

Trends

Ukrainian sovereign Eurobonds were on the rise last week as investors cheered the country's effort to reform the judicial system. Parliament adopted a key piece of legislation for the transparent selection of members of the High Council of Justice and the High Qualification Commission of Judges. Judicial reform is one of the most crucial preconditions for Kyiv to unlock financial aid from the IMF, the EU and the World Bank.

The benchmark long-term issue Ukraine-32s increased by 1.1% to 105.2 (6.8% YtM) and the medium-term Ukraine-26s Eurobonds edged up by 0.3% to 110.8 (5.3% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were unchanged at 117.5 cents on the dollar, remaining just below their all-time high of 118.5 cents.

The Eurobonds of the state-owned Ukrainian Railways (RAILUA-24s) traded at 103.9 (6.8% YtM), having no reaction to the company's 2Q21 earnings report. UkrZaliznytsa (Ukrainian Railways) posted a net profit of USD 8.2mn (at the average UAH/USD rate for the period) in 2Q21 compared to a massive net loss of USD 70mn seen a year ago. Quotes for MHP-29s dropped by 1.6% to 100.0 (6.3% YtM) ahead of the company's operational update due on Jul 21. We suspect that the company could disappoint with its 2Q sales volumes. On the upside, Metinvest-26s gained 0.3% to 108.7 (6.4% YtM).

The Finance Ministry has been offering the same yields for domestic bonds since early June. The primary auction held on Jul 13 resulted in a yield of 10.99% for the 1-year UAH bond and 12.59% for 5-year debt. Nevertheless, the yields on the secondary market continue to indicate that investors are expecting higher yields for the UAH-denominated sovereign bonds in the short term. Quotes for the 1-year bond recently grew by 25 bps to 11.75%/11.25% (bid/ask).

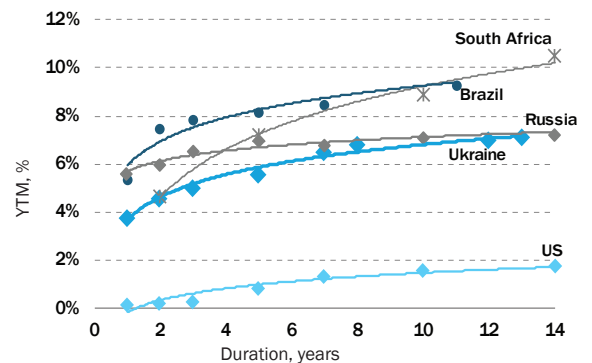
On the interbank market, the hryvnia gained 0.3% to close at 27.24 UAH/USD as exporters were selling hard currencies to pay taxes for 2Q.

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

Highlights

- > Avakov Pushed Out of Cabinet After Record-Setting 7-Year Term
- > Ukraine Moves Closer to Resuming USD 5bn IMF Deal

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	11.8%/11.3%	+0.2 p.p.	+0.3 p.p.
Ukraine-2025	5.3%	0.0 p.p.	0.4 p.p.
Ukraine-2028	6.5%	-0.1 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.24	-0.3%	-3.6%
EUR/UAH	32.14	-0.9%	-7.5%

Source: Eavex Capital

Avakov Pushed Out of Cabinet After Record-Setting 7-Year Term

by Will Ritter
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NEWS

Ukraine's longtime Interior Minister Arsen Avakov resigned on Tuesday (Jul 13), ending his run of more than 7 years in the office, making him the longest-continuously-serving Cabinet minister in Ukraine's history and the second-longest-serving top-level official after Leonid Kuchma, who served 10 years as President. The ruling Servant of the People faction quickly nominated the head of Parliament's Law Enforcement Committee, Dennis Monastirsky, as Avakov's replacement, and his nomination was confirmed by Parliament on Friday (Jul 16). Avakov had survived 5 different government shake-ups (most recently in March 2020) since first being appointed to head the Interior Ministry immediately after the EuroMaidan revolution in February 2014.

