

# Weekly Insight

## Demand for military bonds increases

### Key messages of the today's comments

MONDAY, 28 OCTOBER 2024

### Ukrainian bond market

#### Demand for military bonds increases

The MoF saw higher demand for military bonds last week, but the conditions for rate cuts were not there. Activity in the secondary bond market also focused on military securities.

#### Eurobond prices continue to rise

Ukrainian Eurobond prices continued to rise last week. One possible reason is that investors expect the US elections to open the way to the end of the war in Ukraine.

### Foreign exchange market

#### NBU allows hryvnia to weaken

The NBU allowed the hryvnia to weaken slightly last week despite a small increase in interventions.

### Banks' reserves market (25 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.00	+0bp	-300bp
ON rate (%)	13.00	+0bp	-300bp
Reserves (UAHm) <sup>2</sup>	257,525	-4.1	+33.9
CDs (UAHm) <sup>3</sup>	462,102	+5.5	-2.7

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) (25 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.9
Banks	822,218	+1.8	+39.0
Residents	145,954	-4.2	+13.1
Individuals	68,640	-4.0	+40.5
Foreigners	24,493	-1.7	-47.8
<b>Total</b>	<b>1,759,778</b>	<b>+0.3</b>	<b>+16.7</b>

Source: NBU, ICU.

### FX market indicators (25 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.3308	+0.2	+13.0
EUR/USD	1.0796	-0.7	+2.2
DXY	104.257	+0.7	-2.1

Source: Bloomberg, ICU.

### Market gov't bond quotes (28 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

## Demand for military bonds increases

The MoF saw higher demand for military bonds last week, but the conditions for rate cuts were not there. Activity in the secondary bond market also focused on military securities.

Last week, the MoF received UAH63bn worth of bids while offering just UAH20bn and US\$200m of bonds. UAH military bonds due in May 2026 and 2027 were 4x oversubscribed, while the 12-month paper was 1.3x oversubscribed. Bids were mostly at the level close to last week's cut-off rates, so interest rates remained unchanged last week. See details in the [auction review](#).

Trading in the secondary bond market rose by 9% to UAH8.7bn. Military bonds were the most actively traded, 55% of total deals, while reserve bonds were only 24%.

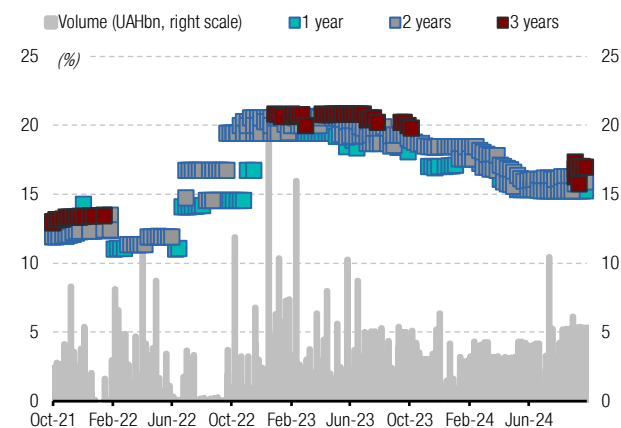
This Wednesday, the MoF will redeem about UAH20bn worth of UAH bonds. Tomorrow's offering from the MoF will be the same as last week's, and it will include the same five bonds with the same caps, including only one non-military, three-year note.

**ICU view: Despite significant oversubscription for most bonds offered in the auction, investors were not in a hurry to enter a price competition and did not allow the MoF to decrease interest rates. As the NBU does not plan to decrease the key policy rate this year, investors expect bond rates to stay little changed in the next several months. This week's redemption should support demand for new military bonds, so we anticipate that the MoF will sell all the planned military bonds.**

