

# Weekly Insight

## MoF pauses offering of reserve bonds

### Key messages of the today's comments

#### Ukrainian bond market

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Despite elevated demand for reserve bonds, the Ministry of Finance postponed their further offering until December.

##### Eurobond rally suspends

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#### Foreign exchange market

##### NBU slashes interventions on a more balanced market

Lower imbalances in the interbank FX market allowed the NBU to decrease its interventions significantly.

### MONDAY, 18 NOVEMBER 2024

#### Banks' reserves market (15 November 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>	270,525	+19.0	+26.8
CDs (UAHm) <sup>3</sup>	406,281	-11.3	-16.1

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) (15 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.9
Banks	857,002	+2.4	+41.3
Residents	161,531	+8.6	+25.5
Individuals	71,548	-1.3	+45.8
Foreigners	23,353	-1.0	-48.9
<b>Total</b>	<b>1,791,812</b>	<b>+0.7</b>	<b>+17.7</b>

Source: NBU, ICU.

#### FX market indicators (15 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.3440	+0.2	+13.9
EUR/USD	1.0540	-1.7	-2.8
DXY	106.687	+1.6	+2.2

Source: Bloomberg, ICU.

#### Market gov't bond quotes (18 November 2024)

Maturity	Bid (%)	Ask (%)
6 months	15.25	14.25
12 months	15.75	14.75
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 pauses offering of reserve bonds

Despite elevated demand for reserve bonds, the Ministry of Finance postponed their further offering until December.

Last week, the MoF primarily sold military and reserve bonds. Demand declined compared with the previous auction, but exceeded the caps for most offered bonds. The MoF sold military and three-year regular bonds without changes in interest rates. At the same time, the heightened demand for reserve bonds led to a further squeeze in yields—by 50-100bp. See details in the auction review. Since the MoF resumed offering reserve bonds in August, banks purchased UAH80bn worth of such paper. The next scheduled auction with reserve bonds will be in December.

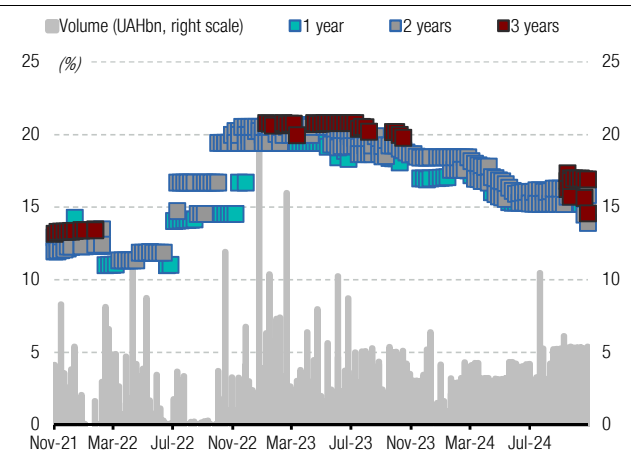
Total turnover in the secondary bond market declined by 5% to UAH9.1bn. The share of FX-denominated bonds rose a mere to 20%. Military bond trades declined to 44%, while reserve bond trades were up to 33% in total turnover.

**ICU view: The MoF most likely has enough funds to finance budget expenditures for the rest of November and does not need extra funds from reserve bonds. Therefore, they postponed further offering of these bonds until December, when they will be able to make an accurate estimate of uncovered budget needs for the remainder of the year. This week, the MoF will redeem UAH20bn worth of bonds, which will be this month's last redemption, and it may refinance these repayments with proceeds from military bonds.**

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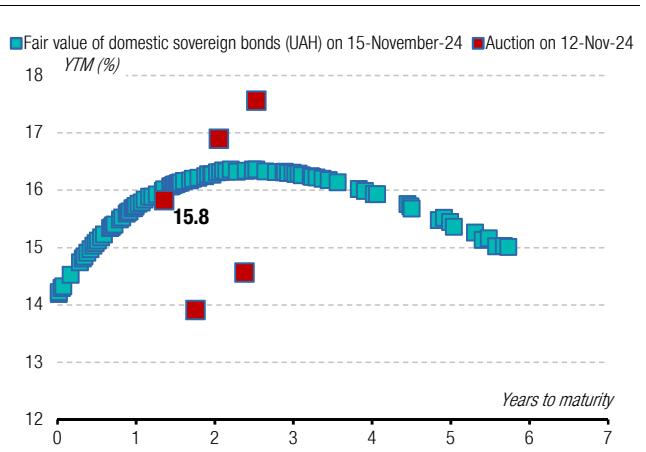
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

