

## Trends

Ukrainian sovereign Eurobonds finally corrected last week after a stunning global rally in emerging market bonds that began in early November after Joseph Biden won the US presidential election. The new coronavirus variant in Britain became a signal for selloffs across financial markets, including EM bonds. The main worry is that the variant is significantly more transmissible than the original strain.

In major macroeconomic statistics, there was a statement from UkrStat that the country's GDP shrank by 3.5% YoY in 3Q20, but rebounding by 8.5% compared to 2Q, which was hit hard by the strict COVID lockdown of the spring. Actual economic indicators are mostly coming in better than projected.

The long-term issue Ukraine-32s slipped by 1.3% to 109.5 (6.2% YtM), and medium-term Ukraine-25s declined by 1.1% to close at 111.8 (4.9% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were similarly down by 1.3% to 102.5 cents on the dollar.

Eurobonds of corporate borrowers were also mostly lower. NaftoGaz-24s dropped by 1.4% to 102.5 (6.2% YtM) and Metinvest-26s decreased by 0.3% to 111.2 (6.1% YtM).

In quasi-sovereign banking issues, OschadBank-23s inched down by 0.1% to 104.6 (5.4% YtM).

The Finance Ministry continued active offerings of domestic bonds to offset the national budget deficit at the end of the year. The primary auction held on Dec 22 brought in UAH 22bn in proceeds. Most of the money came from a placement of short-term bonds which could create a refinancing challenge for MinFin later in 2021. A half-year bond for UAH 3.2bn had a yield of 10.75% and a 1-year issue for UAH 5.1bn was sold at 11.62%, a yield 6 bps higher than at the previous auction. UAH-denominated bonds maturing in 2025 were sold at 12.25%. On the secondary market, the yield for 1-year debt papers was unchanged at bid/ask of 12.0%/10.5%.

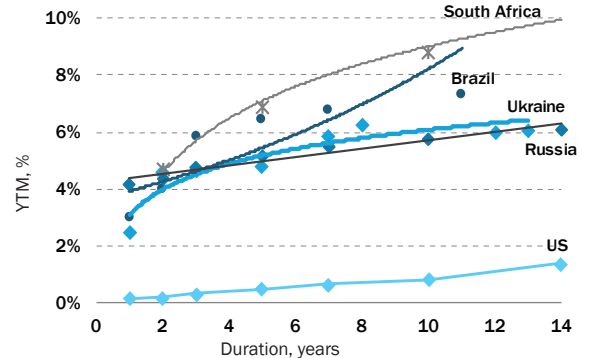
On the currency front, the hryvnia gave back its entire gain against the dollar from the preceding week, losing 1.3% to close at 28.40 UAH/USD. However, we see the national currency as having a chance to strengthen to 27.50 UAH/USD in 1Q21, as export markets have once again become favorable for Ukrainian commodities.

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

- > Former Naftogaz COO Vitrenko Named to Lead Energy Ministry
- > Ukrainian Industry Had Best Month of 2020 in November

### 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%	0.0 p.p.	+1.1 p.p.
Ukraine-2025	4.9%	0.2 p.p.	-1.7 p.p.
Ukraine-2028	6.3%	0.2 p.p.	-0.7 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.40	1.4%	19.9%
EUR/UAH	34.71	1.3%	31.4%

Source: Eavex Capital

## Former Naftogaz COO Vitrenko Named to Lead Energy Ministry

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### NEWS

Yuriy Vitrenko, a former top manager of Ukraine's state energy giant Naftogaz, was appointed as acting Energy Minister on Dec 22 by PM Dennis Shmygal after his permanent appointment to the post failed to pass a parliamentary vote earlier this month. Vitrenko previously held the titles of chief operating officer and executive director at Naftogaz from early 2014 until June of this year, when he resigned amid disagreements with his longtime ally Andriy Kobolev, who remains as Naftogaz CEO. Under the leadership of Kobolev and Vitrenko, the state company ended its long string of losses and posted bottom-line profits for three consecutive years. Vitrenko will replace Olga Buslavets, who also had held the portfolio in an acting capacity since May of this year.

