Focus
Ukraine

Markets
Government bonds, FX market, and macro

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Weekly Insight

Ukraine, IMF complete 6th program review

Key messages of the today's comments

Ukrainian bond market

MoF offers new UAH-denominated notes

Last week, most of the bonds sold by the Ministry of Finance were military bonds. However, tomorrow, the MoF will offer new 3.5-year UAH notes. It is unclear whether they will be included in the list of designated reserve bonds that banks can use for mandatory reserves.

Eurobond investors' concerns ease

The news of russia using new ballistic missiles against Ukraine had little impact on the sentiment of international investors. At the end of last week when the war escalation concerns eased, Eurobond prices started to recover.

Foreign exchange market

NBU weakens hryvnia gradually

NBU kept interventions below this year's weekly average, allowing the hryvnia to weaken slightly against the background of an even smaller hard-currency deficit in the FX market.

Economics

Ukraine, IMF reach staff level agreement on 6th program review

Last week, the IMF announced it reached a staff level agreement on the 6th review of the Extended Fund Facility program. All quantitative performance criteria and structural benchmarks due for the review have been met.

MONDAY, 25 NOVEMBER 2024

Banks' reserves market (22 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	13.00	+0bp	-300bp
ON rate (%)	13.00	+0bp	-300bp
Reserves (UAHm)[2]	246,742	-8.8	+19.9
CDs (UAHm)[3]	420,012	+3.4	-11.3

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) (22 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.9
Banks	857,340	+0.0	+39.8
Residents	156,919	-2.9	+20.4
Individuals	70,481	-1.5	+42.3
Foreigners	23,501	+0.6	-48.7
Total	**1,786,533**	**-0.3**	**+16.7**

Source: NBU, ICU.

FX market indicators (22 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.4350	+0.2	+14.9
EUR/USD	1.0418	-1.2	-4.3
DXY	107.554	+0.8	+3.5

Source: Bloomberg, ICU.

Market gov't bond quotes (25 November 2024)

Maturity	Bid (%)	Ask(%)
6 months	15.25	14.25
12 months	15.75	14.75
2 years	16.75	15.75
3 years	17.75	16.65
12 months ($)	5.00	4.50
2 years ($)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF offers new UAH-denominated notes

Last week, most of the bonds sold by the Ministry of Finance were military bonds. Tomorrow, the MoF will offer new 3.5-year UAH notes.

Last week's proceeds amounted to UAH13.7bn, and most of that amount was from military bonds: above UAH5bn from each of the two UAH military bills and almost US$60m from FX-denominated paper. However, demand for regular notes due in February 2028 was low, at just 1/5 of the offer. Interest rates for all offered bonds remained unchanged from the prior week. See details in the auction review.

The secondary bond market also focused on military bills. Total trading rose by 18% WoW to UAH10.7bn, of which almost 61% were military securities.

The MoF redeemed all scheduled November debt, which caused a significant decline in the portfolios of individuals and non-financial legal entities, while banks and foreign investors increased their portfolios.

For tomorrow, the MoF announced the offering of new notes due in May 2028. The NBU may add this paper to the list of designated reserve bonds, allowing banks to use it to cover mandatory reserves. Also, this paper may become an alternative to notes due in February 2028.

ICU view: The MoF extends the UAH bonds offering with longer maturity. This paper may see significant demand, as the MoF may propose that the NBU add this paper to the list of reserve bonds. Interest rates for new notes may be very close to the rates on three-year notes. With regard to reserve bonds, we expect their offering to be resumed in December after the MoF is able to make an accurate estimate of uncovered budget needs for the remainder of the year.

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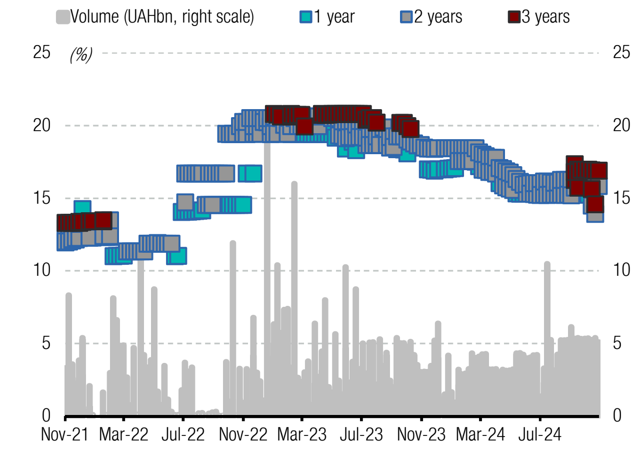
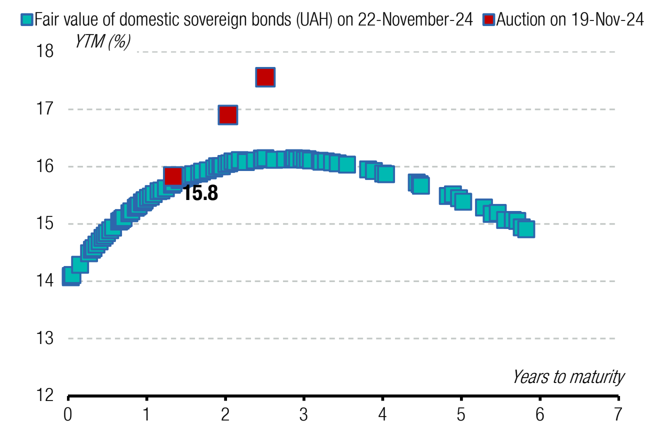
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

