

## Trends

Ukraine's sovereign Eurobonds got hammered by the global wave of selling due to the corona-virus outbreak. The longest issue, Ukraine-32s, plummeted by 19% to 84.1/86.1 (9.8%/9.4%), pushing their yield up by more than 300 basis points. Medium-term benchmark Ukraine-24s fell 10% to 97.4/99.4 (10.4%/10.1%), while the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) plunged by 25% to close at 72.0/75.0 cents on the dollar.

In Ukraine-specific news, newly appointed Prime Minister Dennis Shmygal said that he plans to fulfill all necessary IMF requirements in the next two to three weeks to receive a USD 5.5bn loan. The two key requirements include opening the land market and voting for the special banking bill, unofficially known as the "Anti-Kolomoyskiy" bill. The bill would explicitly ban the return of nationalized banks to their former owners. The bill does not target oligarch Ihor Kolomoyskiy by name, but its most likely effect would be to prevent Kolomoyskiy from regaining control of nationalized PrivatBank in case of a court decision in his favor. As for land reform, the bill is up for its decisive reading in the parliament, where MPs considered over 4,000 amendments added after the first reading. The bill is expected to pass. Due to the Zelenskiy administration's move to shake up the government earlier this month, however, the timing of any new IMF money is still difficult to predict.

Ukrainian corporate debt issues were also hit very hard. The EUR-denominated bonds of state-owned natural gas giant NaftoGaz with maturity in 2024 dropped by 12% to 89.4/91.4 (9.7%/9.3%), and the 2029 bonds of steel&mining group Metinvest sold off by a massive 14% to 85.0/87.0 (9.7%/9.3%). The Kernel-22s issue fell 7.6% to 96.0/98.0 (11.4%/10.2%).

In quasi-sovereign banking debt, UkrEximBank-23s slid 6.7% to 91.4/94.4 (13.5%/11.2%) and OschadBank-25s fell 5.7% to 97.0/99.0 (12.7%/10.8%).

The yield on the government's 1-year UAH-denominated treasuries on the secondary market shot up by 200 bps to bid/ask of 16.00%/12.00% YTM as risk-averse investors dumped the papers. The Finance Ministry cancelled its weekly bond auction, in a step to wait for investors to regain their risk appetite.

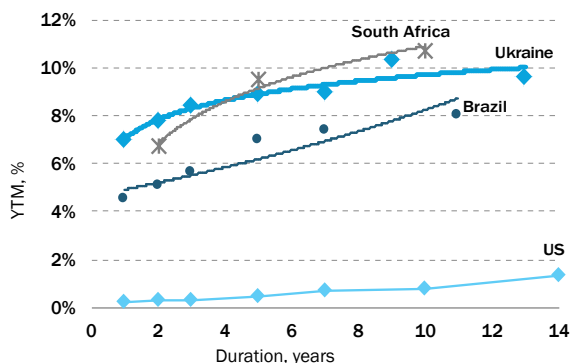
On the currency front, the hryvnia was a victim of high demand for the USD safe haven among local speculators. The national currency fell 4.3% to 26.49 UAH/USD despite the National Bank's heavy interventions using its reserves, which stood at USD 26.6bn at the beginning of the month. The NBU also made a widely expected decision to cut its key refinancing rate from 11.00% to 10.00% as it continues to implement its goal of easing monetary policy.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at [research@eavex.com.ua](mailto:research@eavex.com.ua).

## Highlights

- > Zelenskiy, Yermak Under Fire for Entering Direct Talks with DNR/LNR
- > Ukraine Headline Inflation Slows Sharply to 2.4% in February

## SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	-1.0 p.p.	-3.5 p.p.
UAH 1-year bond	16.0%/12.0%	+2.0 p.p.	+0.5 p.p.
Ukraine-2024	9.8%	4.2 p.p.	3.2 p.p.
Ukraine-2028	9.2%	2.1 p.p.	2.2 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.49	4.3%	11.8%
EUR/UAH	29.65	2.8%	12.2%

