

# Weekly Insight

## MoF extends offering of UAH bonds

### Key messages of the today's comments

MONDAY, 30 SEPTEMBER 2024

### Ukrainian bond market

#### MoF extends offering of UAH bonds

MinFin is facing a tough bond redemption schedule in October, with total repayments far exceeding monthly average YTD. The Ministry, thus, decided to diversify the offer of UAH bonds and also plans to place USD-denominated bills almost every week.

### Foreign exchange market

#### Tax payments ease pressure on FX market

The NBU strengthened the hryvnia and decreased interventions as the hard currency deficit narrowed in the FX market.

### Economics

#### Economy maintains decent growth rate

Ukraine's GDP expanded 3.7% YoY in 2Q24. This implies a significant, albeit expected, slowdown from 6.5% in 1Q24.

### Banks' reserves market (27 September 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.00	+0bp	-700bp
ON rate (%)	12.99	-1bp	-301bp
Reserves (UAHm) <sup>2</sup>	245,484	-8.7	+3.0
CDs (UAHm) <sup>3</sup>	457,806	-2.8	-2.6

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's certificates of deposit.

Source: NBU, Bloomberg, ICU.

### Breakdown of gov't bond holders (UAHm) (27 September 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.9
Banks	780,164	+2.1	+36.2
Residents	173,753	-0.4	+41.8
Individuals	70,404	+2.3	+42.4
Foreigners	24,953	-3.3	-48.6
<b>Total</b>	<b>1,727,651</b>	<b>+0.9</b>	<b>+16.3</b>

Source: NBU, ICU.

### FX market indicators (27 September 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.1950	-0.4	+11.7
EUR/USD	1.1162	+0.0	+6.3
DXY	100.381	-0.3	-5.9

Source: Bloomberg, ICU.

### Market gov't bond quotes (30 September 2024)

Maturity	Bid (%)	Ask (%)
6 months	15.00	14.00
12 months	15.75	15.00
2 years	16.75	15.50
3 years	17.75	16.50
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## MoF extends offering of UAH bonds

MinFin is facing a tough bond redemption schedule in October, with total repayments far exceeding monthly average YTD. The Ministry, thus, decided to diversify the offer of UAH bonds and also plans to place USD-denominated bills almost every week.

In September, monthly borrowings reached a record high since the Russian full-scale invasion. Over the month, the MoF raised UAH70.4bn, including UAH46bn, US\$500m and EUR84m.

With substantial budget proceeds in September, the MoF increased rollover to 157% in 9M24 compared with 141% in 8M24. By currencies, the rollover rose from 158% in 8M24 to 185% in 9M24 for UAH debt, from 132% to 136% for USD-denominated bills and from 81% to 91% for euro.

Next month, the MoF will have to redeem UAH34bn of UAH bonds and US\$700m of FX-denominated bonds. It will also repay UAH8.1bn in UAH-denominated bonds that are linked to the US\$ exchange rate change which were issued to recapitalize state-owned Oschadbank in 2014.

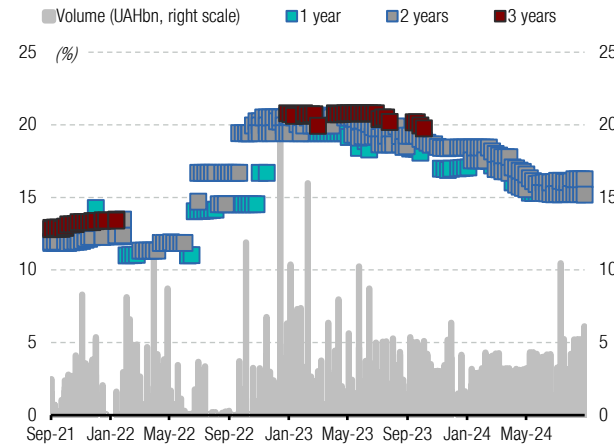
The MoF published a new auction schedule for 4Q24 and details for October. In addition to the standard list of maturities offered in recent months (one, two, three, and 3.5-year bonds), the MoF added two new tenors of 1.5 and 2.5 years. Also, the MoF will offer USD-denominated bills due in October and November 2025 at each auction in October (excluding only the tomorrow's one).

