

Trends

Quotes for Ukrainian sovereign Eurobonds were firmly higher for the second straight week as the country showed more resistance to the Russian military aggression. Moreover, the US is poised to send USD 40bn in aid to Ukraine after the House approved the assistance package on May 10. Though the funds are temporarily stalled in the Senate due to an objection from Sen. Rand Paul (R), the measure is expected to go through in the coming week, with nearly USD 15bn for military aid. These numbers might seem staggering, but they pale in comparison to the amounts Washington spent on the wars in Iraq and Afghanistan, or in Vietnam for that matter. Yet the result has been vastly more effective.

The actively traded Ukraine-28s Eurobond gained by 10.7% last week to close at 37.1 (37% YTM) and the benchmark 10-year issue grew by 6.8% to 33.2 (28% YTM). The shortest outstanding issue due in September added 10.1% to 64.2 (336% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) advanced by 11.4% to 32.3 cents on the dollar.

Eurobonds of the Ukrainian State Road Agency (UkrAvtodor-28s) were quoted at 31.3 (35% YTM), implying a spread of 200 bps to the sovereign yield curve. In other corporate issues, DTEK Energy-27s rebounded by 25% to 15.9 (65% YTM). However, the biggest move was in quotes for quasi-sovereign UkrEximBank-25s which jumped by 92% to 38.4 (115% YTM). We assume that low liquidity in these Eurobonds was a major reason for their ability for rapid recovery.

The Finance Ministry offered a new issue of the special UAH-denominated bonds with a yield of 11.5% and maturity in October 2023. However, investors' demand for Ukrainian government debt papers remained moderate prompting the National Bank to inject UAH 30bn into the special bond last week which de-facto direct financing of the national budget. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

On the OTC cash market, the hryvnia devaluated by 6.6% over the week to trade at 34.50 UAH/USD. Operations on the interbank currency market remained restricted and conducted close to the official exchange rate which was frozen at 29.25 UAH/USD.

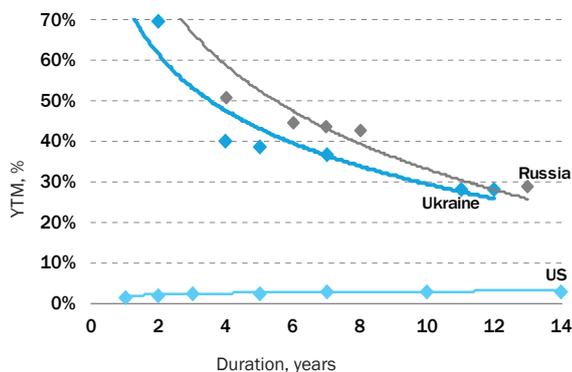
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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-rahnok-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%	-6.1 p.p.	31.4 p.p.
Ukraine-2032	28.3%	-1.7 p.p.	19.1 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	34.50	6.6%	26.3%
EUR/UAH	35.88	5.1%	15.9%

Source: Eavex Capital

Highlights

- Russians Pushed Out of Kharkiv but Still Hold Southeast Coast; Donbass Offensive Bogs Down
- Official Inflation in Ukraine Rises to 16.4% YoY in April from 13.7% YoY in March

Russians Pushed Out of Kharkiv but Still Hold Southeast Coast; Donbass Offensive Bogs Down

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NEWS

Ukraine's armed forces appeared to be on the verge of a major victory in northeastern Ukraine late last week, as there were reports that Russian forces have been pushed from the outskirts of the city of Kharkiv all the way back to the Russian border some 30km away. Kharkiv had suffered from heavy Russian bombardment since the earliest days of the war starting in late February. Ukrainian forces were preparing for a counter-offensive to try to recapture the eastern parts of Kharkiv province, including the key town of Izyum, US & domestic media reported. Meanwhile, the focus of Russian offensive action has shifted south to the besieged city of Severodonetsk, which along with neighboring Lysichansk is the last city in Lugansk province remaining under Ukrainian control. Russian efforts to capture the cities of Slavyansk and Kramatorsk in northern Donetsk province appear to have stalled, and even in Russian-held Mariupol on the southeast coast, Ukrainian forces are still holding out in the Azovstal steel plant. However, the southeastern cities of Melitopol and Berdyansk in Zaporizhia province appear to be firmly under Russian occupation, with reports that the ruble has been introduced as legal tender there. In Kyiv on Saturday (May 14), President Zelenskiy was visited by top US Republican party Senator Mitch McConnell in a show of support ahead of the expected passage of a massive USD 40bn package for Ukraine containing military, economic, and humanitarian aid introduced by the Biden administration.

