn from the EU, and USD 111mn and EUR 312mn from the World Bank. Meanwhile, Ukraine spent an equivalent of USD 283mn on the servicing and repayment of FX public debt. That includes the USD 205mn for paying a coupon on sovereign Eurobonds and USD 44mn paid on redemption of the USD-denominated domestic government bond. Also, Ukraine repaid USD 680mn to the IMF in March. The NBU's net forex selling on the interbank market amounted to USD 1.73bn in March despite the currency market operating in a restricted mode amid the russian military invasion of Ukraine.

UKRAINE'S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

The National Bank said that it was unable to estimate the forward-looking measure of how many months of future imports the current level of the FX reserves would cover. There is a minimum of 3 months of imports recommended by economic theory. In our opinion, taking into account that the monthly average of Ukraine's imports amounted to USD 6.9bn in 2021, and an assumption that the imports would drop by at least 30% this year, we believe that the country's FX reserves now cover 5.7 months of future imports. That is why we view Ukraine's FX reserves at a strong level as of the start of April. According to the Finance Ministry, Ukraine has to pay USD 3.5bn to foreign creditors by the end of the year with the lion part of USD 1.8bn coming in September when the government needs to redeem Ukraine-22s Eurobonds and has to pay a coupon on most of the outstanding sovereign Eurobonds.

Currently, we see that the Ukrainian government has a strategy to continue to service the country's public debt even during the war. However, we do not rule out that the government will approach holders of Ukraine's sovereign Eurobonds with some kind of restructuring proposal.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price change since Mar 7	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	60.3	0.7%	228.0%	7.75%	1 Sept 2022	1,384	USD	//
Ukraine, 2026	38.8	-7.6%	40.3%	7.75%	1 Sept 2026	1,318	USD	//
Ukraine, 2028	39.5	-15.2%	35.3%	9.75%	1 Nov 2028	1,600	USD	//
Ukraine, 2032	37.1	-7.3%	25.5%	7.38%	25 Sept 2032	3,000	USD	//
Ukraine, GDP-linked	30.0	-1.6%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	45.7	-0.9%	34.6%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	53.1	1.7%	21.8%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	13.7	-27.5%	72.1%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	41.4	-2.1%	40.1%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	23.0	53.3%	46.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	20.0	0.0%	127.0%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	27.0	8.0%	109.0%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	21.1	0.0%	576.0%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	18.0	0.0%	111.0%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	29.4	6.5%	320.0%	9.38%	10 Mar 2023	700	USD	//

[1] Moody's/S&P/Fitch

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

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Yuriy Yakovenko
Chairman of the Board

Telephone:	+38 044 590 5454
Facsimile:	+38 044 590 5464
E-mail:	research@eavex.com.ua
Web-page:	www.eavex.com.ua

SALES & TRADING
Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

RESEARCH
Dmitry Churin
Head of Research
d.churin@eavex.com.ua