

Trends

Ukraine's sovereign Eurobonds continued their massive post-COVID rally last week as risk appetite for emerging market debt among global investors improved further. Optimism grew as exit from lockdowns and easing of social distancing restrictions are underway in a large number of countries. On the other hand, there should be a clear concern regarding the increase in national fiscal deficits, as governments in both developed and emerging countries are scrambling to respond to help citizens and companies in the form of government stimulus spending.

We are increasingly confident that Ukraine's Finance Ministry will use the current favorable market conditions to place a large new Eurobond issue for at least USD 2bn. The country is now rated at 'B3' by Moody's and 'B' by Fitch.

Ukraine's longest outstanding Eurobond due in 2032 rose 1.9% to 101.8/102.8 (7.2%/7.0%) and medium-term Ukraine-25s added 0.9% to 104.0/105.0 (6.9%/6.7%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) gained 2.7% to 93.0/95.0 cents on the dollar; these securities were trading at par value prior to the COVID crisis.

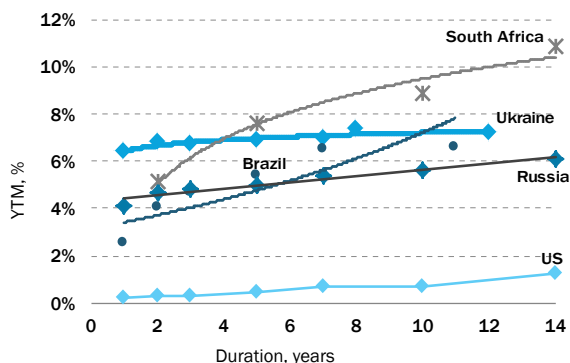
Corporate Eurobonds were mostly inactive over the week, with prices remaining virtually unchanged. MHP-29s inched down by 0.1% to close at 91.9/93.9 (7.6%/7.3%). The bonds of state-owned Ukrainian Railways with maturity in 2024 grew by 0.5% to 98.0/100.0 (10.2%/9.6%) while Metinvest-29s were flat at 91.0/93.0 (9.0%/8.6%). In quasi-sovereign banking papers, OschadBank-23s and Oschad-25s both picked up 0.3% to close at 101.8/103.8 (8.2%/6.7%) and 102.3/104.3 (8.7%/7.8%) respectively.

The Finance Ministry finally started to offer longer-maturity bonds again at its primary auction last Tuesday, with 3-year debt papers placed at 10.8%, while the yield for half-year bonds was lowered to 8.0%. The yield on the government's 1-year UAH-denominated treasuries on the secondary market was unchanged over the week at bid/ask of 10.5%/9.5%. With falling yields for the government bonds, local investors began to pay attention to attractively-priced municipal bond issues. As examples, Lviv City bonds due in 2022 have indicative quotes at 16.0%/11.5% and Kharkiv City-23s are at bid/ask of 16.5%/11.5%.

The hryvnia was stable for the week, inching up by 0.2% against the dollar to close at 26.73 UAH/USD.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at research@eavex.com.ua.

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.5%/9.5%	0.0 p.p.	-0.5 p.p.
Ukraine-2025	6.9%	-0.3 p.p.	0.3 p.p.
Ukraine-2028	7.4%	-0.3 p.p.	0.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.73	-0.2%	12.8%
EUR/UAH	29.91	-1.2%	13.2%

Source: Eavex Capital

Highlights

- US, EU Raise Pressure on Zelenskiy to Back Off Poroshenko Prosecutions

US, EU Raise Pressure on Zelenskiy to Back Off Poroshenko Prosecutions

by Will Ritter
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NEWS

The US Embassy in Ukraine criticized Ukraine's justice and law enforcement system in a statement last week, writing on its official social media page on Jun 18 that "The justice system should not be used for the purpose of settling political scores." In recent months, former President Petro Poroshenko has been facing various criminal investigations into his actions while he served as President during 2014-2019 by the Prosecutor General's office and the State Bureau of Investigations (DBR), both of which are controlled indirectly by President Zelenskiy via his power to appoint the heads of those agencies. The US statement, which did not mention Poroshenko by name, was less specific than one issued a day earlier on Jun 17 by former European Council chief Donald Tusk, who now heads the center-right European People's Party. Tusk wrote on social media that "the EPP is very concerned by political cases against former President Poroshenko. The charges should not resemble politically motivated persecution, nor be politically motivated against select political opponents". Meanwhile, Poroshenko himself used an internationally broadcast interview on Sunday (Jun 21) on the CNN television network to assert that the investigations into him by Ukrainian law enforcement bodies are related not to any accusations of corruption on his part, but to his official activities as president.

