

Trends

Quotes for Ukrainian sovereign long-term Eurobonds edged lower last week. The long-term issue with maturity in 2032 declined by 0.8% to 104.1 (7.0% YtM). In political developments, President Zelenskiy is in Berlin meeting with top German figures, including outgoing Chancellor Angela Merkel and her successor as CDU party head, Armin Laschet. One of the main topics of conversation will be energy security in the context of the Nord Stream 2 gas pipeline construction. The pipeline from Russia to Europe bypassing Ukraine represents a substantial loss of income for the Ukrainian energy sector, and Zelenskiy will try to salvage some role for the existing Ukrainian gas transportation system.

The medium-term Ukraine-26s Eurobonds were unchanged at 110.5 (5.5% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) remained at 117.5 cents on the dollar, which just below their all-time high of 118.5 cents.

In the corporate debt universe, state-owned Ukrainian Railways placed a new USD 300mn 5-year Eurobond at 7.875%. The issue, which lacks an explicit state guarantee, has a spread of 240 bps over the sovereign yield curve. The achieved yield was a bit lower than the initially expected 8.1%, as the issue was twice oversubscribed. The proceeds will be used for refinancing the company's existing debt, meaning Ukrainian Railways total debt remains unchanged, while the portion of the short-term liabilities will be reduced. The company's outstanding 2024 Eurobonds (RAILUA-24s) inched down by 0.2% last week to close at 103.9 (6.8% YtM).

The primary auction for domestic bonds held on Jul 6 brought in UAH 3.1bn to the national budget, which was well below the average proceeds attracted over previous weeks. The offered yields for UAH-denominated bonds were unchanged. The 1-year bond was issued at 10.99% and the 5-year bond at 12.59%.

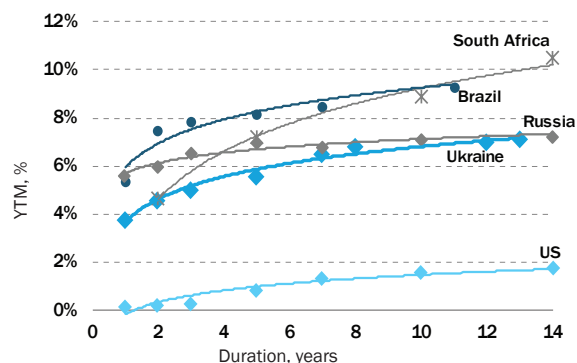
In currency trading, the hryvnia gave up 0.3% to close at 27.33 UAH/USD. The National Bank said that the country's foreign exchange reserves were at USD 28.4bn at the the beginning of July, covering 4.3-months of the country's future imports, which indicates sufficiency of the reserves' level.

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

Highlights

- > Zelenskiy Meets with Merkel, New CDU Leader Laschet in Berlin
- > Ukraine's 12M Inflation at 9.5% After Prices Rise 0.2% MoM in June

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	11.5%/11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2025	5.3%	-0.1 p.p.	0.4 p.p.
Ukraine-2028	6.6%	0.0 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.33	-0.3%	-3.3%
EUR/UAH	32.42	-0.1%	-6.7%

Source: Eavex Capital

Zelenskiy Meets with Merkel, New CDU Leader Laschet in Berlin

by Will Ritter
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NEWS

President Zelenskiy is set to hold what will likely be his last official meeting with outgoing German Chancellor Angela Merkel in Berlin today (Jul 12). On Sunday (Jul 11), Zelenskiy met in person with Merkel's successor as head of the Christian Democratic Union, Armin Laschet. Germany's federal election is due in September, with the CDU competing against the Socialist and Green parties to retain the chancellorship. In an official statement following the Laschet meeting, the presidential website wrote that Zelenskiy criticized the nearly-completed Nord Stream 2 gas pipeline between Germany and Russia, calling it a threat to European energy security. He also called for a continuation of the Merkel government's support for Ukraine against Russian aggression and non-recognition of the Russian annexation of Crimea.

