

## Trends

Quotes for Ukrainian sovereign Eurobonds had a mixed reaction to the country's intention to freeze foreign debt servicing. Ukraine has secured preliminary agreement from government creditors and bondholders to suspend debt repayments from Aug. 1 until at least the end of 2023. The country's bilateral and commercial creditors will be paid interest on the amounts deferred during the repayment suspension. Any modification to a series of notes will have to be approved by the holders of two-thirds of the aggregate principal across all debt concerned and holders of 50% for each of the issues. Creditors have until Aug. 9 to vote on the proposal.

The long-term 10-year Ukraine-32s Eurobond issue rose by 4.0% to 15.6 (56% YTM) while the shortest issue due in September plunged by 35% from 47.8 to 31.0 cents on the dollar. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) slipped by 24% to 19.0 cents on the dollar.

Corporate debt issues also had a mixed performance last week. Kernel-27s advanced by 15% to 34.1 (39% YTM) on hopes that a U.N.-backed deal to resume exports of Ukrainian grain through the Black Sea will help Kernel to increase the company's grain and sunflower oil exports as well. Indicative quotes for MHP-26s rose by 9.8% to 39.2 (44% YTM). On the downside, Metinvest-26s dropped by 5.3% to 37.5 (48% YTM).

The Finance Ministry finally started to increase the offered yield for the special UAH-denominated government bonds. The offered yield for the 1-year debt papers was raised from 11.0% to 14.0% at the primary bond auction held on Jul 19. Nevertheless, the market players are looking for an even higher yield. The demand from investors for the bond at 14% remained rather low.

The National Bank changed its official hryvnia exchange rate from 29.25 to 36.57 UAH/USD in a move to shrink the wide gap between the official and the cash hryvnia rate. Meanwhile, the OTC cash market exchange rate climbed to as high as 39.30 UAH/USD reflecting Ukraine's economic challenges.

## Highlights

- > Russia's Donbass Offensive Stalls as Grain Exports Resume from Odessa
- > Ukraine Pushes International Creditors for Debt Freeze Up to 2024. No Writedown Asked.

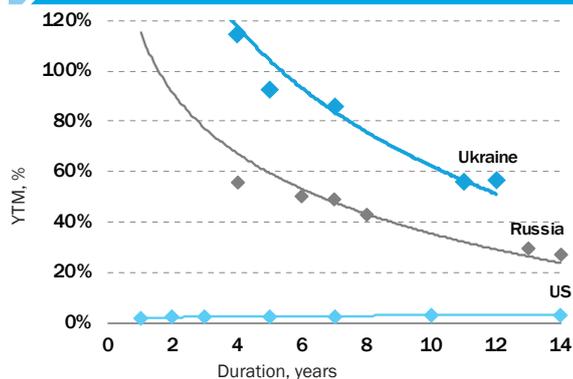
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

[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	14.0%	+3.0 p.p.	+3.0 p.p.
Ukraine-2026	92.2%	5.2 p.p.	83.3 p.p.
Ukraine-2032	56.0%	-2.0 p.p.	46.8 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	39.30	5.9%	43.9%
EUR/UAH	39.70	6.4%	28.2%

Source: Eavex Capital

## Russia's Donbass Offensive Stalls as Grain Exports Resume from Odessa

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

### NEWS

Invading Russian forces have failed to take any new Ukraine-controlled cities in Donetsk province in July after having captured Lysichansk and Severodonetsk in Lugansk province at the end of June. Despite heavy shelling of the municipalities of Slavyansk, Kramatorsk, and Avdiyivka this month, these cities remain in Ukrainian hands. Ukrainian military sources have stated that the receipt of so-called HIMARS rocket launchers from the United States, which have a range of some 70km, have helped to blunt Russia's advantage in artillery that saw it make territorial gains in the Donbass during May and June. Meanwhile, an agreement to unblock Odessa's port to allow Ukrainian grain exports to resume was brokered by Turkey and the United Nations and signed on Friday (Jul 22). The deal allows for monitored safe passage of grain cargoes out of the port, which is heavily mined, to the Turkish-controlled Bosphorus Straits and onward to global destinations.

