

# Weekly Insight

## Military bonds in high demand

### Key messages of the today's comments

MONDAY, 21 OCTOBER 2024

### Ukrainian bond market

#### MoF receives significant demand for military bonds

Military bonds were significantly oversubscribed last week after the MoF decided to pause the offering of reserve bonds for November.

#### Eurobond prices up on positive news

Ukrainian Eurobond prices rose last week on the back of positive political and economic news, including IMF board approval of the fifth EFF programme review.

### Foreign exchange market

#### Hryvnia steady for three weeks

The NBU kept the hryvnia official exchange rate close to UAH41.2/US\$ for the third week, while decreasing weekly interventions to below US\$700m for the first time in almost two months.

### Banks' reserves market (18 October 2024)

|                              | Last    | Weekly chg (%) | YoY chg (%) |
|------------------------------|---------|----------------|-------------|
| NBU rate (%) <sup>1</sup>    | 13.00   | +0bp           | -700bp      |
| ON rate (%)                  | 13.00   | +0bp           | -300bp      |
| Reserves (UAHm) <sup>2</sup> | 268,639 | -13.0          | +23.3       |
| CDs (UAHm) <sup>3</sup>      | 438,070 | +12.6          | -5.0        |

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 govt bond holders (UAHm) (18 October 2024)

|              | Last             | Weekly chg (%) | YoY chg (%)  |
|--------------|------------------|----------------|--------------|
| NBU          | 677,606          | +0.0           | -1.9         |
| Banks        | 807,489          | +0.9           | +37.6        |
| Residents    | 152,315          | -9.2           | +22.3        |
| Individuals  | 71,469           | +4.3           | +48.1        |
| Foreigners   | 24,923           | +2.6           | -47.2        |
| <b>Total</b> | <b>1,754,384</b> | <b>+0.9</b>    | <b>+17.0</b> |

Source: NBU, ICU.

### FX market indicators (18 October 2024)

|         | Last    | Weekly chg (%) | YoY chg (%) |
|---------|---------|----------------|-------------|
| USD/UAH | 41.2446 | +0.2           | +12.5       |
| EUR/USD | 1.0867  | -0.6           | +3.1        |
| DXY     | 103.493 | +0.6           | -2.9        |

Source: Bloomberg, ICU.

### Market gov't bond quotes (21 October 2024)

| Maturity       | Bid (%) | Ask (%) |
|----------------|---------|---------|
| 6 months       | 15.25   | 14.25   |
| 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 receives significant demand for military bonds

Military bonds were significantly oversubscribed last week after the MoF decided to pause the offering of reserve bonds until November.

Last week's budget proceeds from the primary auction amounted to UAH15.6bn, including UAH13.1bn from UAH-denominated military bills. These instruments were highly oversubscribed, especially the 1.5 and 2.6-year papers, which saw 3x oversubscription. However, the Ministry sold only what it planned. Meanwhile, the placement of 12-month military bills was below the cap, as the MoF refused an increase interest rates.

Total turnover in the secondary bond market fell by 7% to UAH8bn due to smaller trading in FX-denominated bills, whose share fell to 12%.

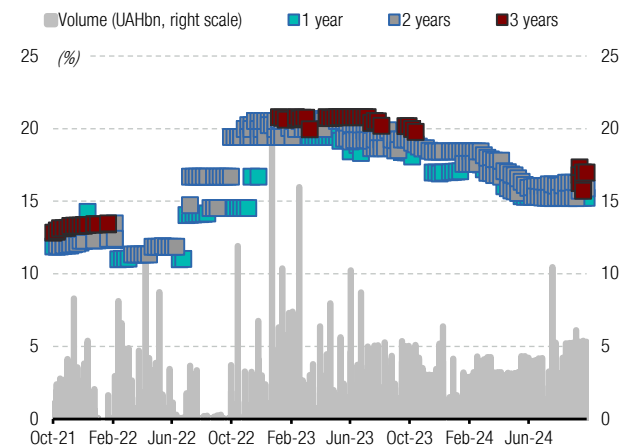
The MoF will pay UAH8.1bn this week for indexed bonds issued for Oschadbank's capitalization back in 2014, and US\$400 in expiring FX-denominated bills. However, the MoF is going to sell only US\$200m of FX-denominated bills and four UAH bonds with a cap of UAH5bn for each issue. As during the week before, most of them will be military bills.

