

Trends

The overall bullish sentiments on global financial markets helped to prop up quotes for Ukrainian sovereign Eurobonds last week. Investors are now counting on ramped-up fiscal stimulus in the US after the Democratic Party unexpectedly won control of the Senate on Jan 6 to go along with its White House victory. Currently, there is a broad opinion that in an environment of low- and even negative-yielding debt across the EU, the search for yield will intensify, with a focus on emerging market bonds, private debt, and physical assets.

In Ukrainian internal developments, the country went into its pre-scheduled lockdown for 16 days starting on Jan 8. The COVID-19 quarantine measures this month will not be as strict as during the spring lockdown in 2020. We believe that the quarantine restrictions will not hit the economic recovery too heavily, having the most negative impact primarily on the restaurant and entertainment industries.

Ukraine-28s advanced by 1.2% to 123.0 (6.1% YtM), and Ukraine-25s rose by 0.6% to close at 112.5 (4.8% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) increased by 1.8% to 104.3 cents on the dollar, a fresh all-time high for the papers, which recently moved above par for the first time.

Quotes for corporate Eurobonds were mixed, with Kernel-27s edging down by 0.2% to 106.3 (5.7% YtM) and MHP-29s rising by 0.3% to 103.0 (5.9% YtM). Metinvest-26s gained 1.1% to 112.4 (5.8% YtM) amid the continued rally in iron ore and steel prices.

OschadBank-23s were flat at 104.6 (5.4% YtM) and OschadBank-25s inched up by 0.3% to 107.8 (5.8% YtM).

The primary auction for domestic bonds held on Jan 5 brought in UAH 8.7bn to the national budget. A 1-year bond for UAH 700mn had a yield of 11.67%, which was 5 bps higher than at the previous auction. UAH-denominated bonds maturing in 2024 were sold at 12.15%. On the secondary market, the yield for 1-year debt papers on the bid side was unchanged 12.0% while the ask side rose 100 bps to 11.5%.

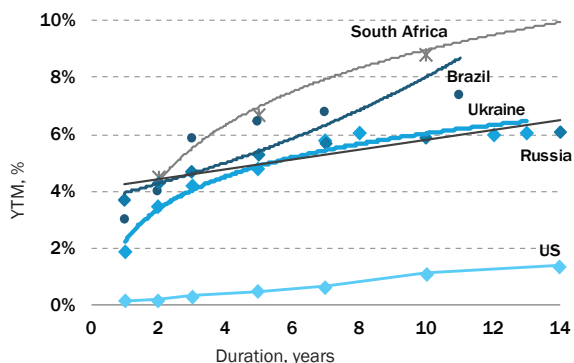
The hryvnia had an uneventful trading week, remaining virtually unchanged at 28.26 UAH/USD. The National Bank's announcement that the country's foreign currency reserves grew by USD 3.0bn in December to USD 29.1bn was clearly positive news.

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

Highlights

- > Leaked Audio Casts New Suspicion on Lukashenko in Sheremet Case
- > Ukraine Foreign Reserves Reach USD 29bn After Rising 15% in 2020

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W chg	YTD
NBU Key Rate	6.0%	0.0 p.p.	0.0 p.p.
UAH 1-year bond	12.0%/11.5%	+0.5 p.p.	+0.5 p.p.
Ukraine-2025	4.8%	-0.1 p.p.	-0.1 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.26	0.0%	0.0%
EUR/UAH	34.80	0.2%	0.2%

Source: Eavex Capital

Leaked Audio Casts New Suspicion on Lukashenko in Sheremet Case

by Will Ritter
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NEWS

An audio recording of the head of the Belarus KGB security service discussing plans to murder journalist Pavel Sheremet with a bomb has brought new scrutiny to theories that Belarus president Alexander Lukashenko may have been behind Sheremet's assassination in July 2016 in central Kyiv, in which a bomb was placed underneath his car. The audio, which was surreptitiously recorded in the office of then-KGB head Vadim Zaiytsev in April 2012, was obtained and published last week by the independent news portal EU Observer. Sheremet was a Belarusian exile and critic of the Lukashenko regime who took on a prominent role in Ukrainian media in the final years of his life. Three individuals associated with radical Ukrainian nationalist groups have been under arrest for planting the bomb for more than 2 years.