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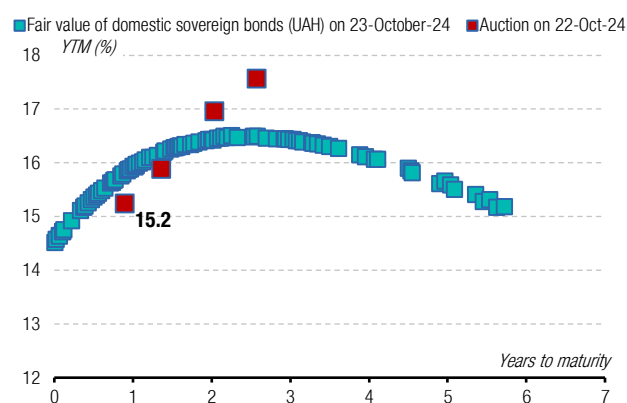
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

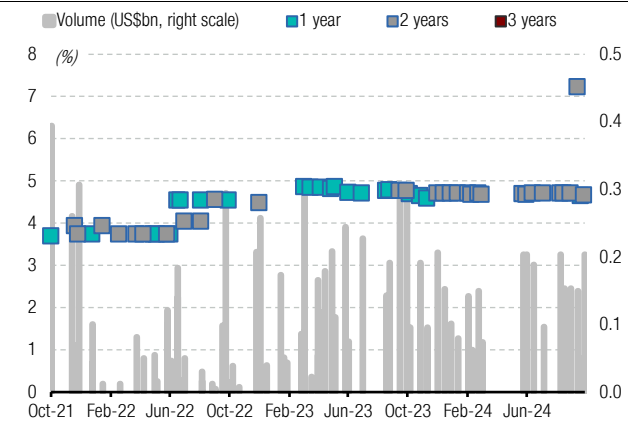
YTM's of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

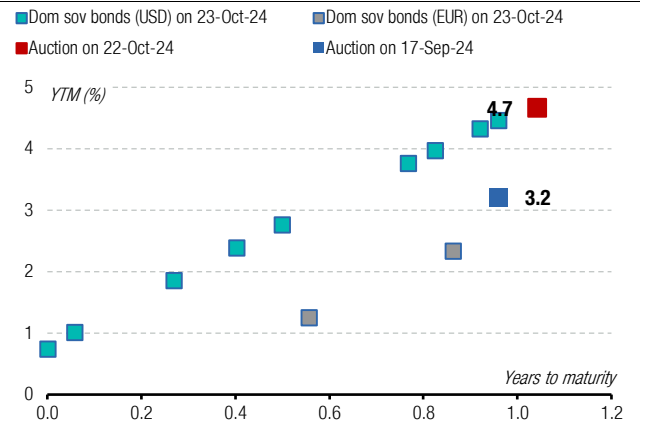
**Chart 2. FX-denominated bonds**

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

**Eurobond prices continue to rise**

Ukrainian Eurobond prices continued to rise last week. One possible reason is that investors expect the US elections to open the way to the end of the war in Ukraine.

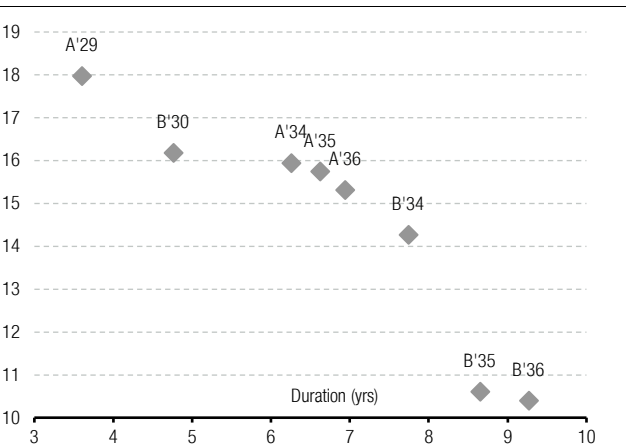
Last week, prices increased on average by 4%. Some of the bonds are quoted at 49-50, especially Step Up Bonds B, due in 2035-36, which principal may increase in 2030. The price of VRIs slid by 0.3% to 72.8 cents per dollar of notional value. The EMBI index declined by 0.8%.

**ICU view:** The US presidential campaigns approaching the end likely strengthened investors' confidence that a peace solution for Ukraine will be pursued more actively, even though the way the war ends may differ significantly depending on who wins the election. The increase in prices in Step Up Bonds B, due in 2035-36, also largely reflect expectations of a rapid economic recovery when the war ends.