Source: Eavex Capital

## Zelenskiy, Yermak Under Fire for Entering Direct Talks with DNR/LNR

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

### NEWS

Several thousand demonstrators gathered at the presidential administration building on Sunday (Mar 15) to protest the reported decision by President Zelenskiy to open direct talks with the leadership of pro-Russian separatist groups in Donetsk and Lugansk provinces (DNR/LNR) on a wide-ranging peace deal. Up to now, Kyiv has only negotiated with the Russian government on ending the 6-year-old Donbass conflict, claiming that the DNR & LNR are entirely controlled from Moscow. Also, members of the Azov paramilitary group on Thursday (Mar 12) disrupted an event touting plans to reunite the occupied Donbass territories with Ukraine, claiming it betrayed national interests, with police making a number of arrests. The intensified Donbass negotiations are part of a plan being pursued under the leadership of new presidential administration chief Andriy Yermak.

### COMMENTARY

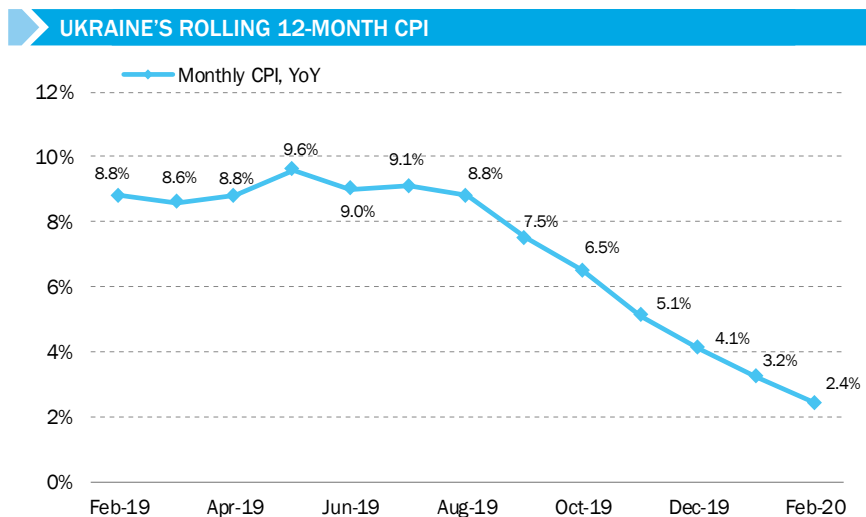
This situation in regard to conflict within Ukrainian society over Zelenskiy's and Yermak's negotiating strategy is useful for the Kremlin because it aggravates the split between Ukraine's national-patriotic electorate in the center/west of the country and the more Russia-friendly electorate in the southeast. We see a key objective of Russian policy as encouraging the complete separation of Zelenskiy from the pro-Ukrainian electorate, thus forcing him to be wholly reliant on the support of pro-Russian voters; the fact that Zelenskiy has enjoyed a certain level of bipartisan support in the opening months of his presidency has clearly been a problem for the Kremlin. The coalition opposing the Yermak-led Donbass initiative is likely to include both hard-line nationalists and pro-Western civil society groups - i.e. the two most politically active segments of the Ukrainian population. However, it is possible that a silent majority of citizens actually favor the more conciliatory approach - long a key demand of the Kremlin - of direct talks between Kyiv and Donetsk/Lugansk. We remain skeptical that there is any near-term scenario whereby the occupied territories can be re-integrated under Kyiv's control without sacrificing the overall stability of the Ukrainian state, as the price paid to Russia for regaining the Donbass will simply be too high. This is even more true now that the Zelenskiy government is facing the serious external shock of the global corona-virus outbreak; Ukraine's sovereign Eurobonds lost an astounding 19 percent of their value in last week's trading, and an absolute priority (far more important than the Donbass negotiations) must be placed on maintaining macroeconomic stability.

## Ukraine Headline Inflation Slows Sharply to 2.4% in February

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

### NEWS

Rolling 12-month consumer inflation in Ukraine slowed to a new multi-year low of 2.4% in February after 3.2% in January and 4.1% in December, according to State Statistics Committee data published last week. The CPI declined on a monthly basis by 0.3% in the period mainly on lower energy prices.