COMMENTARY

This development comes at a time when things had been improving for Lukashenko, as months of mass domestic protests against his rule have finally subsided. The release of the audio seems to bear the hallmark of an operation by a foreign intelligence service, but it is difficult to say which country could be behind it. In our view, it is equally possible that the U.S. and/or Russia might be trying to find a way to send Lukashenko to the exits. The Sheremet case, unsolved going on 5 years after the event, remains highly resonant in Ukraine and is an ongoing thorn in the side of the country's law enforcement. It reflects particularly poorly on Interior Minister Arseniy Avakov, who bridged the gap between the Poroshenko and Zelenskiy administrations to stay in his post, and was originally tasked with solving the crime. The officially-proffered explanation that the 3 arrested nationalists were trying to destabilize the domestic political situation in Ukraine by assassinating a prominent media figure remains unconvincing.

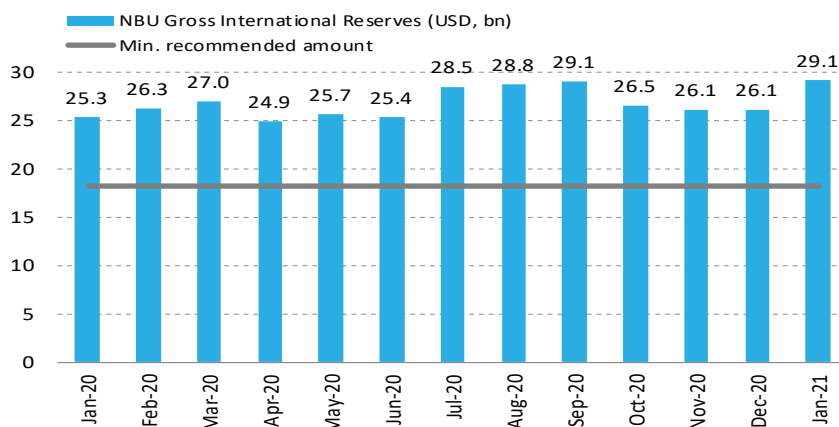
Ukraine Foreign Reserves Reach USD 29bn After Rising 15% in 2020

by Dmitry Churin
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NEWS

The Ukrainian National Bank's (NBU) foreign reserves increased by 15.1% YoY to USD 29.1bn in 2020, according to official NBU data. The reserves reached an 8-year high and now cover 4.8 months of the country's future imports, compared to the minimum 3 months of imports recommended by economic theory. The NBU's net forex purchases on the interbank market amounted to USD 1.0bn in 2020. Meanwhile, in December alone, the reserves grew by USD 3.0bn as a result of significant hard currency inflows to the government from borrowings. The government received an equivalent of USD 1.0bn from the placement of domestic USD-denominated bonds, and USD 670mn from Eurobond placements. Currently, the NBU reserves consist of USD 23.7bn of securities with credit ratings between AAA and A, USD 3.8bn of current accounts and deposits, and USD 1.6bn of monetary gold. In terms of the currency breakdown, the US dollar represents 77% of Ukraine's foreign reserves.

UKRAINE'S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

The notable rise in Ukraine's forex reserves in 2020 occurred simultaneously with the national currency moving in the opposite direction; the hryvnia devalued by 16% against the dollar last year. The currency took a hit from the COVID-related drop in economic activity and the demand for foreign currency by the government and businesses to service external debt. Although official statistics state that Ukraine's current account (C/A) balance improved to a surplus of USD 6.8bn in 11M20 compared to the C/A deficit of USD 6.2bn in 11M19, the balance of payment (BoP) turned to a deficit of USD 848mn compared to the BoP surplus of USD 2.7bn in 11M19.

Taking into account that Ukraine's overall spending on external debt servicing and repayment is estimated at USD 5.9bn in 2021, it appears that the current level of reserves should allow smooth servicing of sovereign Eurobonds, the biannual coupon payments on which are due each March and September. On the other hand, the projected national budget deficit of 5.5% of GDP for this year will put pressure on the government to raise more debt, including USD/EUR-denominated debt, and this means that in case of worsening market conditions, Ukraine would need to tap its reserves instead of finding sources to refinance the scheduled debt redemptions.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2021	103.7	-0.1%	1.9%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	112.5	0.6%	4.8%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	123.0	1.2%	6.1%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	110.2	0.6%	6.1%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	104.3	1.8%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	106.3	-0.2%	5.7%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	109.6	0.1%	4.9%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	103.0	0.3%	5.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	62.5	0.8%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	112.4	1.1%	5.8%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	104.5	2.0%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds								
UkrEximBank, 2023	99.2	0.4%	7.9%	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	0.0%	5.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	107.8	0.3%	5.8%	9.63%	20 Mar 2025	250	USD	B2//B

¹ 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
UAH denominated Bonds									
UA4000195176			11.5%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000204556			12.0%	11.5%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			12.2%	11.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.5%	11.7%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	11.7%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	12.0%	n/a	n/a	S/A	26 Feb 2025	n/a
UAH denominated Bonds									
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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