

Last year, corporate and sovereign issues with a junk rating below BB- and up to B- were the highest-yielders. EM bonds were the best-performing assets in the global bond market, yielding 15% on average. Country-wise, sovereign bonds of Costa Rica (BB-) (+31%), Ukraine (+30%), Senegal (+22%), Oman (+18%), Bolivia and Gazprom 2047 (+17%) were the best-performing assets. Russian sovereign bonds grew in line with Gazprom 2047, followed by Uzbekistan (+15%). Argentina (-35%) and Tajikistan (-6%) were the biggest losers.

- High-yield bonds have been in high demand since the beginning of the year, as was the case in 2019, on the back of low dollar rates and excess foreign exchange liquidity in the market
- Reassessment of the economic prospects, i.e. lowering recession risks is a key fundamental factor for the bond markets and keeping low dollar rates for full-year 2020 on hold
- Ukraine's sovereign bonds have been the top gainers among the high-yield EM bonds
- Nearly all Ukrainian bonds advanced 1.8-2.1% (the bonds' yields were down 37-40 bps) year-to-date after Gazprom paid \$2.9 bln to Ukraine at the end of 2019, as new gas supply contracts are expected to be signed soon
- We maintain a positive outlook on the Ukrainian bonds
- Naftogas 2026, sovereign Ukrainian bonds and securities of certain issuers, such as Metinvest, have been outperforming other securities in the bond market
- Naftogas bonds' prices rose more than 2%, yield dropped by 60 bps

What to buy now?

Ukraine's sovereign bonds upside assessment

- We believe that Ukraine's sovereign curve will approach closely to the sovereign curve of Belarus
- Belarus sovereign bonds is one notch higher than that of Ukraine in terms of credit quality, but the chances of Ukraine's rating upgrade are higher than those of Belarus
- Therefore, yields' downside by the end of Q1 is 60-100 bps, which implies a 3-6% price growth depending on duration

The reason for credit rating upgrade and growth of Ukraine's sovereign bonds

- Demand on risk due to upcoming U.S. - China trade agreements
- Limited supply of new issues in the bond market. The last placement took place in November 2019, but some issuers, such as Ukreximbank, Kernel and the Ukrainian Railway are placed at long intervals, and the outstanding issues amount \$18 bln, 90% of which account on sovereign issues
- International reserves of Ukraine increased five times over the last four years
- Lower local currency volatility and keeping high real rates
- Inflation drop from 9% in 2019 to 5.8%, according to the IMF forecasts
- Current account deficit reduction
- GDP growth in 2020 by more than 3%, according to the IMF forecasts, which is one of the highest rates in the CIS
- Upcoming \$1 bln tranche from the IMF and discussion of further loans

Further rating upgrades' constraints

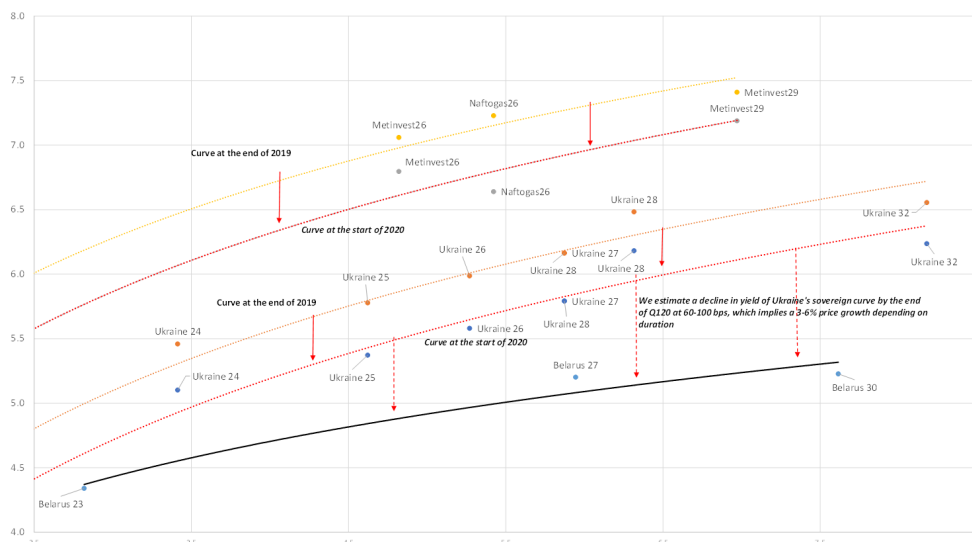
- Low reserve adequacy ratio (75%) which is coverage of short-term liabilities by international reserves
- The highest public debt/GDP ratio among CIS countries - about 70%
- Second after Georgia in terms of external debt/GDP ratio - about 92%
- Higher political risks and aggravation of relations with Russia