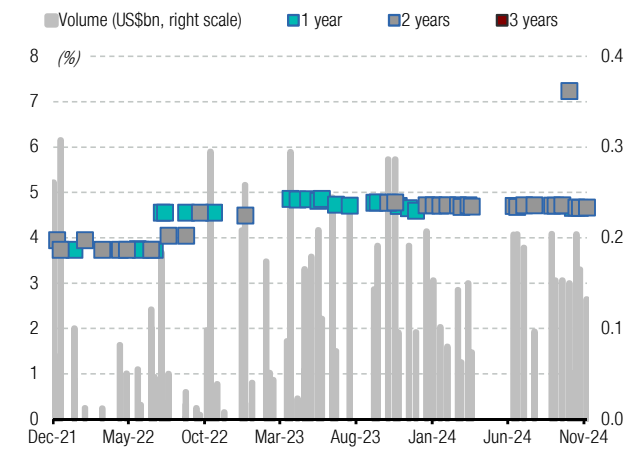
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

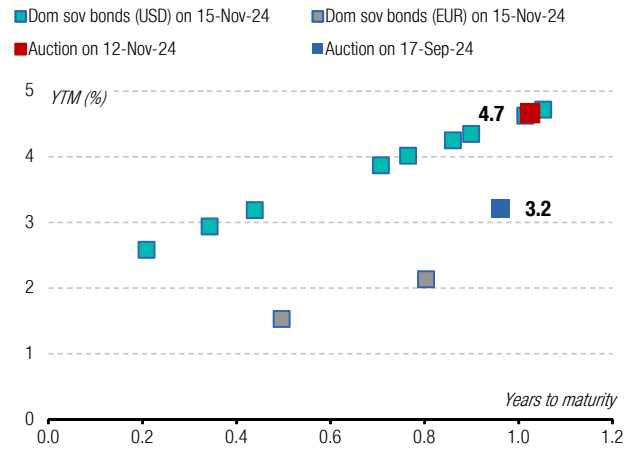
**Chart 2. FX-denominated bonds**

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 rally suspends**

Ukrainian Eurobond prices saw a mild correction last Friday after rallying to their highest levels last Thursday since the debt restructuring.

Prices rose by an average of 5% last week and by 25% since the debt restructuring. Last Friday, only Ukrain'B'34 was quoted below 50 cents. Spreads to benchmark tightened in recent weeks from 1,200–1,500bp to 1,000bp for six bonds, except conventional Bond B due in 2035–36, whose spreads tightened from over 700bp to 500bp. The EMBI index declined by 1.1% last week.

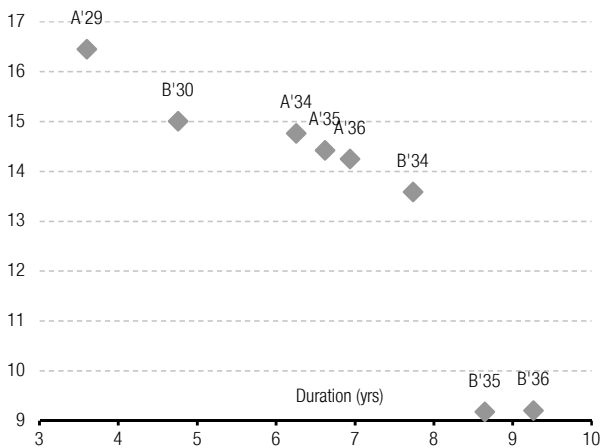
The price of VRIs rose to a new record high since the war started—almost 79 cents per dollar of notional value.

