

Trends

Quotes for Ukrainian sovereign Eurobonds keep going down last week. A new wave of selling came after rumors of the potentially heavy restructuring of the Ukrainian foreign debt. However, there is no official information whatsoever on this issue.

Meanwhile, the Finance Ministry reported that the country's national budget gap reached UAH 572mn (USD 19.6bn) since Russia invaded Ukraine on Feb 24. The budget gap was covered mainly by additional domestic borrowings in the equivalent of USD 11.4bn, including a direct money injection from the National Bank of UAH 225bn (USD 7.7bn). Last week there was an announcement, that Ukraine received a EUR 1 bn grant from Germany, also a grant from the US for USD 1.3bn, and a loan of EUR 425mn from the World Bank.

The benchmark 10-year Ukrainian Eurobond dropped by 10.5% last week to 24.8 (36.9% YTM) and the medium-term Ukraine-26s issue fell 15.4% to 24.2 (65.2% YTM). The shortest issue due in September decreased in value by 14% to 52.4 (620% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) lipped by 12% to 23.0 cents on the dollar. Ukrainian corporate Eurobonds followed the downward move in sovereigns. In particular, debt papers of poultry maker MHP with maturity in 2026 decreased by 8.1% over the week to close at 48.6 (33.5% YTM). Metinvest-26s issue declined by 9.2% to 50.6 (32.5% YTM). On the upside, the Eurobond of the state-owned Ukrainian Railways (RAILUA-24s) gained by 8.0% to 27.0 (115% YTM) after the government approved a 70% hike in the cargo railway tariff. The primary auction for the special government domestic bonds held on Jun 28 brought in only moderate proceeds to the national budget. The Finance Ministry continued to offer a yield of 9.5% for the 3-month debt papers and 11.5% for the 1.5-year issue.

The hryvnia stayed almost unchanged at 35.5 UAH/USD on the OTC cash market.

Highlights

- > Ukrainian Exports Drop by 24% YoY to USD 22.8bn in 1H22

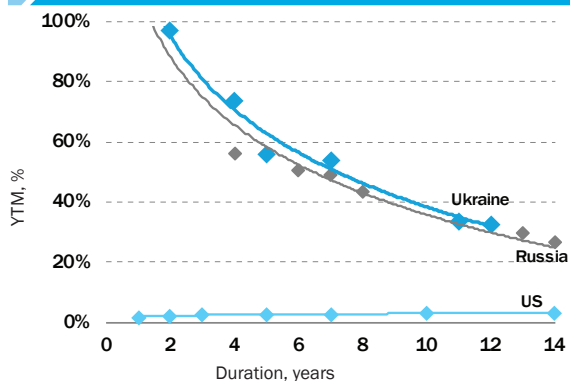
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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	65.2%	9.2 p.p.	56.3 p.p.
Ukraine-2032	36.9%	3.5 p.p.	27.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	35.50	0.0%	29.9%
EUR/UAH	37.05	-0.9%	19.7%

Source: Eavex Capital

Ukrainian Exports Drop by 24% YoY to USD 22.8bn in 1H22

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NEWS

The overall merchandise exports from Ukraine decreased by 23.7% YoY to USD 22.8bn in 1H22, according to preliminary data from the government. In the 2Q22 alone, the country's exports had a total value of USD 8.8bn, which implies a 37.4% QoQ contraction. On the year-on-year comparison, there was a 45.8% drop in exports in 2Q22 (USD -7.4bn).

It appears that the situation with exports has stabilized over the past few months and improved a little compared with the extremely tough situation seen in March when the Russian military machine tried to capture Kyiv.

Ukraine exported 5.8mn tonnes of goods worth USD 3.2bn in June, which was far below the average level of export deliveries. The critical deterioration in exports was for the Ukrainian iron ore industry which found itself trapped with excessed inventories amid the suspension of exports through the Black Sea ports due to the Russian military invasion.

Meanwhile, Ukrainian sunflower oil exports somewhat increased in June bringing in USD 437mn in the FX revenue last month for the country's agro traders.

The top 10 exported Ukrainian goods in June include sunflower oil, corn, sunflower seeds, iron ore, steel and steel products, pipes, poultry meat, pipes, and soybeans. Geographically, the exports were focused on the EU. 78% of Ukrainian exports in 2Q22 went to the EU. In the value term exports to the EU amounted to USD 6.9bn in 2Q22.

In contrast, Ukrainian exports to other destinations than the EU shrunk by 80% YoY in 2Q22 due to logistics constraints.

COMMENTARY

The reported 24% YoY drop in the value of Ukrainian exports in 1H22 has not yet reflected a full picture of the problem as normal export operations in January-February partly smoothed the data. In the volume term, the country's exports slipped by 55.6% YoY to 16.6mn tonnes in 1H22 (-20.8mn tonnes).

The main reason for these terrible export figures is the blocking of seaports by Russia. On a quarter-on-quarter basis, Ukraine's sea exports plunged by 86.5% in 2Q22 in volume terms (-21.6mn tonnes).

The inability to conduct exports through Ukrainian seaports hurts the Ukrainian economy badly. The country's iron ore mines have already announced a suspension of mining as alternative export logistics did not allow them to deliver needed volumes of products. The sharp decrease in merchandise exports has a clear negative implication on Ukraine's balance of payment leading to additional pressure on the hryvnia.

Currently, the National Bank conducts a policy of pegging the official hryvnia exchange rate to the dollar at 29.25 UAH/USD. There is no indication when the regulator will start to ease the strict capital controls as the unprecedented Russian military aggression against Ukraine continued to destroy the country's economy. Ukraine has no other way than to rely on the Western world's support in the fight for sovereignty. Ukraine got a EUR 1bn grant from Germany last week, as well as a EUR 1bn of the EU Macro-Financial Assistance, and a EUR 425mn loan from the World Bank.

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	52.4	-14.0%	620%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	25.1	-16.1%	118%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	24.2	-15.4%	65.2%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	22.9	-8.4%	58.9%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	24.8	-10.5%	36.9%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	23.0	-12.2%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	48.6	-8.1%	33.5%	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	20.6	-4.6%	53.0%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	50.6	-9.2%	32.5%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	57.0	-3.4%	19.4%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	29.0	0.0%	102%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	27.0	8.0%	115%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	31.8	-0.3%	584%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	30.0	-4.2%	81%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	53.9	-5.1%	164%	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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