

Trends

Although fighting continued in the east and south of Ukraine, indicative quotes for Ukrainian sovereign Eurobonds increase over the week. The benchmark 10-year issue rose by 4.7% to 31.1 (30% YTM) and Ukraine-24s added by 3.8% to 35.2 (77% YTM). The shortest outstanding issue due in September gained by 9.0% to 58.3 cents on the dollar. As we stated before, there are some beliefs, that the Finance Ministry would redeem Eurobonds in full in September. However, in our opinion, there should be a delay in the repayment as the country's financial position deteriorated dramatically after Russia started the war. As the invasion of Ukraine grinds into its third month, Chancellor Olaf Scholz said Germany will continue sending heavy weapons to Ukraine, adding that it was the country's historical responsibility to help the government in Kyiv defend itself against Russian aggression. Meanwhile, Moscow said that the Russian military will consider any NATO transport carrying weapons in Ukraine as a legitimate target to be destroyed. The United States and Western allies, while backing Ukraine and funneling in weapons and aid, have not entered the fight directly.

In other Ukrainian debt papers, the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) rose by 3.6% to 29 cents on the dollar.

Eurobonds of the state-owned Ukrainian Railways (RAILUA-24s) dropped by 6.7% to 25.0 (114% YTM) while in contrast Metinvest-26s advanced by 7.3% to 52.6 (30.5% YTM).

The Finance Ministry got UAH 7.1bn from the sale of the special bonds, including USD 50mn from the placement of the 1-year USD-denominated government bond at 3.7%. The half-year UAH-denominated government bond had an offered yield of 10.0%. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

Trading in hryvnia on the interbank currency market remained limited. While on the cash market the hryvnia gained by 3.4% to 32.4 UAH/USD.

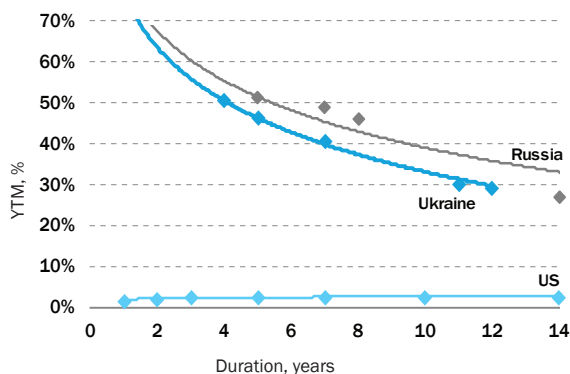
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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-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	46.4%	-1.8 p.p.	37.5 p.p.
Ukraine-2032	30.0%	-1.2 p.p.	20.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	32.36	-3.4%	18.4%
EUR/UAH	34.14	-2.9%	10.3%

Source: Eavex Capital

Highlights

- Britain's Truss: War Aims to Push Russia Out of Crimea, DNR/LNR; Embargo on Russian Oil Expected
- Ukraine Foreign Reserves Decline by USD 1.2bn to USD 26.9bn in April

Britain's Truss: War Aims to Push Russia Out of Crimea, DNR/LNR; Embargo on Russian Oil Expected

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NEWS

Top British diplomat Liz Truss delivered an extremely hawkish speech in London on Apr 27 in which she said that Britain “will keep going further and faster to push Russia out of the whole of Ukraine”, the BBC reported. Given that Russia occupies not only parts of southern and eastern Ukraine captured in the current 2-month-old war, but also territory captured back in 2014, Truss’s remarks were understood to mean that the endgame of the war for Ukraine & the West is to eject Russia from those previously occupied territories. Up to now, the British government had limited its statements on the war goals to general terms such as “Putin’s invasion of Ukraine must be seen to fail”, the BBC said. In other news, the European Union is expected to end all purchases of Russian oil in the near term after Germany dropped its objections to the move, Western media reported.

COMMENTARY

At this point, with more than a month having passed without any talk of a negotiated end to the war, some clarity on the West’s actual endgame in Ukraine and a plan to get there would be welcome. However, Truss’s stated endgame looks unachievable to us, although it nominally places Britain in agreement with official Ukrainian government policy, if indeed Truss’s comments were meant as a serious policy statement. Although the Biden administration has also taken a tougher line against Russia in recent weeks, and President Biden has proposed a massive USD 33bn aid package to help Ukraine, it would be surprising for us to hear a specific statement of intent from the US to recapture the 2014 occupied territories. President Zelenskiy stated after the discovery of the Russian atrocities committed in Bucha and Irpin that Ukrainian public opinion has turned against peace talks and in favor of continuing the war; however, we note that there could be a growing divergence of the interests of Ukraine and its Western allies on this point. Pro-Ukrainian voices have become more open in recent weeks in stating that the goal of the war is to overthrow the Putin regime - a dangerous & unpalatable strategy for the West, since the timescale needed to choke the Russian economy with Western sanctions is years, not months. The Kremlin also has near-term tools for further escalation of the war, including the possibility of a general military conscription to augment what has thus far been an under-staffed effort to occupy large areas of Ukrainian territory.