Ukraine's international reserves, \$ bln



Sources: Bloomberg, ITI Capital

Ukrainian yield curve, YTD



Sources: Bloomberg, ITI Capital

Other latest trade ideas

- Mexico's financial organizations, such as Unifin 2028, are also advancing
- Among our current ideas, Vedanta 24 has grown by 1.8% year-to-date. [The idea](#)

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Name	Country risk	Sector	Comp cr rating	Maturity	Currency	Coupon, %	Price, %	Yields, %	Duration, yrs	Price growth, YTD, %	Upside potential, %	
Pemex 27	AR463179 Corp	Mexico	O&G	BBB-	13.03.2027	USD	6,5	106,8	5,4	5,8	0,3%	1,0%
Credito Real 26	US924266AA50 corp	Mexico	Financial	BB+	07.02.2026	USD	9,5	116,2	6,4	2,6	1,3%	0,4%
Shyam Transport22	USY7758EEC13 corp	India	Transport	BB+	24.10.2022	USD	6,0	103,2	4,9	2,5	0,0%	1,2%
Omantel 28	AS258264 Corp	Oman	Telecom	BB+	24.04.2028	USD	6,6	106,3	5,8	6,3	-0,2%	0,8%
Drax Group	USG28296AE42 corp	UK	Energy	BB+	01.11.2025	USD	6,6	106,6	5,4	1,2	-0,2%	0,9%
Unifin 28	AZ628307 Corp	Mexico	Financial	BB	27.01.2028	USD	8,4	104,0	7,8	4,2	1,2%	1,5%
Adecoagro 27	USL0849AA47 corp	Brazil	Consumer	BB	21.09.2027	USD	6,0	101,4	5,9	4,7	0,4%	1,5%
JSW Steel 25	XS2049728004 corp	India	Mining	BB	04.04.2025	USD	5,4	101,5	5,2	4,4	0,5%	1,3%
Corecivic 22	US22025YAQ35 corp	US	Prison operator	BB	15.10.2022	USD	5,0	102,6	4,3	2,3	0,7%	2,0%
Muthoot22	ZQ215379 Corp	India	Financial	BB	31.10.2022	USD	6,1	104,4	4,7	2,5	0,1%	1,0%
Ritney Bowes 22	US724479AL44 corp	US	Technology	BB	15.05.2022	USD	4,6	101,5	4,5	2,1	0,3%	1,5%
Finstep24	AO342486 Corp	Mexico	Financial	BB-	19.07.2024	USD	8,0	98,3	8,8	3,6	4,4%	3,2%
Puma 26	XS175117604 corp	Singapore	O&G	BB-	24.01.2026	USD	5,0	94,7	6,2	5,0	0,5%	3,5%
BUKIT 22	USY71300AA84 corp	Indonesia	Mining	BB-	13.02.2022	USD	7,8	104,5	5,8	0,1	0,5%	3,7%
Turkcell25	XS1298711729 corp	Turkey	Telecom	BB-	15.10.2025	USD	5,8	104,7	5,0	4,8	1,7%	3,9%
JSL 24	USL5809PA887 corp	Brazil	Food industry	BB-	26.07.2024	USD	7,8	109,0	5,6	1,4	0,4%	1,5%
Borest22	XS1596115409 CORP	Russia	Machinery	BB-	07.04.2022	USD	6,5	104,4	4,8	2,0	0,0%	2,1%
Chelpipe 24	XS2010044548 corp	Russia	Pipe production	BB-	19.09.2024	USD	4,5	102,1	4,1	4,1	0,1%	1,3%
Ronesans23	XS1807502668 corp	Turkey	Financial	B+	26.04.2023	USD	7,3	92,1	10,4	2,8	0,2%	3,7%
Trinidad29	ZQ009425 Corp	Trinidad	Telecom	B+	18.10.2029	USD	8,9	102,6	8,7	5,8	2,2%	3,2%