COMMENTARY

While these statements coming from the West in defense of Poroshenko are not being directly addressed to Zelenskiy, their intended audience is clear. We suppose that Zelenskiy will try to deny responsibility for these clearly politically motivated cases against Poroshenko, and it remains to be seen what levers of influence Washington and Brussels might use if Zelenskiy is unwilling or unable to pull back on the prosecutions. Zelenskiy is currently enjoying a local peak in popularity thanks to his handling of the COVID situation, but various emerging political challenges are likely to make his life more uncomfortable in the coming months: his Servant of the People party continues to fragment amid its lack of unifying ideology, Poroshenko's support as the country's main pro-Western opposition leader remains firm, a new alliance of provincial capital city mayors has been formed to oppose Zelenskiy's penchant for centralization of authority, and a modernized pro-Russian opposition party led by Latvia-based emigre Anatoliy Shariy is beginning to eat into Zelenskiy's Russophone electoral base. Meanwhile, recent domestic political commentators have hypothesized that Zelenskiy has contracted out the country's law enforcement powers to forces associated with the regime of exiled former President Yanukovich. In particular, there have been references to Andrey Portnov, the deputy head of Yanukovich's administration, as currently being a "shadow Prosecutor General" whose hand is behind the investigations of pro-Western politicians. Portnov was a powerful ally of Yulia Tymoshenko during the latter's years as prime minister in 2007-2009, who then switched sides and joined the ruling Party of Regions when Yanukovich won the presidency in 2010; after the EuroMaidan uprising in early 2014, Portnov reportedly spent the period of Poroshenko's presidency in exile in Austria. What is certain is that if Zelenskiy continues to take a hands-off approach to Ukraine's top organs of state power, that vacuum will quickly be filled by self-interested actors.

SELECTED UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds										
Ukraine, 2021	100.5	101.2	0.4%	7.4%	6.8%	7.75%	1 Sept 2021	1,409	USD	B3/B/B
Ukraine, 2025	104.0	105.0	0.9%	6.9%	6.7%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	115.2	116.2	1.4%	7.4%	7.3%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	101.8	102.8	1.9%	7.2%	7.0%	7.38%	25 Sept 2032	3,000	USD	B3//B
Ukraine, GDP-linked	93.0	95.0	2.7%				31 May 2040	3,214	USD	/B/
Corporate Eurobonds										
Kernel, 2022	99.7	101.7	0.1%	9.1%	7.7%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	99.0	101.0	-0.1%	7.3%	6.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	91.9	93.9	-0.1%	7.6%	7.3%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	54.2	59.2	-0.2%	32.4%	28.8%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	94.2	96.2	-0.1%	10.1%	9.6%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
Metinvest, 2029	91.0	93.0	0.0%	9.0%	8.6%	7.75%	17 Oct 2029	500	USD	B3/B/BB-
NaftoGaz, 2024	90.5	92.5	-0.1%	10.1%	9.4%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds										
UkrEximBank, 2022	100.1	102.1	0.4%	9.7%	7.7%	9.63%	27 Apr 2022	750	USD	B3//B
UkrEximBank, 2023	93.0	98.0	0.4%	13.2%	8.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	97.5	99.5	-0.1%	11.8%	10.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	101.8	103.8	0.3%	8.2%	6.7%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	102.3	104.3	0.3%	8.7%	7.8%	9.63%	20 Mar 2025	250	USD	B2//B

¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000202469			10.0%	9.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			10.5%	9.5%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.5%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			10.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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