

Trends

Indicative quotes for Ukrainian sovereign Eurobonds were lower for the third consecutive week. President Volodymyr Zelenskiy said the outcome of the war after the Russian invasion affected not just Ukraine, but the future of international order. Moreover, Russia is blocking ports in the Black Sea and Azov Sea, keeping Ukrainian food exports from the world market. That hurts not just Ukrainians, but the entire world. Ukraine has established two routes through Poland and Romania to export grain and avert a global food crisis although bottlenecks have slowed the supply chain. Ukraine is the world's fourth-largest grain exporter and there are some 30mn tonnes of grain stored in Ukrainian-held territory which it is trying to export via road, river and rail. The certain problem here is that the Ukrainian rail system operates on a different gauge from European neighbors such as Poland, so the grain has to be transferred to different trains at the border where there are not many transfer or storage facilities.

The benchmark 10-year Ukrainian Eurobonds declined by 3.4% last week to close at 34.6 (27.3% YTM). At the start of the year, the issue traded at 84.5 (10.0% YTM). The shortest outstanding issue due in September fell by 10.3% over the week to 67.3 (41.2% YTM) and Ukraine-24s dropped by 2.3% to 37.5 (74% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) slipped by 10.7% to 33.4 cents on the dollar.

In individual corporate Eurobonds, MHP-26s issue rose by 2.8% to 54.6 (28.4% YTM) while Metinvest-26s shed by 0.7% to 60.9 (25.6% YTM). The data from the country's steel industry association pointed out that Ukraine's total steel production plunged by 47% YoY to 4.2mn tonnes in 5M22. For 2021 the steel product exports brought in USD 15.7bn to Ukraine accounting for 25% of the country's merchandise exports. We forecast that this year steel exports will fall by 65% to just USD 5.5bn unless the country's sea ports resume operation.

Currently, there is an expectation that the Finance Ministry will start to offer a much higher yield for the domestic government special UAH-denominated bonds to attract more funds. The last primary bond auction held on Jun 7 brought in only UAH 809mn in proceeds at the offered yield of 9.5% - 11.5%. Taking into account that the National Bank has raised its key monetary policy rate from 10% to 25%, we assume that the special government bond should be offered at 20%. Moreover, the rising inflation in the country, which topped 18% YoY in May, also put pressure on the UAH-denominated assets.

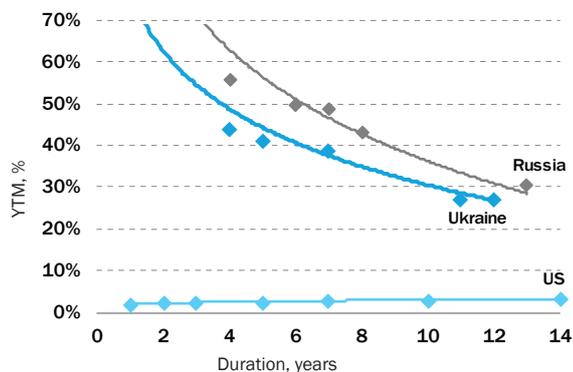
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/about/support-the-armed-forces

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

www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	+16.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	43.9%	3.1 p.p.	35.0 p.p.
Ukraine-2032	27.3%	1.4 p.p.	18.1 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	35.25	-0.1%	29.0%
EUR/UAH	37.01	-2.3%	19.5%

Source: Eavex Capital

Highlights

- Macron, Scholz Due in Kyiv as Zelenskiy Presses for EU Membership
- Ukraine Foreign Reserves Drop by USD 1.8bn to USD 25.1bn in May

Macron, Scholz Due in Kyiv as Zelenskiy Presses for EU Membership

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NEWS

French President Emmanuelle Macron and German & Italian Prime Ministers Olaf Scholz and Mario Draghi are expected to pay a joint visit to Kyiv in the next two weeks ahead of the Jun 26-28 EU summit meeting, German media reported. In recent weeks, President Zelenskiy has stepped up calls for the European Union to admit Ukraine as a member, and European Commission President Ursula Von der Leyen was in Kyiv meeting with Zelenskiy on Saturday (Jun 11), calling the decision on whether to admit Ukraine “historic”. In war-related news, Ukrainian sources said the military had managed to recover some territory in occupied Kherson province, pushing Russian forces back by around 5-7km. However, in the key city of Severodonetsk in the Donbass region, the situation for Ukrainian forces has reportedly worsened, with much of the city now under Russian control. Taking Severodonetsk would provide a base for Russian assaults on the remaining Ukraine-controlled cities in the western Donbass - Lysichansk, Bakhmut, Slavyansk, and Kramatorsk.

