Fixed Income Weekly Monitor

June 6, 2022

Trends

Ukrainian sovereign Eurobonds continued to decline as the russian invasion marks 100 days of the war. Quotes for the 10-year issue decreased by 2.5% last week to 35.8 (26.4% YTM) and Ukraine-24s dropped by 3.5% to 38.4 (72% YTM). In contrast, the shortest sovereigns due in September gained by a solid 7.6% to 75 cents on the dollar (370% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were little changed at 37.4 cents on the dollar.

In corporate debt papers, there was a sharp 35% rebound in DTEK Energy-27s to 21.6 (52% YTM). A positive momentum appeared after the company reported an impressive operating profit for 2021, triggering the assumption that it should have some financial buffer. DTEK Energy's net cash flow from operations was USD 265mn last year and the company's cash balance was USD 168mn at the end of the year. However, in the current extremely difficult situation DTEK Energy has a low credit rating of 'CA' from Moody's with a negative outlook and a low credit rating of 'CC' from Fitch.

Eurobond of poultry producer MHP with maturity in 2026 rose by 1.0% last week to 53.1 (29.4% YTM) and Metinvest-26s edged up by 0.8% to 61.3 (25.4% YTM). In quasi-sovereign banking issues, OschadBank-23s traded at 54.6 (117% YTM) and UkrExim-25s had indicative quote at 30.0 (82% YTM).

The Finance Ministry continued to cap the yield for the special UAH-denominated bonds at 11.5% for the 1.5-year issue. There is a high probability that the government will be forced to increase the offered yield to attract more investors to the country's debt.

The hryvnia strengthened by 2.8% to 35.30 UAH/USD on the OTC cash market after the National Bank surprisingly raised its key policy rate from 10% to 25% sending a clear signal for a higher yield for the hryvnia assets.

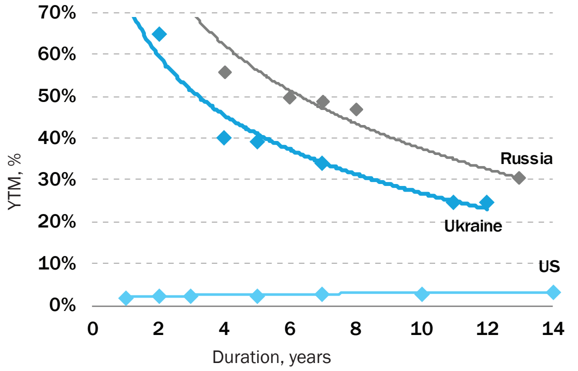
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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%	+15.0 p.p.	+16.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p	0.0 p.p
Ukraine-2026	42.7%	1.9 p.p.	33.8 p.p.
Ukraine-2032	26.4%	0.5 p.p.	17.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	35.30	-2.8%	29.2%
EUR/UAH	37.88	-2.5%	22.3%

Source: Eavex Capital

Highlights

- Ukraine Criticizes Macron for Taking Soft Line on Russia
- National Bank Hikes Key Policy Rate from 10% to 25% to Support the Hryvnia and Fight Inflation

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Ukraine Criticizes Macron for Taking Soft Line on Russia

by Will Ritter
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NEWS

Ukraine's disagreements with France flared up once again on Saturday (Jun 4) after French President Emmanuel Macron publicly stated that the West should not try to "humiliate" Russia in the process of negotiating an end to the ongoing war. Foreign Minister Dmytro Kuleba reacted to Macron's comments on social media by stating that "calls to avoid humiliation of Russia can only humiliate France... we all [should] focus on how to put Russia in its place". In other war-related news, Kyiv saw its first Russian missile strike since April on Sunday morning (Jun 5), as a railcar repair plant was hit near the Darnitsa train station on the east side of the city, and a grain export terminal in the southern city of Mykolayiv was attacked. Meanwhile, in the epicenter of the fighting in the Donbass region, Ukraine claimed to have clawed back some territory in the contested city of Severodonetsk in Lugansk province, and domestic media reported that President Zelenskiy paid a visit to soldiers in the neighboring city of Lysichansk, which is also seeing heavy fighting.