COMMENTARY

The past week has been marked by increasing optimism that "Ukraine can win this war", as stated by NATO chief Jens Stoltenberg. Nonetheless, the precise definition of "victory" remains unclear, with the Ukrainian government stating that victory can only be the expulsion of Russian forces back to the pre-2014 borders, while Western officials have been notably more reluctant to embrace a scenario that would see offensive Ukrainian military operations to recapture Crimea and the cities of the eastern Donbass. Such operations would carry a clear risk of wider escalation by the Kremlin, most military analysts agree. French President Macron came under particularly harsh criticism from Zelenskiy after stating that that a deal should be made which allows Russian President Putin to "save face". We believe that if Ukraine continues to see relative successes in repelling Russian attacks in the next 4 to 6 weeks, tensions between Kyiv and the West (as well as within the West) over the desired endgame of the war could start to increase. In Moscow, meanwhile, it is unclear how high the Kremlin's tolerance for indefinite war and punishing economic sanctions might be amid some emerging signs of frustration that Putin's "special operation" is not going according to plan.

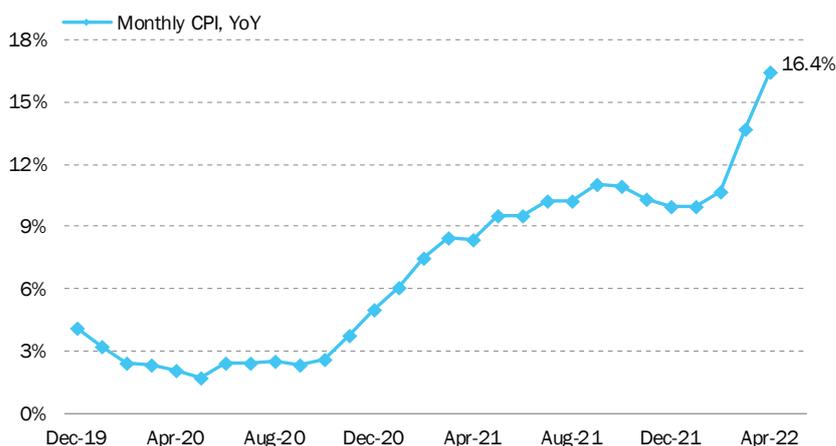
Official Inflation in Ukraine Rises to 16.4% YoY in April from 13.7% YoY in March

by Dmitry Churin
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NEWS

Rolling 12-month consumer inflation in Ukraine rises to 16.4% in April from a 13.7% registered in March, according to official data from UkrStat published last week. April's CPI increase on a month-on-month basis was a notable 3.1%. In the major CPI basket components, bread prices increased by 6.8% MoM while utility service prices were virtually unchanged as the government imposed strict administrative regulations.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

In our view, the official inflation figure failed to reflect the real situation in Ukraine. There was a spike in petroleum prices in the country which resulted in a visible price increase for all kinds of final consumer goods. Also, consumer prices in different Ukrainian regions became sharply different due to the ongoing Russian invasion. Nevertheless, we do admire the government's and the National Bank's efforts to restrain inflation in this dramatic war period. There have been several administrative measures imposed to keep electricity prices for households unchanged. However, rising unemployment and migration due to the war reduced electricity bill collection even at the frozen artificially low price. Therefore, Ukraine's energy sector is in a serious crisis.

Data for producer price performance in Ukraine was suspended from publication and will start to be released only after three months from the end of martial law in Ukraine.

Russian attack on Ukraine takes a toll on the economy of all European countries. Inflation in the eurozone hit a new record. Spurred by skyrocketing energy prices, annual inflation soared to 7.5% YoY in April, according to EuroStat. In the US inflation is also running at an eye-watering 8.3% YoY.

Concerned over the possibility of even higher heating, electricity and auto fuel prices, European governments have so far held back from halting energy imports from Russia as part of the unprecedented sanctions they have imposed on it over its invasion of Ukraine. But there is a fear the war may lead to an interruption of oil or gas supplies from Russia, pushing prices even higher.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	64.2	10.1%	336%	7.75%	1 Sept 2022	1,384	USD	//
Ukraine, 2024	37.8	7.4%	71%	7.75%	1 Sept 2024	1,339	USD	//
Ukraine, 2026	37.6	3.6%	40.3%	7.75%	1 Sept 2026	1,318	USD	//
Ukraine, 2028	37.1	10.7%	37.1%	9.75%	1 Nov 2028	1,600	USD	//
Ukraine, 2032	33.2	6.8%	28.3%	7.38%	25 Sept 2032	3,000	USD	//
Ukraine, GDP-linked	32.3	11.4%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	48.1	-2.4%	33.0%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	53.0	0.0%	22.6%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	15.9	25.2%	65.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	54.4	3.4%	29.7%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	23.0	0.0%	46.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	22.8	0.0%	120%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	0.0%	114%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	32.0	17.6%	388%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	38.4	92.0%	115%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	29.2	0.0%	380%	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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