COMMENTARY

The main military difficulty for Ukraine currently is that Western countries have been unwilling or unable to deliver weapons and ammunition at a fast enough pace to prevent a steady loss of territory in the Donbass, with the Ukrainian army simply outgunned by Russian firepower. The Western media narrative on the war has also begun to change over the past month, with expectations growing that Ukraine will not be able to quickly recover the lost territory (with the possible exception of Kherson), which would lead to a protracted and costly stalemate. Another factor is that although the West’s sanctions against Russia are damaging the country’s economy, the immediate effects are turning out to be less than what was expected; Russia’s central bank has been able to prop up the ruble and there are few outward signs of near-term political instability in Russia due to the war. For these reasons, we do not rule out that Macron, Scholz and Draghi might be planning to offer Zelenskiy a deal that would see Ukraine receive EU membership candidate status in exchange for Zelenskiy dropping his declared intention to reclaim the territories of Crimea and the so-called Donetsk and Luhansk People’s Republics (DNR/LNR) with military force. Such a deal could open the door to a ceasefire, although the issues of the territory captured by Russia since Feb 24 would remain unsolved, absent Ukraine’s ability to quickly liberate them.

Ukraine Foreign Reserves Drop by USD 1.8bn to USD 25.1bn in May

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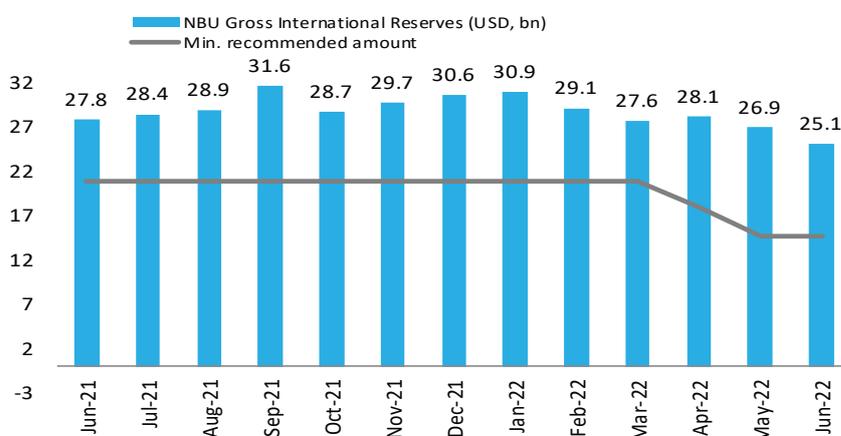
NEWS

The Ukrainian National Bank’s (NBU) foreign reserves dropped by USD 1.8bn to USD 25.1bn in May (-6.7% MoM), according to official NBU data. The reserves decreased by USD 5.8bn (-19% YTD) from USD 30.9bn at the start of the year.

The decrease in the FX reserves in May was caused by the National Bank’s net foreign currency sale of USD 3.4bn 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 213mn to the government to service the country’s external debt.

The FX reserves inflow in May amounted to USD 1.7bn, including disbursements of EUR 584mn from the World Bank and EUR 582mn from the EU.

UKRAINE’S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

The National Bank was forced to increase its net foreign currency sale on the interbank market in May leading to a higher pace of the FX reserves depletion. While the regulator continues to stick to the fixed hryvnia exchange rate against the dollar at 29.25 UAH/USD, the OTC cash FX market also failed to reflect a fair value of the hryvnia as the currency market has been operating with low liquidity and the many restrictions. De-facto Ukrainian government now relies mostly on financial assistance from Western countries and international institutions as well as on direct money injections from the National Bank in form of purchases of the government debt rather than tax revenues. The country’s central bank has purred UAH 190bn (USD 6.5bn) into the national budget since russia invaded Ukraine on Feb 24. The World Bank recently announced that it would provide USD 1.5bn to the Ukrainian government to help pay the salaries of social workers. We think, that Ukrainian authorities will do all the necessary steps to secure more financial aid from Western backers. Roughly speaking, the Ukrainian government needs about USD 5 bn per month to cover the national budget gap amid the current open stage of war with russia.

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	67.3	-10.3%	412%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	37.5	-2.3%	74%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	36.7	-2.1%	43.9%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	36.1	-6.2%	38.9%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	34.6	-3.4%	27.3%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	33.4	-10.7%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	54.6	2.8%	28.4%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	52.8	0.0%	22.9%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	20.9	-3.2%	55.6%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	60.9	-0.7%	25.6%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	62.0		18.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	33.0	0.0%	86%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	0.0%	119%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	32.0	0.0%	480%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	48.5	61.7%	45%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	54.8	0.4%	204%	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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