

## Trends

Quotes for Ukrainian sovereign Eurobonds stayed on the rise last week, but the pace of gains finally slowed from the bullish level which has been seen since early November. In major recent events, Parliament passed the national budget for next year in the final second reading. Although the deficit is projected at 5.5% of GDP, it seems that the lower interest rates both domestically and abroad should allow the government to fill the gap which, in a nominal amount, is estimated at UAH 247bn (USD 8.5bn).

In developments related to Ukrainian cooperation with the IMF, the Washington-based lender will hold talks with the Ukrainian authorities this week for a review of country's USD 5bn loan program, marking a breakthrough after months of delay.

Ukraine-32s edged up by 0.3% to 110.9 (6.0% YtM), and medium-term Ukraine-25s rose 0.4% to close at 113.0 (4.7% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were unchanged at 103.8 cents on the dollar.

In corporate debt papers, the NaftoGaz-24 EUR-denominated Eurobonds rose 0.9% to 104.0 (5.8% YtM) after the company became the full-fledged owner of Nadra Yuzivska, which owns a special permit for the Yuzivska natural gas area until 2063. The area has possible reserves of up to 3 trillion cubic meters of gas. The bonds of poultry producer MHP with maturity in 2026 edged up by 0.3% to 109.6 (4.9% YtM). Meanwhile, Metinvest-26s lost 1.2% to 111.5 (6.0% YtM).

In quasi-sovereign banking issues, OschadBank-25s increased by 0.7% to 107.5 (6.0% YtM).

The Finance Ministry raised record-high proceeds of UAH 51bn from a placement of domestic bonds at the primary auction held of Dec 15. The largest amount of UAH 11.4bn came from a placement of 7-months bonds at 10.75%. One-year bonds for UAH 6.7bn were issued at 11.56%, a yield 34 bps higher than at the previous auction. UAH-denominated bonds maturing in 2024 were sold at 12.18%. On the secondary market, the yield for 1-year debt papers on the bid side rose by 30 bps to 12.0% while the yield on the ask side remained unchanged at 10.5%.

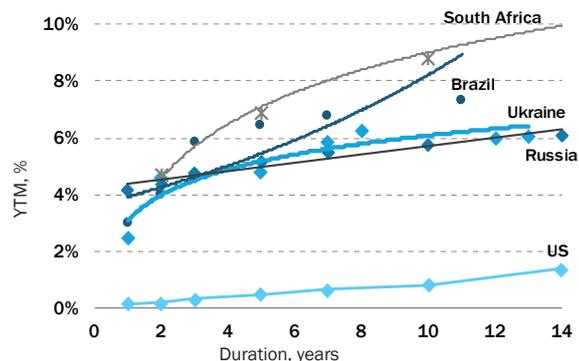
On the interbank currency market, the hryvnia edged down by 0.2% to 28.00 UAH/USD after a notable appreciation in the first half of the week in line with the historical December pattern. The National Bank stepped into the market with USD 300mn in foreign currency purchases to stop the hryvnia's rally.

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

- > Kharkiv Mayor Kernes Dies after 3-Month COVID Battle
- > 2021 Budget Forecasts 4.6% GDP Growth and Inflation of 7.3%

### 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	12.0%/10.5%	+0.1 p.p.	+1.1 p.p.
Ukraine-2025	4.7%	-0.1 p.p.	-1.9 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.9 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.00	0.2%	18.2%
EUR/UAH	34.26	1.1%	29.7%

Source: Eavex Capital

## Kharkiv Mayor Kernes Dies after 3-Month COVID Battle

by Will Ritter  
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### NEWS

Long-time Kharkiv mayor Gennadiy Kernes died on Dec 17 at a hospital in Berlin, where he had been receiving treatment for the COVID-19 virus and other ailments, domestic media reported. Kernes, 61, had been re-elected in October to a third term to lead Ukraine's second-largest city despite not having made any campaign appearances; he was last seen in public in August. This week it was revealed that he had fallen ill in September and traveled to Germany. In November, when Kernes still did not appear after his victory, rumors began to circulate about serious health problems. Kernes was previously badly injured in April 2014 when he was shot in an attempted assassination, and he had been confined to a wheelchair ever since. Kernes was first elected to the Kharkiv mayorship in 2010 after narrowly defeating current Ukrainian Interior Minister Arseniy Avakov in a bitterly contested race, and he then comfortably won a second term in 2015.