**ICU view: Eurobonds continued to rally driven by investors' optimistic expectations that security risks for Ukraine may significantly subside early next year, and Ukraine's recovery will begin after three years of full-scale war. The end to the war means faster economic growth and a better chance of recovering a third of the debt haircut. Series B Eurobonds, due in 2035–36, were quoted above 56 cents and are among the most expensive new bonds. As for VRIs, news about a possible offer to exchange warrants into conventional Step Up Bonds B maturing in 2035–36 supported price growth.**

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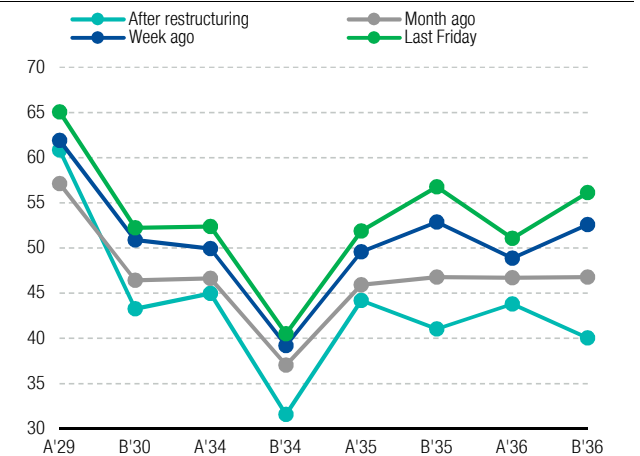
**Chart 3. Ukrainian Eurobond YTM and prices**

*Eurobonds yield map*



Source: Bloomberg, ICU.

*Eurobond prices*



Source: Bloomberg, ICU.

## Foreign exchange market

### NBU slashes interventions on a more balanced market

Lower imbalances in the interbank FX market allowed the NBU to decrease its interventions significantly.

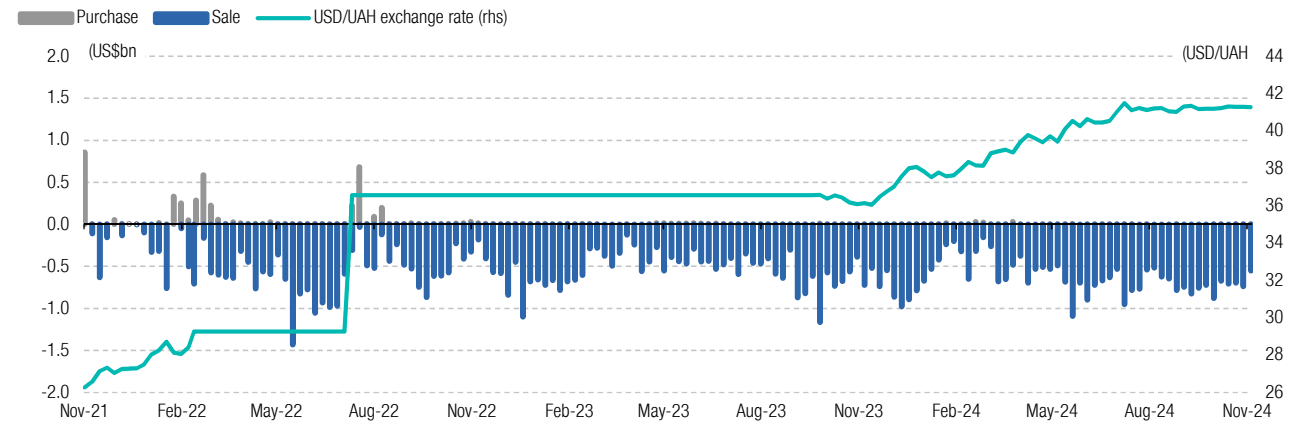
The total hard-currency deficit significantly declined last week. Net hard-currency purchases fell by 34% WoW to US\$310m, including US\$61m in the interbank segment (just one third from previous week) and US\$249m in the retail segment (up by 4%). Accordingly, NBU's interventions declined by 25% to US\$553m. However, the official hryvnia exchange rate remained almost unchanged WoW.

**ICU view:** Last week, the NBU took advantage of lower demand for foreign currency in the interbank FX market with relatively stable supply of hard currency by bank clients (legal entities). The central bank was able to significantly reduce its interventions to the lowest amount since the end of August and below the average weekly volume both this year and from the moment the NBU transitioned to a flexible exchange rate regime. The NBU may soon move to weaken the hryvnia exchange rate further to at least UAH42/US\$ 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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