**ICU view: The MoF is likely satisfied with both demand and budget proceeds from the placement of military bills at last week's auction and will maintain the pause in the offering of reserve bonds. This week, most of the demand will originate from banks. Next week, a much broader range of investors will bid for new papers, as the MoF is scheduled to redeem UAH bonds that are currently actively traded in the secondary bond market, which implies a diversified investor base. Last Tuesday, the MoF signaled that interest rates are very unlikely to move up visibly. Therefore, we expect interest rates can edge down in case of significant oversubscription.**

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

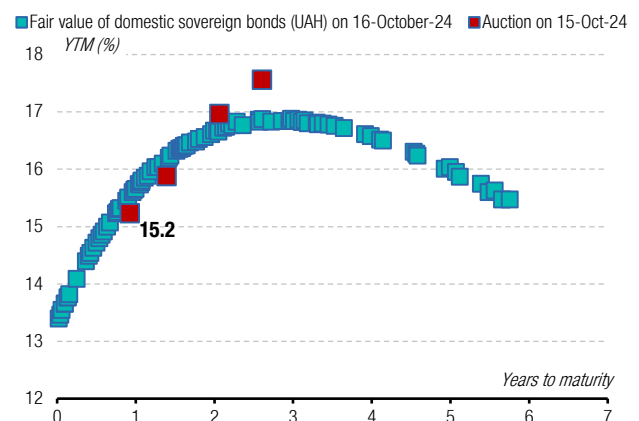
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

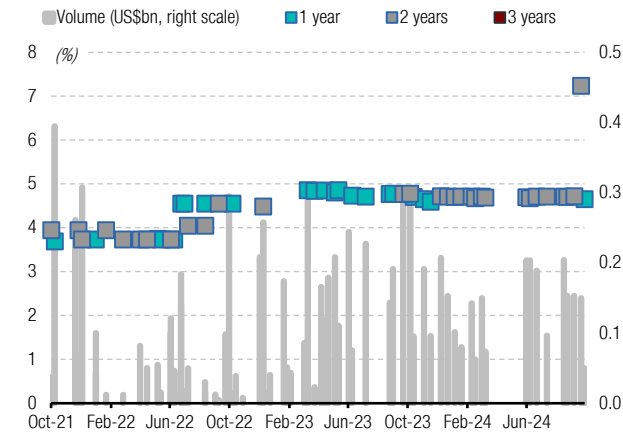
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

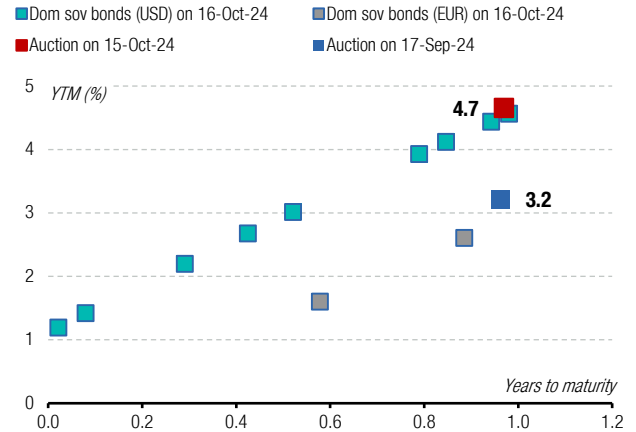
**Chart 2. FX-denominated bonds**

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.

**Eurobond prices up on positive news**

Ukrainian Eurobond prices rose last week on the back of positive political and economic news, including IMF board approval of the fifth EFF programme review.

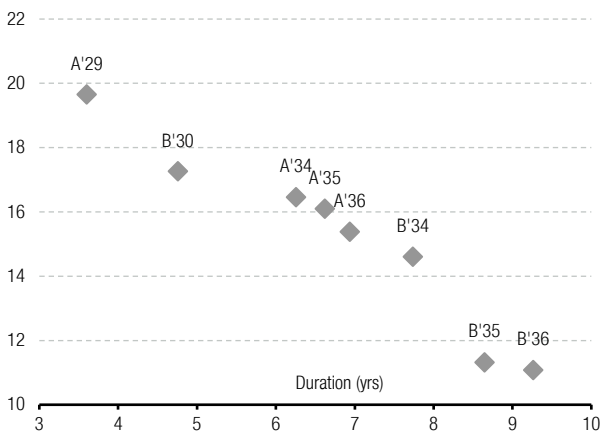
Last week, prices increased on average by 6%, and now six out of eight Ukrainian sovereign Eurobonds trade at 46-47. Step Up Bonds B, due in 2034, rose the most, by 9% to 37, while the price of Step Up Bonds A, due in 2029, remained at 57.2. The price of VRIs rose by 3% to 73 cents per dollar of notional value, the highest price since mid of February 2022. The EMBI index rose by 0.3%.