COMMENTARY

Avakov has been Ukraine's ultimate "cilovik", or power minister, since 2014. He was able to stay in his post despite being hated by several influential constituencies, including civil society activists who faulted the minister for failing to solve the 5-year-old murder of journalist Pavel Sheremet, and many nationalists who deplored his refusal to speak Ukrainian (Avakov is from Kharkiv in Eastern Ukraine). His run is perhaps even more remarkable considering that he is a member of the old-guard elite, having amassed considerable wealth while holding the (appointed) post of Kharkiv provincial governor back during the Yuschenko administration. Avakov, who built up an independent power base in 2014-15 due to his control over "volunteer" paramilitary battalions that fought in the Donbass conflict, ultimately got the better of his rival Petro Poroshenko, who as President was unable to remove him due to his dependence on Avakov's People's Front political faction; Avakov then sandbagged Poroshenko's 2019 re-election effort using his control of the police and the National Guard, in what Ukrainian analysts billed as a deal made with Poroshenko's enemies Igor Kolomoyskiy and Yulia Tymoshenko. After taking office in May 2019, President Zelenskiy said that the unpopular Avakov would remain at InMin for only 6 months, a promise which he failed to keep, and even widespread protests against Avakov in June 2020 were not enough to bring him down. However, two years into the Zelenskiy administration, new heavyweight power players have sprung up, most notably presidential administration chief Andriy Yermak and Security Service head Ivan Bakanov. Also, Zelenskiy's nominal control of nearly twice the number of MPs in Parliament as Poroshenko had, gave Zelenskiy a much stronger hand in dealing with Avakov. Domestic media had reported that a rising source of tension between Avakov and the presidential administration was the former's refusal to back the use of sanctions and asset freezes as a way of taking on Ukraine's oligarchs. The fact that Zelenskiy was able to convince Servant of the People to nominate Monastirsky, 41, to take over at InMin is a positive sign for Zelenskiy, as constitutionally it is the parliamentary faction rather than the President which has the authority to name the Interior Minister, and there have been some questions about how much influence Zelenskiy actually has over the MPs. We suppose that we have not heard the last of Avakov, who is only 57 and will bring a certain level of name recognition and respect to any political force which he joins, despite having been generally unpopular during his time in the government.

Ukraine Moves Closer to Resuming USD 5bn IMF Deal

by Dmitry Churin
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NEWS

Ukraine's Parliament passed the key bill for judicial reform in the country last week. Two crucial pieces of legislation that received final approval on Jul 13 were related to a transparent re-establishment of the High Qualification Commission of Judges and an integrity assessment of the current and future members of the High Council of Justice - two key judicial governance bodies in Ukraine. International experts will have a temporary but decisive role in line with the recommendations of the Venice Commission.

COMMENTARY

The IMF welcomed the adopted legislation, pointing out that a role for international experts when selecting members of the High Council of Justice and the High Qualification Commission of Judges is a positive signal. Ukraine needs to resume the USD 5.0bn cooperation program with the IMF, which has been stalled for a year due to Kyiv's failure to meet various reform commitments. Official IMF Spokesman Jerry Rice noted that the recent visit of a Ukrainian delegation led by Finance Minister Serhiy Marchenko to Washington was very constructive. We now believe that Kyiv will be able to unlock a new loan tranche from the IMF by the year-end, securing the hard currency inflow to cover the expected current account deficit, which we estimate at 2.3% of GDP for this year. Ukraine's overall balance of payment deficit was at USD 446mn in Jan-May, according to the latest data from the National Bank. Other issues that the IMF considers as preconditions for the loan are the effectiveness of banking system supervision and the strength of anti-corruption bodies. Ukraine is also in position to receive macro-financial assistance from the EU in the amount of EUR 600mn and a loan from the World Bank for USD 350mn after the IMF program gets back on track. The government has to repay USD 3.9bn of foreign debt in the August-December period, the lion's share of which is due in September when USD 3.0bn has to be sent to creditors amid the semi-annual block coupon payment to sovereign Eurobond holders. The National Bank had USD 28.4bn in foreign currency reserves as of the start of July, meaning the country is safe in terms of solvency. Ukraine's total state and guaranteed debt amounted an equivalent of USD 91.5bn, which corresponds to the debt-to-GDP ratio of roughly 60%. The country's total debt payments for 2022 - including both domestic and external - are estimated at near USD 15bn, underlining the need to find refinancing sources.

Meanwhile, the IMF's decision to perform a new general SDR allocation equivalent to USD 650bn to all member countries, will eventually lead to a USD 2.7bn unconditional payment to Ukraine.

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	0.0%	3.3%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.8	0.3%	5.3%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.3	0.6%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	105.2	1.1%	6.8%	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	108.3	-0.2%	5.2%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.3	-0.1%	5.7%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	100.0	-1.6%	6.3%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.7	0.2%	13.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.4	-0.4%	5.2%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.7	0.3%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.0	-0.1%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.9	0.0%	6.8%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.1	0.0%	7.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.3	-0.2%	7.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.5	0.1%	6.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.7	0.0%	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
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
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
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
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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