

## Trends

Ukrainian sovereign Eurobonds fell further last week with the 10-year issue losing 15% to close at 21.1 (42.5% YTM). The shortest outstanding bond due in September plunged in value by 20% to 42.0 cents on the dollar (620% YTM). The government remained silent on the expected debt restructuring.

The corporate debt papers were also sharper lower. MHP-26s issue dropped by 19% to 39.4 (43.0% YTM) and Metinvest-26s decreased by 13% to 44.0 (38.0% YTM).

The primary auction for the special government domestic bonds held on Jul 5 brought in negligible proceeds of just UAH 128mn. The Finance Ministry continued to offer a yield of 9.5% for the 3-month debt papers and 11.0% for the one-year issue. Meanwhile, the market participants made their bids for the 2-year bond at a yield of 15% - 18%. The Finance Ministry refused to accept these high-yield bids.

The Ukrainian government was unable to fully refinance the domestic bond redemption since Feb 24 due to low demand for the special bonds at the offered yield. The Finance Ministry raised a total of UAH 86bn in UAH-denominated special bonds while UAH-denominated bonds redemption amounted to UAH 90bn in the same period.

In the latest macroeconomic data, there was a report that consumer inflation in Ukraine accelerated to 22% YoY in June from 18% YoY in May with the food inflation reaching 28% YoY while the fuel inflation skyrocketing to 91% YoY.

The National Bank reported that its foreign currency reserves decreased by 9% in June to USD 22.8bn. The FX reserves were mainly used to sell the hard currency in the amount of about USD 4 bn on the interbank market to cover a lack of sufficient FX supply from the exporters. Also, the regulator admitted that it tried to prop up the national currency to smooth the devaluation trend amid the country's economic difficulties caused by the Russian military invasion.

The hryvnia devalued by 2.8% to 36.5 UAH/USD on the OTC cash market. The official exchange rate remained frozen at 29.25 UAH/USD.

## Highlights

- > Zelenskiy Focused on Recapturing Southern Coastal Territory
- > Ukraine Pumps 11bn cu-m of Natural Gas into Storage.  
The Country Aiming to Accumulate at Least 15bn cu-m of Gas Ahead of Winter Season

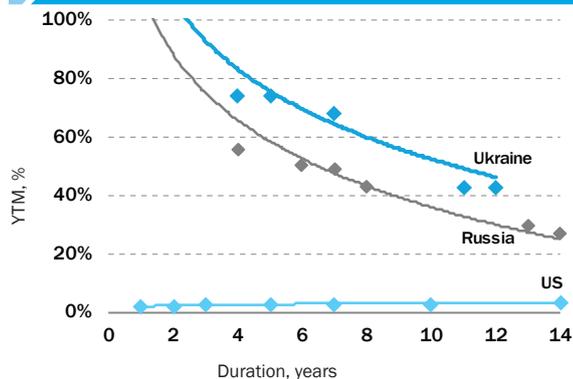
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

[www.bank.gov.ua/en/about/support-the-armed-forces](http://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](http://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	66.0%	0.8 p.p.	57.1 p.p.
Ukraine-2032	42.5%	5.6 p.p.	33.3 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	36.50	2.8%	33.6%
EUR/UAH	37.15	0.3%	20.0%

Source: Eavex Capital

## Zelenskiy Focused on Recapturing Southern Coastal Territory

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

President Zelenskiy has ordered Ukraine's military to recapture Russian-occupied territory in the country's south, Defense Minister Oleksiy Reznikov stated in an interview with the British-based "The Times" newspaper published on Sunday (Jul 10). Reznikov said that Ukraine now has an army of 1 million military personnel equipped with Western weapons to accomplish this task. Earlier last week, Deputy Prime Minister Irina Vereschuk called on residents of Kherson & Zaporizhia provinces in the south to evacuate to safer locations ahead of the planned operations to retake territory. Russia captured much of Zaporizhia province, including the country's largest nuclear power station and the port city of Berdyansk, as well as all of agriculturally-oriented Kherson province, in the early days of the war in February and March. In recent weeks, Ukraine has successfully retaken some territory in northern & western Kherson.

### COMMENTARY

It has become very important in political terms for Zelenskiy to show that Ukraine is capable of recapturing significant pieces of territory amid growing skepticism in Western capitals that Russia can be dislodged from gains that currently total some 20% of the country's land mass. To this end, focusing attention on Kherson & Zaporizhia is a logical move, as in our opinion these areas offer more optimistic prospects for Ukraine to retake territory than the Donbass thanks to tactical military advantages, as well as stronger support from the local population. However, Ukraine cannot afford to concentrate all of its military power in the south while Russian forces are still threatening to advance westward in Donetsk province and have also renewed heavy attacks against Kharkiv in the north. The US Biden administration repeated again last week that it is not pressuring Zelenskiy to accept any ceasefire that could have the effect of locking in Russian territorial gains. British Prime Minister Boris Johnson had gone further than Biden, explicitly calling for the return of all Ukrainian territory occupied by Russia, but with the collapse of the Johnson premiership, it is currently unclear what the UK's position will be under its next leader.