### COMMENTARY

Kernes was - literally - one of the most impressive survival stories in Ukrainian politics, running Kharkiv for nearly 10 years and playing a key role in the 2014 EuroMaidan revolution and its aftermath, which earned him the hostility of both sides in the conflict; the attackers responsible for the attempt on his life were never caught, and it remains unclear whether they represented Ukrainian nationalist forces, the pro-Russian Kharkiv People's Republic militia, or some other entity. Initially a supporter of then-President Yanukovich during the EuroMaidan events, Kernes changed sides in the midst of the Russian-sponsored separatist uprisings that took Eastern Ukraine by storm in April 2014, and became a strong backer of Ukraine's state integrity despite continuing to occupy a niche as a generally Russia-friendly politician. Kernes was reported to have good relations with President Petro Poroshenko, and he managed to coexist with his former local arch-rival Avakov heading the Interior Ministry. Kernes was not seen as an ally of current President Zelenskiy, but he seems to have done Zelenskiy a political favor by winning re-election instead of standing down and backing a different candidate of his choice; this has created an opening for Zelenskiy to install his own representative to control the city government, after Zelenskiy's People's Servant party registered a disastrous showing in the October municipal elections, not winning a single major city mayorship.

## 2021 Budget Forecasts 4.6% GDP Growth and Inflation of 7.3%

by Dmitry Churin  
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### NEWS

Ukraine's Parliament approved the country's 2021 national budget based on a 4.6% GDP growth projection next year, compared to this year's expected contraction of 5.2%, according to an official statement on Parliament's website.

The budget bill was passed with 289 votes in favor (out of 226 required; Parliament has a total of 423 MPs with 27 seats vacant).

The main parameters of the budget are the following:

- forecasted GDP growth of 4.6% YoY;
- nominal GDP of UAH 4.48tn (USD 154bn);
- total budget income of UAH 1.09tn;
- total budget expenses of UAH 1.33tn;
- a deficit 5.5% of GDP (USD 8.5bn);
- forecasted consumer inflation of 7.3% YoY;
- a forecasted average exchange rate at 29.10 UAH/USD;
- healthcare spending at 4.3% of GDP and a defence budget at 5.9% of GDP.

The bill prescribes a UAH 6,000 (USD 206) national minimum monthly wage with an embedded option to increase the minimum wage to UAH 6,500.

The bill was supported by most of the MPs from President Volodymyr Zelensky's Servant of People party (225 votes). Also, Yulia Tymoshenko's Batkivschyna party gave 12 votes. The remainder came from 11 independent MPs and from so-called business groups of MPs. The Russian-leaning Opposition Bloc and ex-President Petro Poroshenko's party European Solidarity gave no votes in favor of the bill.

### COMMENTARY

Although the budget deficit looks significant, it was agreed with the IMF experts and is supposed to be covered partly by loans from Western donors. The national budget deficit is expected to be reduced to 4.5% of GDP for 2022 and to 3.5% for 2023.

We cannot evaluate how realistic the projected budget income is, but there certainly will be challenges to refinance the country's planned debt redemptions scheduled for 2021. Ukraine is on the hook to pay USD 5.2bn in servicing and redemption of its foreign debt. Meanwhile, the country's internal debt servicing and redemptions are estimated at UAH 315bn (an equivalent of USD 11bn). However, the lion's share of internal debt is held by the National Bank and the big state-owned banks, meaning that the internal debt will likely be refinanced. The situation with external debt depends on whether Ukraine remains in the IMF program, giving Kyiv the ability to tap the international market with new Eurobond placements.

Privatization of state assets should bring in UAH 12bn (USD 410mn) to the national budget income in 2021. The privatization target can hardly be called ambitious, but even this modest sum could turn out to be unachievable for the State Property Fund. Ukraine has been trying and failing to increase proceeds from privatization for more than a decade.

**SELECTED UKRAINIAN EURO BONDS**

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>								
Ukraine, 2021	103.9	-0.1%	2.1%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	113.0	0.4%	4.7%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	123.4	1.1%	6.1%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	110.9	0.3%	6.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	103.8	0.0%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2027	106.5	0.5%	5.7%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	109.6	0.3%	4.9%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	102.7	0.2%	5.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	63.0	-3.4%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	111.5	-1.2%	6.0%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	104.0	0.9%	5.8%	7.125%	19 Jul 2024	600	EUR	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	98.7	0.0%	8.3%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	105.0	0.2%	5.4%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.7	0.2%	5.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	107.5	0.7%	6.0%	9.63%	20 Mar 2025	250	USD	B2//B

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

Source: Boerse-Berlin, Boerse-Stuttgart. cbonds, 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>									
UA4000195176			11.5%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000204556			12.0%	10.5%	n/a	n/a	S/A	17 Nov 2021	n/a
UA4000203236			12.0%	10.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.2%	10.7%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	10.7%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	11.2%	n/a	n/a	S/A	26 Feb 2025	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.0%	3.0%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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