### COMMENTARY

Russia's apparent failure to advance in the Donbass this month will represent a significant achievement for Ukraine's armed forces if this situation can be maintained in August. Indeed, the Putin regime appears to be frustrated enough that it has switched its focus back to bombing targets in more firmly Ukrainian-held areas such as Kharkiv, Mykolaiv, and Odessa, in acts that President Zelenskiy has condemned as terrorism. The immediate question for Ukraine, in addition to defending the Donbass, is whether it might be able to recapture the city of Kherson in the south before mid-September, when the Kremlin is reportedly planning to hold a referendum that would formally incorporate the southern province into Russia. The Russian hold on Kherson appears substantially weaker than its control over other occupied Ukrainian territories. Nonetheless, US Defense Secretary Lloyd Austin warned last week that no single weapon, including the HIMARS, could on its own result in Ukraine fully reversing the course of the war. The longer-term concern is that Zelenskiy's vow to recapture large amounts of territory by the end of this year is beginning to look increasingly unrealistic, implying that the war could continue into the winter months. This would bring major new hardships to the already-suffering civilian population of Ukraine, and would test the commitment of EU support for Kyiv amid a likely severe energy shortage during the 2022-23 heating season.

## Ukraine Pushes International Creditors for Debt Freeze Up to 2024. No Writedown Asked.

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

### NEWS

Ukraine has asked its foreign creditors for a two-year payment freeze on its international bonds, according to an official announcement made by the Finance Ministry on Jul 20. The country invited investors in Eurobonds and GDP-linked warrants to approve amendments to their terms to preserve FX resources for priority expenditures relating to Ukraine's defense, and help mitigate the current USD 5bn monthly fiscal gaps.

The Russian invasion of Ukraine poses extraordinary risks to Ukraine's economy and its territorial integrity. The disruption to fiscal cash flows and increased demands on government resources caused by the war has created unprecedented liquidity pressures and debt servicing difficulties for the government. It has been a continuous challenge finding adequate sources for Ukraine to cover critical defense, social and humanitarian expenditures, the official statement said.

Official creditors have already said they would suspend payments owed to them and urged bondholders to accept Ukraine's request for the freeze. The group, including Canada, France, Germany, Japan, the United Kingdom and the United States, will suspend debt service payments for Ukraine till the end of 2023 with the possibility to extend the suspension by one more year.

US Treasury Secretary Janet Yellen said she welcomed a decision to suspend Ukraine's debt service obligations by a group of six creditor countries, including the US, and urged other official and private creditors to join the effort.

### COMMENTARY

Holders of Ukrainian sovereign Eurobonds have until Aug. 9 to vote on the proposal. Ukraine has called its plan a liability management exercise, indicating Kyiv's efforts to spare bondholders a writedown on the bonds. It is estimated that the debt freeze could save Ukraine about USD 6bn over the deferral period. The delay comes just in time for the Finance Ministry to put off USD 1.2bn of debt payments on outstanding Eurobonds due at the start of September.

Rating agency Moody's calculated in a recent note that Ukraine's tax revenue is down over a third since the start of the Russian invasion while government expenditures have risen by 36% over the same period, mainly due to a 300% jump in defense spending. Ukraine's state and state-guaranteed debt totaled an equivalent of USD 101bn, according to the latest available data dated Jun 1, 2022. The country's Eurobonds have a combined value of USD 22.7bn while a total state foreign debt stood at USD 51.2bn, including debt to the IMF in the amount of USD 9.6bn.

Indicative quotes for Ukraine's 10-year Eurobonds rose by 4.0% last week to 15.6 cents on the dollar (56% YTM). In contrast, Ukraine-22s issue due in September plunged by 35% to 31 cents on the dollar.

**SELECTED UKRAINIAN EURO BONDS**

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	31.0	-35.1%	620%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	18.8	6.2%	160%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	16.1	-6.4%	93%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	15.0	7.1%	86%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	15.6	4.0%	56%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	19.0	-24.0%			31 May 2040	3,214	USD	//
<b>Corporate Eurobonds</b>								
MHP, 2026	39.2	9.8%	44%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	34.1	15.2%	39%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	20.7	1.0%	54%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	37.5	-5.3%	48%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	38.6	-2.0%	30%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	10.0	0.0%		7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	27.0	0.0%	117%	8.25%	9 Jul 2024	500	USD	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	22.8	-14.3%	984%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	30.0	-2.6%	204%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	46.0	-10.3%	265%	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