Ukraine Foreign Reserves Decline by USD 1.2bn to USD 26.9bn in April

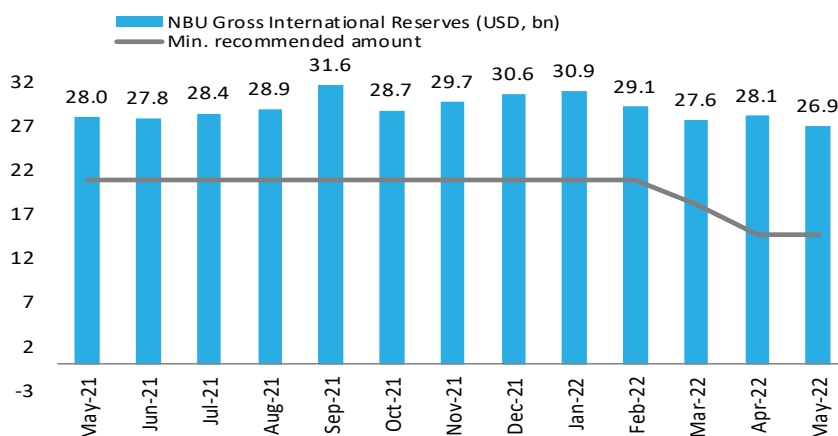
by Dmitry Churin
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NEWS

The Ukrainian National Bank's (NBU) foreign reserves declined by USD 1.2bn to USD 26.9bn in April (-4.3% MoM), according to official NBU data. The reserves decreased by 13% from USD 30.9bn since the start of the year.

The decrease in the FX reserves in April was caused by the National Bank's net foreign currency sale of USD 2.2bn on the interbank market, as the regulator had to intervene amid a lack of the hard currency supply from Ukrainian exporters. Also, the National Bank provided USD 614mn to the government to service the country's external debt. Meanwhile, the FX reserves in April had an inflow of USD 1.9bn in form of the financial aid from other countries and international institutions. In particular, the World Bank provided about USD 750mn, France gave EUR 300mn, Canada transferred USD 240 and the EU sent EUR 120mn.

UKRAINE'S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

The Ukrainian interbank currency market continued to operate in the restricted mode and the official hryvnia exchange rate remained artificially frozen at 29.25 UAH/USD. The National Bank has to play the role of the hard currency seller of last resort to balance the demand and supply of foreign currency on the Ukrainian market. Moreover, there are almost 5.5mn Ukrainians who fled the country since the war began on Feb. 24. Therefore they spent a lot of money on UAH banking cards leading to a form of capital flea out of Ukraine.

The Russian military invasion of Ukraine hurts the economy badly leading to a drop in the national budget revenues. The Finance Ministry reported that the national budget expenditures amounted to UAH 523bn (USD 18bn) in January-April which was 23% lower than the planned spending. The budget deficit was at UAH 157bn (USD 5.4bn). The country managed to cover that deficit solely thanks to financial aid from other countries and financial institutions. The IMF was the largest backer giving USD 1.4bn in March. The US so far provided about USD 500mn. Ukraine desperately needs more help from its foreign partners to overcome the war crisis. There have been unconfirmed information that Ukraine will get about USD 6.5bn in additional help from the partnering countries to withstand the current dramatic moment.

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	58.3	9.0%	517.0%	7.75%	1 Sept 2022	1,384	USD	//
Ukraine, 2024	35.2	3.8%	76.8%		1 Sept 2024	1,339	USD	//
Ukraine, 2026	36.3	11.0%	46.4%	7.75%	1 Sept 2026	1,318	USD	//
Ukraine, 2028	33.5	4.7%	41.5%	9.75%	1 Nov 2028	1,600	USD	//
Ukraine, 2032	31.1	4.7%	30.0%	7.38%	25 Sept 2032	3,000	USD	//
Ukraine, GDP-linked	29.0	3.6%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	49.3	-3.0%	31.9%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	53.0	0.0%	22.4%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	12.7	-3.1%	80.3%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	52.6	7.3%	30.5%	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%	118.6%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	-6.7%	113.7%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	27.2	-14.2%	481.0%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	20.0	0.0%	114.6%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	29.2	-0.3%	364.0%	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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