COMMENTARY

With the Greens and their top-line candidate Anna-Lena Baerbock sliding in the polls recently, Ukraine's last chance to stop the commissioning of Nord Stream 2 is slipping away, as the pro-business CDU strongly favors the project. Zelenskiy's prominent meeting with Laschet appears to be an acknowledgement that the latter is likely to succeed Merkel as the head of the German government after the election. We assume that Zelenskiy's meeting with Merkel tonight will focus on ways for Ukraine to receive specific guarantees on continuing partial use of the Ukrainian gas pipeline, a commitment which Merkel has made in the past. In general, the Ukrainian media has almost entirely ignored Zelenskiy's trip to Berlin, indicating that the expectations for the meetings are rather low and that the best that can be hoped for in the post-Merkel era is a continuation of the status quo in Ukraine-Germany relations. Indeed, we think that a leftist government in Berlin could actually lead to softened support for Kyiv on the most important security-related issues, and that a CDU victory probably represents the safest, or at any rate the most predictable, outcome.

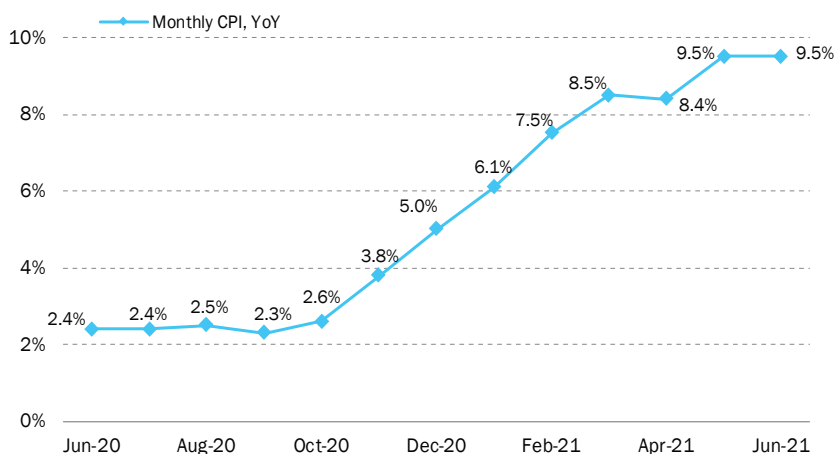
**Ukraine's 12M Inflation at 9.5%
After Prices Rise 0.2% MoM in June**

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported 12-month rolling inflation of 9.5% for June. Although the inflation index rose by 0.2% on a monthly basis, the 12-month "headline" consumer inflation was flat at 9.5% YoY compared to May. In the individual inflation basket categories, bread prices grew by 0.6% in June compared to May and meat prices increased by 0.4% MoM. On the year-on-year basis, the bread price hike was 13.9% YoY and the meat price growth was 10.4% YoY on the back of the global tendency of food price inflation.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

In the summer season the food price index traditionally declines due to lower prices for fruits and vegetables, and UkrStat registered a slight 0.2% MoM food price decrease in June. Higher costs for energy and healthcare services continue pulled the consumer inflation index to its moderate 0.2% rise for the month. Previous expectations that consumer inflation could subside in the second half of the year now look too optimistic, taking into account rallying energy and agricultural commodities prices.

We think that the current inflationary environment will prompt the National Bank to increase its key refinancing rate by 50 bps from 7.5% to 8.0% at the next monetary policy board meeting scheduled on Jul 22, and the regulator's move will probably push up the yield on domestic bonds. The Finance Ministry is offering approximately 11.0% for the 1-year sovereign UAH-denominated treasuries, and we forecast that the yield will increase by 70-100 bps to approach 12% in the near term.

SELECTED UKRAINIAN EUROBONDS								
Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	104.8	0.2%	3.7%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.5	0.0%	5.5%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	118.6	-0.1%	6.6%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.1	-0.8%	7.0%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	117.5	0.0%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	108.5	-0.3%	5.2%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.4	-0.6%	5.7%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.6	1.2%	6.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.6	-1.1%	13.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.9	0.0%	5.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.4	-0.2%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.1	0.1%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.9	-0.2%	6.8%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.1	-0.3%	7.7%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.5	-0.1%	7.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.4	-1.5%	6.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.7	-0.1%	4.9%	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			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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