Trends

Ukrainian sovereign Eurobonds continued to recover after the sharp drop caused by the russian invasion. Although Moody's downgraded Ukraine's foreign and domestic currency long-term issuer ratings and foreign currency senior unsecured debt ratings to Caa3 from Caa2 with a negative outlook, the benchmark 10-year Ukrainian Eurobond gained by 16% last week to 38.5 (24.7% YTM). While Ukraine is benefitting from large commitments of international financial support, helping to mitigate immediate liquidity risks, the resulting significant rise in government debt is likely to prove unsustainable over the medium term. Concerns around the sustainability of such a high government debt burden may impede further access to official financing to commercial debt. At the Caa3 rating level, Moody's expects a recovery in the event of default typically in the order of 65-80%. The more protracted russian military invasion will act as a drag on the Ukrainian government's financial resources, with Moody's estimating financing needs of around USD 50bn (35% of 2022 GDP) for 2022 and forecasting a rise in government debt to around 90% of GDP from around 49% at the end of 2021. The severity of the economic damage from the protracted russian military aggression will have long-lasting negative implications for the government's finances, increasing risks to debt sustainability.

In other Ukrainian Eurobond issues, the debt papers due in September rose by 8.7% to 69.8 (273% YTM) reflecting the optimistic opinion that the issue could be potentially redeemed in full. Ukraine-26s added by 7.4% to close at 40.4 (39.3% YTM). Quotes for the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) shot up by 17.6% to 32.3 cents on the dollar.

Corporate Ukrainian Eurobonds were also mostly higher last week. Indicative quotes for heavily distressed DTEK Energy-27s issue advanced by 35% to 21.5 (56.5% YTM) and debt of state-owned natural gas operator NaftoGaz with maturity in 2024 grew by 45% to 33.0 (121% YTM). MHP-26s issue increased by 6.0% to 51.0 (30.8% YTM).

The Finance Ministry continued to offer investors the special UAH-denominated bonds with a yield of 11.5% and maturity in October 2023. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

On the OTC cash market, the hryvnia lost a significant 10% over the week to close at 38.00 UAH/USD. However, operations on the interbank currency market remained restricted and conducted close to the official exchange rate of 29.25 UAH/USD.

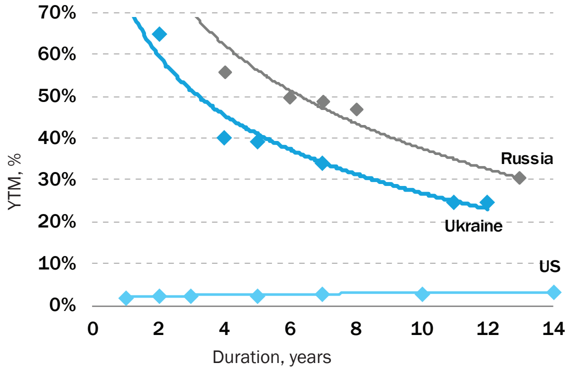
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-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	39.3%	-1.0 p.p.	30.4 p.p.
Ukraine-2032	24.7%	-3.6 p.p.	15.5 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	38.00	10.1%	39.1%
EUR/UAH	40.13	10.8%	29.6%

Source: Eavex Capital

Highlights

- Ukraine to get USD 40bn aid package from the US

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Ukraine to get USD 40bn aid package from the US

by Dmitry Churin
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NEWS

President Joe Biden on Saturday signed legislation to support Ukraine with another USD 40bn in US assistance as the Russian invasion approaches its fourth month.

The legislation, which was passed by Congress with bipartisan support, deepens the US commitment to Ukraine at a time of uncertainty about the war's future. Ukraine has successfully defended Kyiv, and Russia has refocused its offensive on the country's east, but American officials warn of the potential for a prolonged conflict.

The funding is intended to support Ukraine through September, and it dwarfs an earlier emergency measure that provided USD 13.6bn.

The new legislation will provide USD 20bn in military assistance, ensuring a steady stream of advanced weapons that have been used to blunt Russia's advances. There's also USD 8bn in general economic support, USD 5bn to address global food shortages that could result from the collapse of Ukrainian agriculture and more than USD 1bn to help refugees.

COMMENTARY

The aid package reflects a sense of urgency to direct US resources to support Ukraine in the largest military conflict in Europe since World War II. We assume that the US and its allies pivot to planning for a longer war in Ukraine, the scope of which has narrowed since the initial Russian invasion three months ago but whose duration appears increasingly lasting as the fighting enters a gruelling new phase.

In a separate written statement on the aid package, President Joe Biden thanked Congress "for sending a clear bipartisan message to the world that the people of the United States stand together with the brave people of Ukraine as they defend their democracy and freedom."

Yet the next Ukraine issue to reach Washington this year may not be funding but Finland and Sweden joining NATO. The Russian invasion prompted a seismic reassessment among Finns and Swedes, who had long been wary of joining the transatlantic alliance out of fear of provoking Russia, with whom the two nations share a border. While the exact timeline of their admission remains in flux, in part because of objections lodged by NATO member Turkey, US political and military leaders expressed clear support for a rapid process. Should their applications be ratified, the alliance would gain the most population since the 2004 admission of seven former Warsaw Pact states and the most gross domestic product since the 1998 admission of the Czech Republic, Hungary and Poland.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	69.8	8.7%	273%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	41.1	8.7%	65%	7.75%	1 Sept 2024	1.339	USD	Caa3//
Ukraine, 2026	40.4	7.4%	39.3%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	41.0	10.5%	34.3%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	38.5	16.0%	24.7%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	38.0	17.6%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	51.0	6.0%	30.8%	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	21.5	35.2%	56.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	59.3	9.0%	27.7%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	23.0	0.0%	46.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	33.0	44.7%	121%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	0.0%	116%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	32.0	0.0%	408%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	31.3	-18.5%	61%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	49.7	70.2%	158%	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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