Source: State Statistics Committee

### COMMENTARY

Consumer inflation in Ukraine has been sharply decreasing since mid-2019, when it stood at a level of 9.0% YoY. However, we suppose that February could be the low-water mark for the domestic CPI index, given that global economic pessimism beyond Ukraine's control has seen the hryvnia devalue by some 10% against the major hard currencies over the past 3 weeks. Although the current economic conditions are starting to look very challenging amid risks of global recession, the large decline in oil prices should be a positive factor in helping the National Bank to stay close to its forecast of inflation of 4.8% for full-year 2020. Also working in favor of macroeconomic stability are the NBU's solid reserves of near USD 27 billion, which should allow the central bank to keep any decline in the hryvnia to a manageable level.

On a month-on-month comparison basis, the utility sector prices declined by 2.0% and the aggregate food price index edged down by 0.4% in February. Meanwhile, prices in the healthcare sector rose by 0.5% MoM and telecommunication service prices grew by 0.3% MoM.

The lower pace of inflation in February and signs of economic slowdown prompted the National Bank to cut its key refinancing rate by 100 bps from 11.00% to 10.00% on Thursday (Mar 12). The central bank continues to aim for a key rate in the range of 7%, and said it will be ready to act with further monetary easing if needed. We had anticipated that the key rate would be lowered to 9.50%.

The next meeting of the NBU Board on monetary policy issues is due on Apr 23.

**SELECTED UKRAINIAN EURO BONDS**

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>										
Ukraine, 2020	99.7	100.7	-1.7%	8.4%	6.1%	7.75%	1 Sept 2020	1,365	USD	Caa1/B/B
Ukraine, 2024	100.0	102.0	-10.2%	9.2%	8.5%	7.75%	1 Sept 2024	1,339	USD	Caa1/B/B
Ukraine, 2028	97.4	99.4	-16.7%	10.4%	10.1%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	84.1	86.1	-19.1%	9.8%	9.4%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	72.0	75.0	-25.7%	<b>1.6%</b>	<b>1.4%</b>	0.00%	31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>										
Kernel, 2022	96.0	98.0	-7.6%	11.4%	10.2%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	92.9	94.9	-7.3%	8.6%	8.2%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	89.0	90.0	-6.9%	8.1%	7.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	87.3	89.3	-9.2%	13.9%	13.2%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	86.7	88.7	-13.7%	11.9%	11.4%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
Metinvest, 2029	85.0	87.0	-13.8%	9.7%	9.3%	7.75%	17 Oct 2029	500	USD	B3/B/BB-
NaftoGaz, 2024	89.4	91.4	-12.5%	10.2%	9.6%	7.125%	19 Jul 2024	600	EUR	//
<b>Bank Eurobonds</b>										
UkrEximBank, 2022	94.4	96.4	-6.1%	16.0%	13.7%	9.63%	27 Apr 2022	750	USD	Caa3//B
UkrEximBank, 2023	91.4	94.4	-6.7%	13.5%	11.2%	9.00%	9 Feb 2023	125	USD	Caa3//B
UkrEximBank, 2025	94.6	96.6	-8.2%	13.5%	12.1%	9.75%	22 Jan 2025	500	USD	Caa3//B
Oschadbank, 2023	97.0	99.0	-6.0%	11.7%	10.3%	9.38%	10 Mar 2023	700	USD	Caa3//B
Oschadbank, 2025	97.0	99.0	-5.7%	12.7%	10.8%	9.63%	20 Mar 2025	500	USD	Caa3//B

<sup>1</sup> 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
<b>UAH denominated Bonds</b>									
UA4000202469			16.00%	12.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			16.00%	12.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			16.00%	12.00%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			16.00%	12.00%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			16.00%	12.00%	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

## Eavex Capital

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

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: office@eavex.com.ua  
Web-page: www.eavex.com.ua

Yuriy Yakovenko  
**Chairman of the Board**  
yuriy.yakovenko@eavex.com.ua

**SALES & TRADING**  
Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
p.korovitskiy@eavex.com.ua

Alexander Klymchuk  
**Equity and Fixed Income**  
a.klymchuk@eavex.com.ua

Evgen Klymchuk  
**Fixed Income Sales and Trading**  
e.klymchuk@eavex.com.ua

**RESEARCH**  
Dmitry Churin  
**Head of Research**  
d.churin@eavex.com.ua

Will Ritter  
**Research editor**  
w.ritter@eavex.com.ua

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