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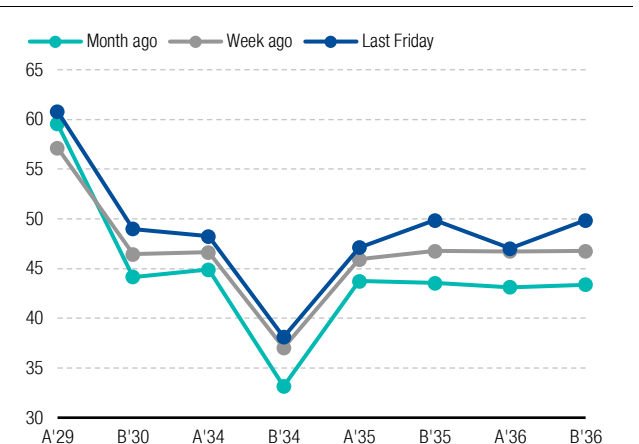
**Chart 3. Ukrainian Eurobond YTM's and prices**

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

## NBU allows hryvnia to weaken

The NBU allowed the hryvnia to weaken slightly last week despite a small increase in interventions.

The FX market deficit rose significantly. In four business days, net hard currency purchases in the interbank FX market rose by 42% to US\$254m, as bank clients (legal entities) decreased their hard currency sales by 7% to US\$874m.

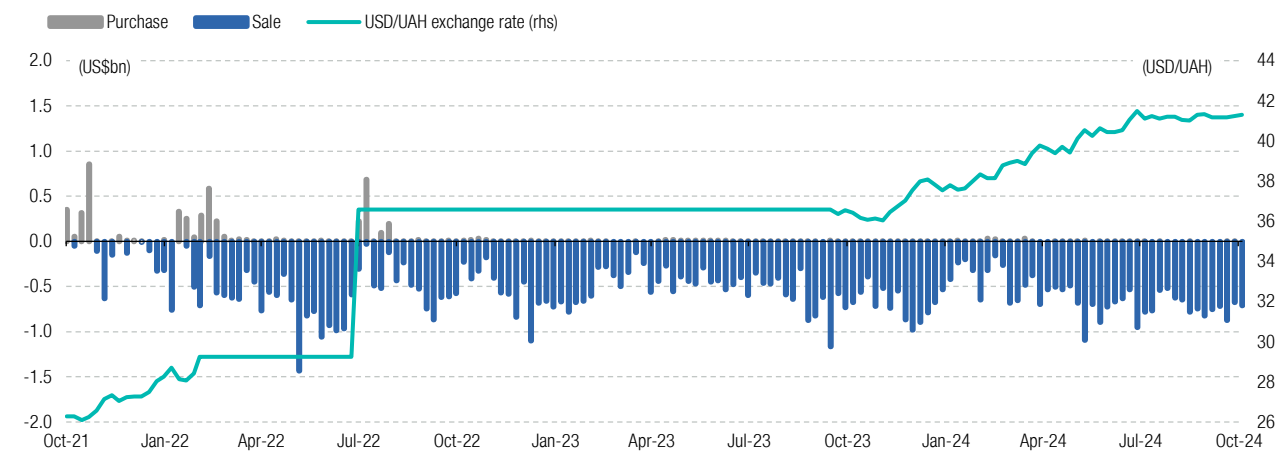
The NBU increased weekly interventions by almost 5% to US\$708m, slightly above the lowest for the two months as of a week ago. The NBU sold about US\$120-130m daily, except for Wednesday, when it sold at least US\$180m. The hryvnia official exchange rate weakened by 0.2% to UAH41.35/US\$.

**ICU view:** *The NBU did not increase its interventions significantly, allowing the hryvnia to weaken to above UAH41.3/US\$ twice last week. The increase in interventions last Wednesday may still be a signal that the NBU does not want to allow the hryvnia to weaken further. This week, the NBU can hold hryvnia fluctuations at around UAH41.3/US\$. However, we still assume a moderate devaluation of the hryvnia by 2-3% by the end of the year.*

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**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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