***ICU view: The MoF has significant debt redemptions in October that significantly exceed monthly volumes YTD. We don't expect any significant difficulties with refinancing. The new mandatory reserve requirements rolled out from October 11 will incentivize banks to buy new paper. Most likely, some of the new bonds will soon be added to the list of designated bonds that can be used to partly cover mandatory reserves. New reserve requirements and a wider choice of bond maturities may help the MoF fully refinance all redemptions in October and borrow some extra funds. We also expect the MoF to significantly increase the rollover rates in November and December to finance the state budget deficit.***

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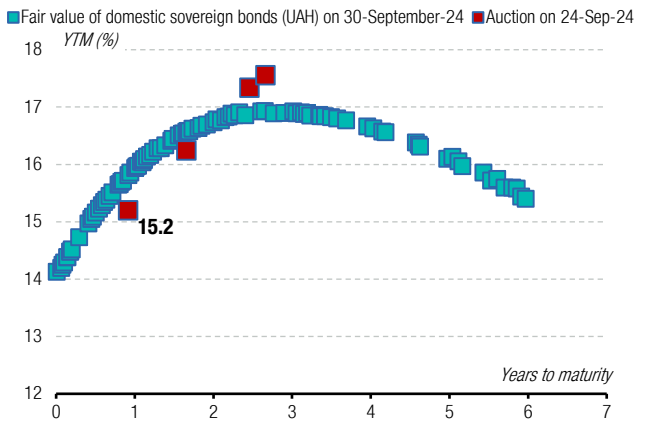
**Chart 1. Local-currency bonds**

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

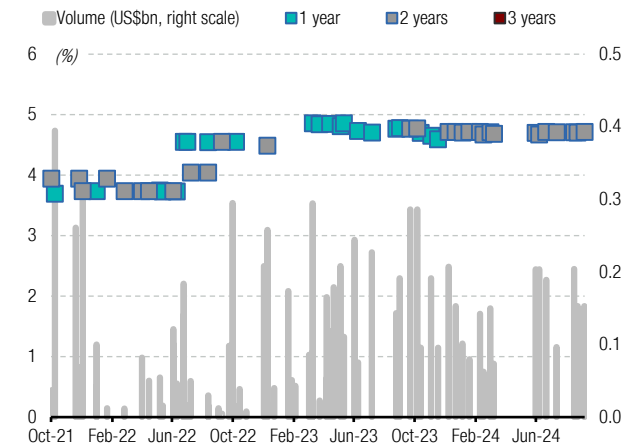
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

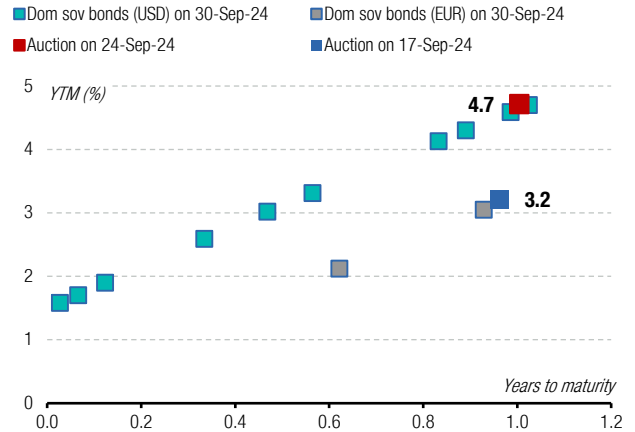
**Chart 2. FX-denominated bonds**

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

## Foreign exchange market

### Tax payments ease pressure on FX market

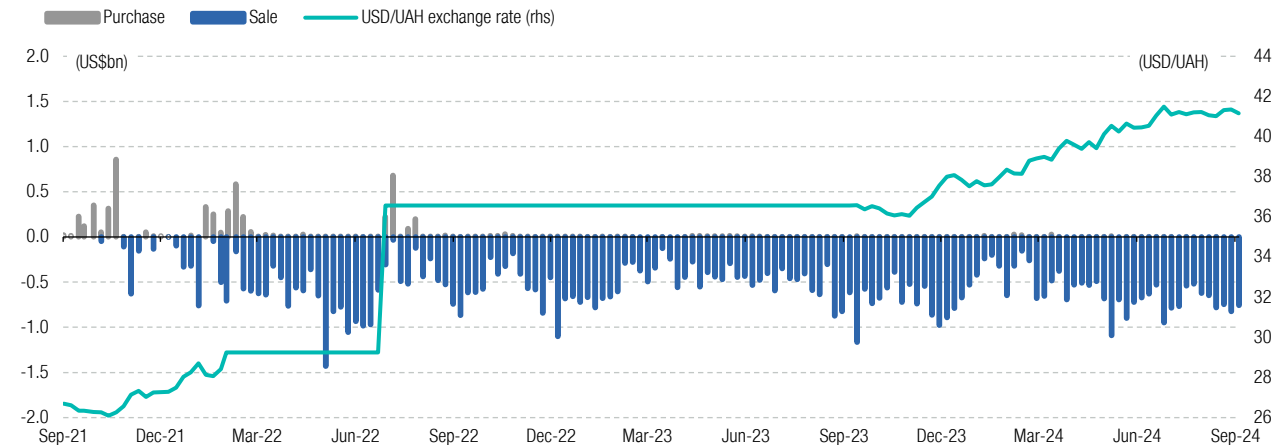
The NBU strengthened the hryvnia and decreased interventions as the hard currency deficit narrowed in the FX market.