COMMENTARY

Over the past month, tensions between the Zelenskiy administration and the governments of France & Germany - the largest nations in the EU - have been notably on the rise, as Ukraine has accused the two countries of providing insufficient support in the fight against Russia. To a lesser degree, the same can be said about the Biden administration in the US, which has been reluctant to deliver all of the weapons systems requested by Zelenskiy despite having approved a massive USD 40bn package last month. In our view, the fundamental disagreement between the major Western countries and Zelenskiy is the latter's ongoing demand of a withdrawal of Russian forces back to the pre-2014 borders as a precondition for negotiating an end to the war with the Putin regime. Among the big Western countries, only the United Kingdom has explicitly backed this position, while France & Germany appear to oppose it, and the US administration has been non-committal, saying only that the conditions for a peace deal should be left up to Ukrainians. However, this discussion remains somewhat theoretical, as Russia currently occupies the entire southeast coast of Ukraine, and this territory would presumably need to be liberated first before any Ukrainian military action in Crimea and/or the eastern Donbass could be launched.

National Bank Hikes Key Policy Rate from 10% to 25% to Support the Hryvnia and Fight Inflation

by Dmitry Churin
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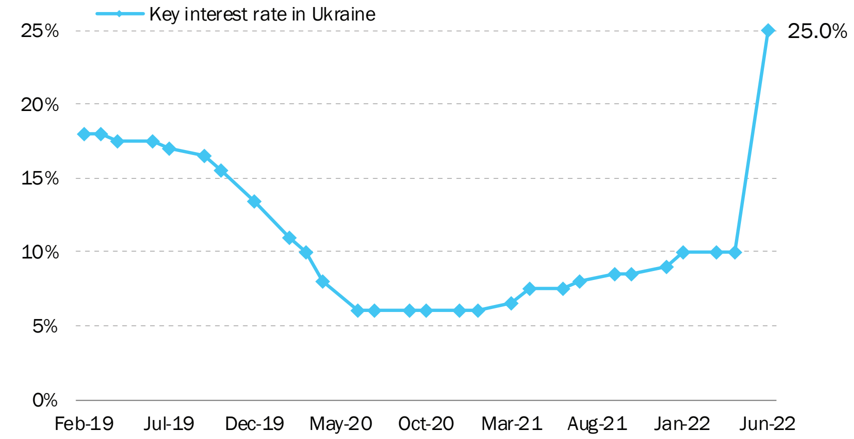
NEWS

The National Bank of Ukraine hiked its key policy rate from 10.0% to 25.0%, according to the regulator's official statement released on Jun 2. It was the first interest rate increase this year. The National Bank commenting on its decision said that the hawkish monetary policy would help to raise the attractiveness of hryvnia assets, reduce the pressure on the foreign exchange market, and thus enhance the regulator's capability to maintain the stability of the exchange rate and restrain inflation processes during the war.

NATIONAL BANK KEY POLICY RATE



Source: National Bank of Ukraine

COMMENTARY

We assume, that the National Bank returns to the playbook it used in the crisis of 2014-2015 when russia annexed Crimea and part of Eastern Ukraine. In that period the key policy rate was increased in several steps from 9.5% at the start of 2014 to as much as 30% in 2015. Indeed, strong devaluation expectations for the Ukrainian currency right now present a threat to the country's financial system as the population is trying to convert their savings into hard currency amid low deposit interest rates in the hryvnia. As a result, the National Bank has increased its interventions to sell foreign currency, from the monthly average of USD 2.0bn in March–April to USD 3.4bn in May. In addition, the difference between the cash market exchange rate and the official one widened in May, which worsened the negative effects on the economy from the existence of multiple exchange rates caused by restrictions on FX transactions and cross-border transfers. Although Ukraine's international reserves are still sufficient thanks to funding from international partners, risks to macrofinancial stability have risen in the medium term. If yields on hryvnia assets do not rise sufficiently, international reserves will keep depleting rapidly and imbalances will build up in the economy.

The regulator has also decided to widen the interest corridor for monetary transactions with banks to provide additional room for reviving the interbank market. More specifically, from Jun 3, the interest rate on refinancing loans will equal the key policy rate plus 2 p.p. (27%), while the interest rate on deposit certificates will be the key policy rate minus 2 p.p. (23%).

The next National Bank's monetary policy Board meeting will be held on Jul 21, 2022.

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	75.0	7.6%	370%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	38.4	-3.5%	72%	7.75%	1 Sept 2024	1.339	USD	Caa3//
Ukraine, 2026	37.5	-4.1%	42.7%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	38.5	-2.3%	36.5%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	35.8	-2.5%	26.4%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	37.4	0.3%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	53.1	1.0%	29.4%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	52.8	-0.4%	22.7%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	21.6	35.8%	52.0%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	61.3	0.8%	25.4%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	62.0		18.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	33.0	6.5%	85%	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%	453%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	30.0	-4.2%	82%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	54.6	3.0%	117%	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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