### COMMENTARY

Vitrenko, aged 44, is one of the brightest reform success stories in post-EuroMaidan Ukraine, and his de-facto appointment to head Ukraine's energy sector is being well-received across the board. The resistance to Vitrenko from oligarchic interests was apparent in the parliamentary vote, in which President Zelenskiy's People's Servant party was unable to push through his candidacy despite nominally holding a comfortable majority in the chamber. While Buslavets was viewed as friendly to the interests of industrialist Rinat Akhmetov, we expect Vitrenko to emphasize a level-playing-field approach to various business groups and to prioritize overall state interests in the key economic post. Although Vitrenko's professional biography is thoroughly Western, including an MBA from INSEAD and a stint working for Merrill Lynch in London, his mother, Natalia Vitrenko, was a high-profile pro-Russian politician in Ukraine who ran for president in 1999, winning 11% of the votes. We suppose that the timing of Vitrenko's appointment - during the visit of the IMF mission to Kyiv - was not accidental, as Zelenskiy and his Chief of Staff Andriy Yermak undoubtedly understand the public relations value of this move. In addition to his management achievements, Vitrenko is also credited with spearheading Naftogaz's legal effort in the Stockholm Arbitration case against Russia, which ultimately led to a USD 2.9bn award to Ukraine from Gazprom. One of the first issues facing the new acting minister will be resolving the situation of the nearly USD 1bn in payment arrears owed by the government to renewable energy producers - a sector dominated by the country's oligarchs.

**Ukrainian Industry Had Best Month of 2020 in November**

by Dmitry Churin  
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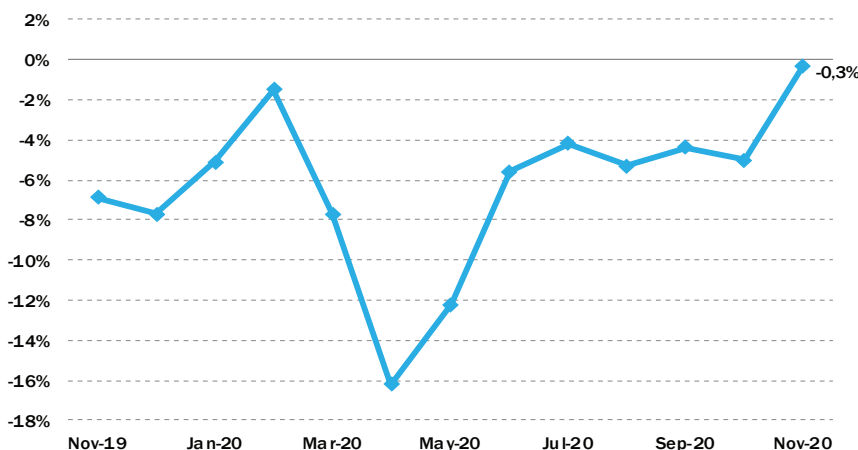
**NEWS**

The year-long decline in Ukraine’s nationwide industrial output slowed sharply to just 0.3% YoY in November, after the drop of 5.0% YoY registered for October, the State Statistics Committee (UkrStat) reported last week. The month-on-month change in November was a rise of 1.1%. In the manufacturing sector, there was a production decrease of 3.4% YoY in November, but in the utility sector there was output growth of 10% YoY, and the extraction industry demonstrated a rise of 1.1% YoY. Year-to-date through November, UkrStat’s industrial index is down by 6.2% YoY.

In other macroeconomic statistics for November, retail sales surged by 11.1% YoY and edged up by 0.2% compared to October. Year-to-date, the retail sales index is up by 7.8% YoY.

In the agro sector, aggregate output in January-November dropped by 12.4% YoY, mainly amid a lower grain harvest this year which totaled 65mn tonnes compare to the historical record harvest of 75mn tonnes seen last year.

**UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY**



Source: State Statistics Committee

**COMMENTARY**

The nearly flat year-on-year performance of Ukraine’s industrial output is the best statistic in this area registered in more than a year, since the autumn of 2019; the monthly norm has been declines of 6-7%, a phenomenon which began even before the COVID-induced recession. It appears that the resurgence in the global market for steel is finally reaping some dividends for Ukraine’s key metallurgy sector, and this can be expected to continue in the coming months. Of course, another reason for the improved year-on-year metric in November is the lower comparison base from November 2019, when the big drops in output began. We are optimistic that Ukrainian industrial production could start to show year-on-year gains in December, opening a prospect for a more or less healthy IP index rebound of 3% for 2021. Meanwhile, the machinery sector is likely to remain weak, as the domestic market has limited incentive for capital investments, while competition in machinery products on the external market has become tougher. As for retail sales, we note, as previously, that the COVID crisis seems to have done almost no damage in that sector of the economy, which has been showing extremely powerful growth in Ukraine for more than three years now.

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	103.8	-0.1%	2.1%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	111.8	-1.1%	4.9%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	121.5	-1.5%	6.3%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	109.5	-1.3%	6.2%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	102.5	-1.3%			31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>								
Kernel, 2027	106.5	0.0%	5.7%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	109.5	-0.1%	4.9%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	102.7	0.0%	5.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	62.0	-1.6%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	111.2	-0.3%	6.1%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	102.5	-1.4%	6.2%	7.125%	19 Jul 2024	600	EUR	//
<b>Bank Eurobonds</b>								
UkrEximBank, 2023	98.8	0.1%	8.3%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	105.0	0.0%	5.4%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.6	-0.1%	5.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	107.5	0.0%	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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