In the interbank FX market segment, legal entities decreased purchases and increased sales of foreign currency, almost halving net purchases to US\$211m. In the retail segment, net purchases fell by 15% to US\$188m.

The total foreign currency deficit fell by a third to US\$399m, allowing the NBU to decrease interventions by 8.5% to US\$756m and strengthen the hryvnia by 0.4% to UAH41.17/US\$ last Friday. The cash exchange rate appreciated by 0.2% to UAH41-41.5/US\$.

**Chart 3. FX market indicators, 3-year history**

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

**ICU view:** Today is the last day of monthly tax payments, including VAT and excise tax. Therefore, last week, the market saw an increase in the sale of hard currency, as exporters likely needed extra UAH liquidity for tax payments. Despite that, hard currency purchases remain large, requiring significant NBU interventions each week in September, considerably above the weekly average interventions YTD. However, thanks to tax payments, the NBU decreased interventions slightly and strengthened hryvnia at the end of the month. This may somewhat improve sentiment in the FX market, but we expect the NBU will soon restart weakening the hryvnia.

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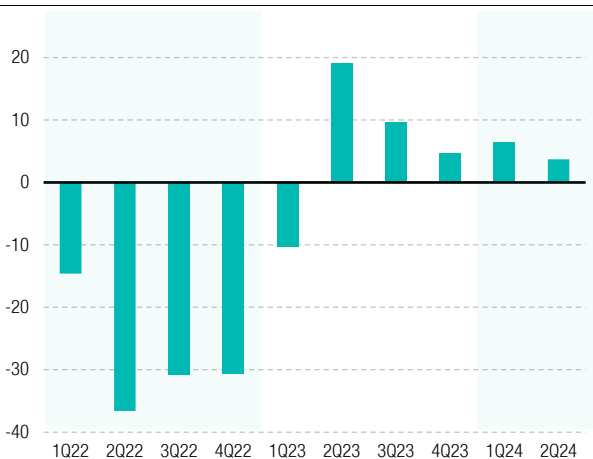
## Economics

### Economy maintains decent growth rate

Ukraine’s GDP expanded 3.7% YoY in 2Q24. This implies a significant, albeit expected, slowdown from 6.5% in 1Q24.

**Chart 4. Real quarterly GDP, change YoY, %**

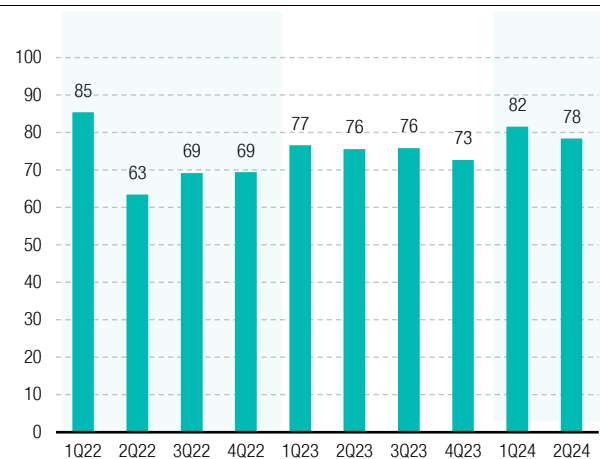
GDP decelerates to 3.7% YoY in 2Q24



Source: Ukrstat, ICU.

**Chart 5. Real quarterly GDP, % respective quarter of 2021 = 100%**

Real GDP at 78% of the pre-war level in 2Q24



Source: Ukrstat, ICU.

**ICU view:** The statistical agency did not provide a breakdown of GDP components. Yet, selected sectoral data show strong growth in freight and passenger transportation,

*retail trade and construction. Industrial production posted significant growth in April, albeit decelerated notably in May and was marginally down in YoY terms in June, likely due to the negative effects of blackouts. Demand-wise, we estimate economic growth in 2Q was driven by private household consumption and a recovery in exports. The contribution of government consumption was likely insignificant due to an ongoing fiscal consolidation. GDP growth is set to slow further in 2H due to a decline in agricultural harvest and a likely resumption of blackouts in 4Q. At this point, we remain comfortable with our full 2024 GDP growth forecast at 4.0% thanks to strong 1H numbers.*

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