**ICU view:** The global market trend was positive for Ukrainian Eurobonds, but the main driver of prices was Ukraine-related news. For VRIs, the most important news was that a group of VRI holders chose PJT Partners Inc. as their financial advisor, so restructuring talks are likely approaching. For Eurobonds, the presentation of the victory plan and the positive impression from some of the key allies were very important. Also, at the end of last week, the IMF board expectedly completed the fifth review of the EFF programme.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

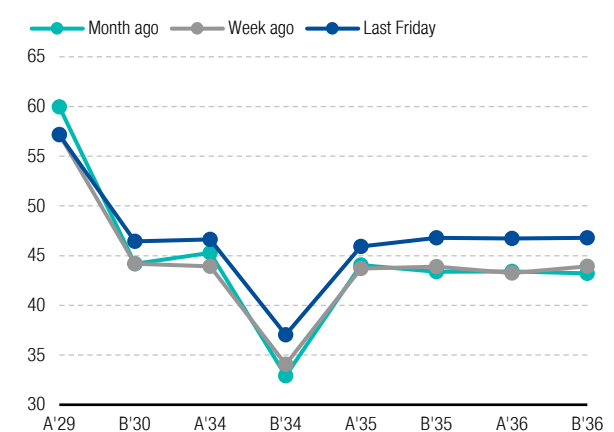
**Chart 3. Ukrainian Eurobond YTM and prices**

Eurobonds yield map



Source: Bloomberg, ICU.

Prices of Eurobonds as of last Friday, a week ago and a month ago



Source: Bloomberg, ICU.

# Foreign exchange market

## Hryvnia steady for three weeks

The NBU kept the hryvnia official exchange rate close to UAH41.2/US\$ for the third week, while decreasing weekly interventions to below US\$700m for the first time in almost two months.

Last week, the hard currency deficit declined by 16% to US\$421m, including net foreign currency purchases, which declined by 24% to US\$178m in the interbank FX market and by 8.5% to US\$243m in the retail segment.

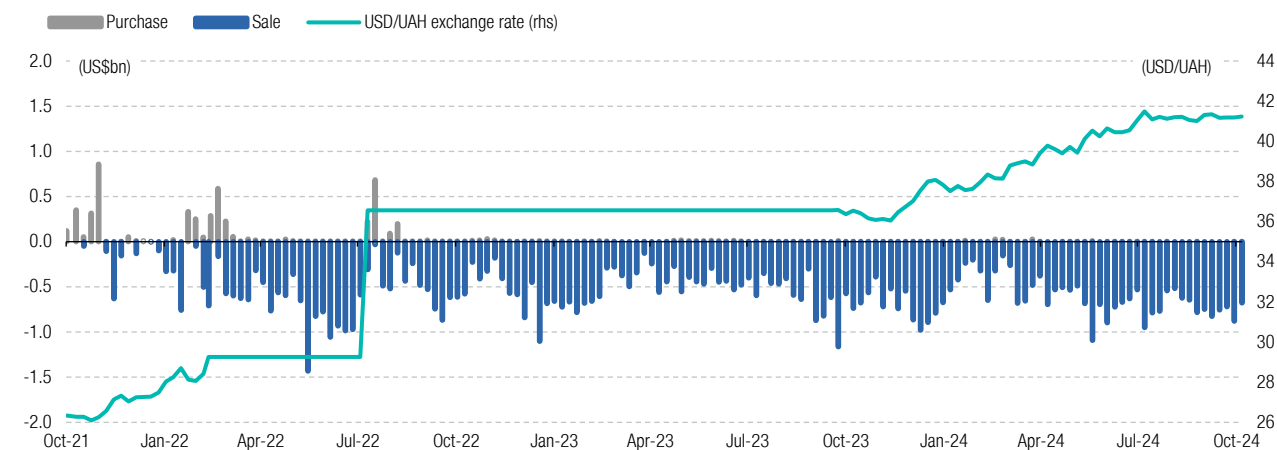
The NBU gradually reduced daily interventions last week to about US\$100m and sold only US\$677m from reserves last week, the smallest weekly amount this autumn. It kept volatility of the hryvnia official exchange rate in a narrow range and weakened it by just 0.1% to 41.23/US\$.

**ICU view: The additional demand for foreign currency to pay dividends and debt principal seems to be fading, which allowed the NBU to reduce interventions without a significant impact on the exchange rate. We see no preconditions and intention of the NBU to abandon its current practice of maintaining the hryvnia exchange rate at an approximately stable level. However, we still assume that a moderate devaluation of the hryvnia by the end of the year in the range of 2-3% remains a realistic scenario.**

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

**Chart 4. 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.

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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

WEB [www.icu.ua](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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