## Ukraine Pumps 11bn cu-m of Natural Gas into Storage.

### The Country Aiming to Accumulate at Least 15bn cu-m of Gas Ahead of Winter Season

by Dmitry Churin  
d.churin@eavex.com.ua

#### NEWS

Ukraine has pumped about 11bn cubic meters (cu-m) of natural gas into underground storage, according to the latest data from the state gas pipeline operator UkrTransGas. The government targets to have 19bn cu-m of gas ahead of the heating season while the country's state natural gas operator NaftoGaz sees that 15bn cu-m would be enough for the winter.

The base case scenario foresees that NaftoGaz will import 1.5bn cu-m of gas from Europe by October. Currently, Ukraine has the capacity to import about 50mn cu-m of gas from Europe. Also, Ukraine continues to rely on domestic natural gas extraction which amounts to about 1 bn cu-m per month. However, in case the country has less than 19bn cu-m of gas in underground storage ahead of the winter then there will be the risk of having no opportunity to import needed additional volume of fuel in February-March 2023. There is a significant risk that Russia would use its natural gas export deliveries to Europe as a weapon in the coming winter season to threaten both Ukraine and the whole of Europe.

#### COMMENTARY

Taking into account the Russian aggression, there will be much better if Ukraine finds the opportunity to pump up to 19bn cu-m of gas by October. On the other hand, both NaftoGaz and the government have lack of financial resources to purchase the needed volume of gas. Moreover, the gas price in Europe increased sharply hovering at USD 1,800 per 1,000 cu-m as the risk of cutting supplies from Russia shakes the market.

Currently, Ukraine has no other option than to rely on support from its Western partners. We believe, that NaftoGaz will find money from international creditors to secure energy supply to the country. This task will be a pretty difficult one as NaftoGaz is close to defaulting on its debt. Nevertheless, the issue of Ukraine's energy security in the winter season has to be resolved by any means.

Before the Russian military invasion, Ukrainian annual natural gas consumption was about 30bn cu-m with domestic gas extraction covering about 20bn cu-m. In the current situation, the preliminary estimates said that the country's annual gas consumption would be 22bn cu-m. Domestic extraction would be also lower than before meaning that natural gas imports remain a crucial source of energy supply. The Ukrainian government continued to implement energy-saving measures across the country. In particular, there was an announcement that it would be lower norms of heating temperatures for residential buildings in the cities next winter. Separately, the local authorities are working on diversification of energy supplies for heating purposes, installing municipal boilers burning alternative types of fuel (pellets, wood chips, etc.).

**SELECTED UKRAINIAN EUROBONDS**

Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>								
Ukraine, 2022	42.0	-19.8%	620%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	22.8	-9.2%	130%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	23.9	-1.2%	66%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	19.5	-14.8%	68%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	21.1	-14.9%	42.5%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	25.0	8.7%			31 May 2040	3,214	USD	//
<b>Corporate Eurobonds</b>								
MHP, 2026	39.4	-18.9%	43.0%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	39.0	-26.1%	32.0%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	20.5	-0.5%	55.0%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	44.0	-13.0%	38.0%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	51.0	-10.5%	21.7%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	28.0	-3.4%	105%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	27.0	0.0%	115%	8.25%	9 Jul 2024	500	USD	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	26.6	-16.4%	880%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	38.0	26.7%	220%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	53.6	-0.6%	174%	9.38%	10 Mar 2023	700	USD	//

<sup>1</sup> Moody's/S&P/Fitch

Source: Boerse-Berlin, Boerse-Stuttgart. cbonds, TR Data, Eavex Research

**Eavex Capital**

7 Klovsyky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: [research@eavex.com.ua](mailto:research@eavex.com.ua)  
Web-page: [www.eavex.com.ua](http://www.eavex.com.ua)

Yuriy Yakovenko  
**Chairman of the Board**

**SALES & TRADING**  
Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
[p.korovitsky@eavex.com.ua](mailto:p.korovitsky@eavex.com.ua)

**RESEARCH**  
Dmitry Churin  
**Head of Research**  
[d.churin@eavex.com.ua](mailto:d.churin@eavex.com.ua)

Investing in emerging markets' securities may entail certain risks. There may be limited information available on such securities. Securities of emerging markets' companies may be less liquid and their prices more volatile than securities of comparable developed markets' companies. In addition, exchange rate movements may have an adverse effect on the value of an investment.

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.

Copyright 2022 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015