Tenneco24	US88037EAJ01 corp	US	Auto parts	B+	15.12.2024	USD	5,4	93,2	7,5	4,2	-3,6%	3,3%
Wahut 24	USG9410WAA56 corp	China	Consumer	B+	01.08.2024	USD	9,1	106,8	7,4	2,9	0,4%	0,5%
Melinvest 26	AR931167 Corp	Ukraine	Mining	B+	23.04.2026	USD	8,5	109,6	6,7	4,7	1,6%	3,5%
Kosmos26	USUS007TA435 corp	Ghana	Energy	B+	04.04.2026	USD	7,1	103,0	6,7	3,5	0,3%	2,6%
Naftogas26	ZQ437664 Corp	Ukraine	O&G	B	11.08.2026	USD	7,6	107,0	6,5	5,3	4,3%	3,5%
Stillwater 25	USU85969AD24 corp	South Africa	Mining	B+	27.06.2025	USD	7,1	106,5	5,9	1,4	1,3%	0,5%
Ukraine26	AP074426 Corp	Ukraine	Sovereign	B	25.09.2032	USD	7,4	110,6	6,2	7,9	-3,2%	3,6%
Turkey 25	ED777532 corp	Turkey	Sovereign	B+	05.02.2025	USD	7,4	110,3	5,1	4,1	0,6%	3,5%
Kernel 22	XS1533923238 corp	Ukraine	Food industry	B+	31.01.2022	USD	8,8	109,2	4,4	1,8	0,6%	1,4%
Jaguar 23	EJ529182 Corp	UK	Machinery	B+	01.02.2023	USD	5,6	101,0	5,3	1,0	-0,1%	1,9%
Melinvest 29	ZR887737 Corp	Ukraine	Mining	B+	17.10.2029	USD	7,8	105,0	7,1	6,7	2,1%	3,6%
VEDL N 24	AO625249 Corp	India	Mining	B	09.08.2024	USD	6,1	92,9	6,2	3,8	1,8%	4,5%
Koks 22	AN380804 Corp	Russia	Mining	B	04.05.2022	USD	7,5	103,5	6,2	2,1	0,4%	3,6%
Aragvi24	AX960544 Corp	Moldova	Food industry	B-	09.04.2024	USD	12,0	109,0	9,5	3,2	1,7%	0,5%
Petropalovsk 22	XS1711554102 corp	Russia	Gold-mining	B-	14.11.2022	USD	8,1	105,0	6,5	2,3	1,4%	2,5%
Euro Torq22	AP638922 Corp	Belarus	Consumer	B-	30.10.2022	USD	8,8	107,3	6,2	2,0	0,0%	1,0%
Dtek24	XS1543030222 corp	Ukraine	Energy	B-	31.12.2024	USD	10,8	104,0	10,1	3,5	1,1%	3,5%
Mongolia Mining 21B-	USG61759AA70 corp	Mongolia	O&G	B-	15.04.2024	USD	9,3	92,6	11,8	3,0	0,6%	3,5%
Dtek24	XS1543030222 corp	Ukraine	Utilities	P(B)	12.11.2024	EUR	10,8	104,0	10,1	3,5	1,1%	4,5%
Teva 25	AS23483 Corp	Israel	Consumer, non-cyclical	BB	01.03.2025	EUR	4,5	100,1	4,7	4,5	0,0%	3,1%
Walnut24B+	AZ851210 Corp	Switzerland	Consumer, non-cyclical	B+	01.08.2024	EUR	6,8	107,8	5,0	1,4	0,3%	1,3%
Pemex BBB- 29	XS1824424706 corp	Mexico	O&G	BBB-	26.02.2029	EUR	4,8	106,9	3,9	7,1	0,2%	1,0%
JLR 24EURB+	XS1551347393 corp	UK	Consumer, cyclical	B+	15.01.2024	EUR	2,2	95,6	3,6	3,7	0,0%	5,2%
Netflix 29	XS1900562288 corp	US	Communication	BB-	15.05.2029	EUR	4,6	110,1	3,5	7,6	4,8%	4,8%
Intrum 27	XS2052216111 corp	Sweden	Finance	P(B)	15.09.2027	EUR	3,0	99,2	3,2	6,7	0,3%	1,0%
Seppi26	XS1961852750 corp	South Africa	Base metals	P(B)	15.04.2026	EUR	3,1	96,5	3,6	5,6	-1,9%	5,0%