

Bailout Boosts Ukraine Dollar Bonds

By [The Moscow Times](#)

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LONDON — A jump in prices of Ukraine's dollar bonds since Russia offered a \$15 billion bailout has vindicated some of the world's biggest investors who bet billions that the high-yield, high-risk creditor could avert default.

President Vladimir Putin's promise to buy Ukrainian debt in a deal dictated more by geopolitics than economics has postponed rather than eliminated the risk of Kiev defaulting.

Nevertheless, the audacity of funds such as Templeton, Fidelity, Amundi and Goldman Sachs — all of which piled into what is easily one of the world's riskiest debts — has been rewarded.

Some even stepped up their Ukrainian bond holdings when the market was falling in the second half of this year before Putin struck the deal with Ukrainian President Viktor Yanukovich on Tuesday, data shows.

Ukrainian bonds have jumped by 7 to 10 cents in the dollar and some yields have halved from recent record highs since Moscow promised to lend Kiev the \$15 billion and slash its gas import bills by about a third.

This bailout shores up Kiev's rapidly foreign dwindling exchange reserve, staves off a collapse of the hryvna currency, and should ensure repayment of about \$7 billion in foreign debt due over the coming year.

Fidelity's emerging market debt fund was among those that increased their Ukrainian holdings when the market was falling.

"We knew the fundamentals in Ukraine were subpar, and we were concerned about default risk, but the models we run look at valuation and risk premium, and those suggested we would be compensated for taking the risk," said Steve Ellis, a portfolio manager at Fidelity Worldwide Investments, which has a total \$160 billion in assets.

Ellis has invested slightly more proportionately in Ukraine than its weighting in the underlying index, and said he planned to maintain this small overweight position for now, rather than cashing in on this week's gains.

"The market has rallied significantly and as a trader you should be thinking of reducing risk after such a rally, but valuations suggest there is still a bit of value left, and we think we can squeeze out some more gains."

Details remain hazy of the Russian bailout, which aims to keep the former Soviet republic under Moscow's influence after Kiev walked away from a trade deal with the European Union.

However, the promise has boosted Ukrainian bonds across the curve and cut the cost of insuring the debt by a third in the credit default swap markets. CDS now price a 40 percent default risk over five years, versus more than 50 percent late last week, according to Markit data.

Short-dated debt, where the big funds are heavily invested, took the hardest pounding in recent weeks but are also rallying hardest. Yields on the 2014 bond, for instance, have collapsed to 8.5 percent from 20 percent-plus last week.

The 2014 bond from state energy firm Naftogaz has also jumped 10 cents in the dollar from the lows hit last week.

"From an investor's perspective it does not matter if the money comes from the IMF or the EU or Russia. As investors we look for the country to fix its financing with regard to the current account and debt repayments," said Sergei Strigo, head of emerging debt at Amundi, which has a total \$1 trillion under management.

He had expected either Russia or Europe to provide aid eventually, he said, but added: "It was a good day yesterday."

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