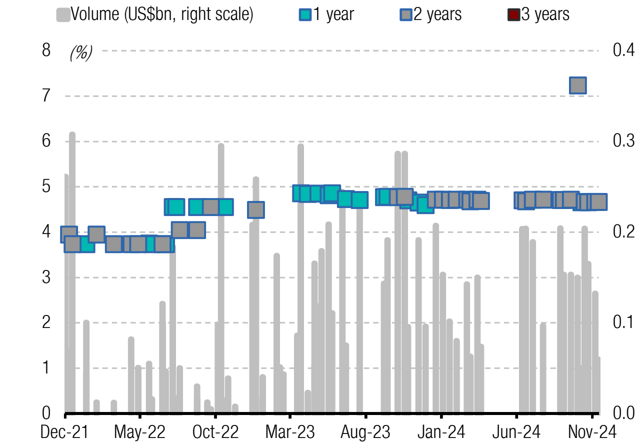
YTMs of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

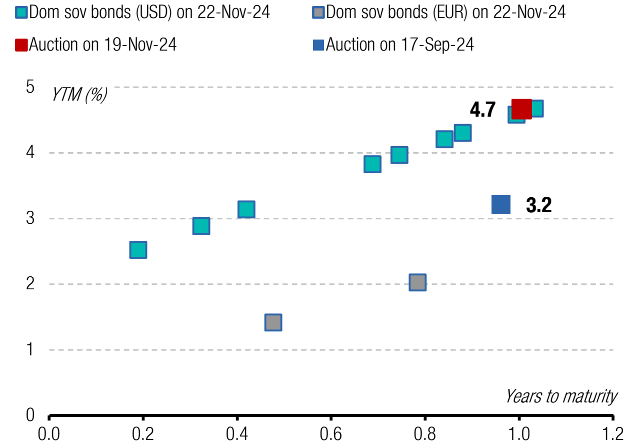
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond investors' concerns ease

The news of russia using new ballistic missiles against Ukraine had little impact on the sentiment of international investors. At the end of last week when the war escalation concerns eased, Eurobond prices started to recover.

Prices for most Ukrainian Eurobonds declined last week. For the greater part of the week, all prices were trending down, but, nonetheless, nearly fully made up for the losses last Friday. Finally, prices of UKRAIN'B'35 and UKRAIN'B'36 rose by 3-4% last week, almost reaching 60. The EMBI index rose by 0.5% last week.

ICU view: Initially, investors were alarmed by the permission for Ukraine to use Western weapons to strike military targets on russian territory, which caused a correction in Eurobond prices. However, subsequent developments were largely ignored by the market. Some commentators noted that the use of long-range weapons by Ukraine to hit targets on russian territory may open the way for ceasefire negotiations. Accordingly, a ceasefire may increase the chances of recovering part of the debt written off in August of this year.

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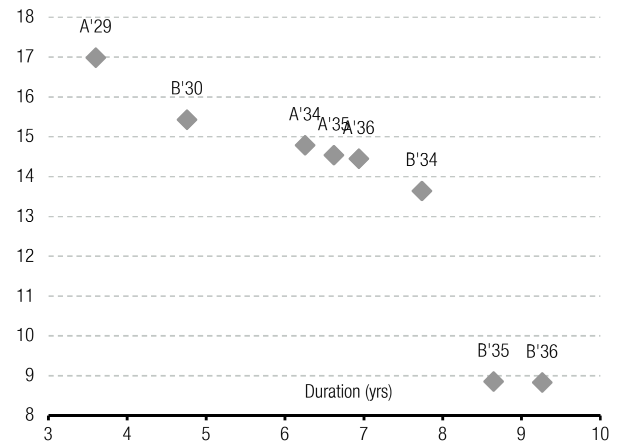
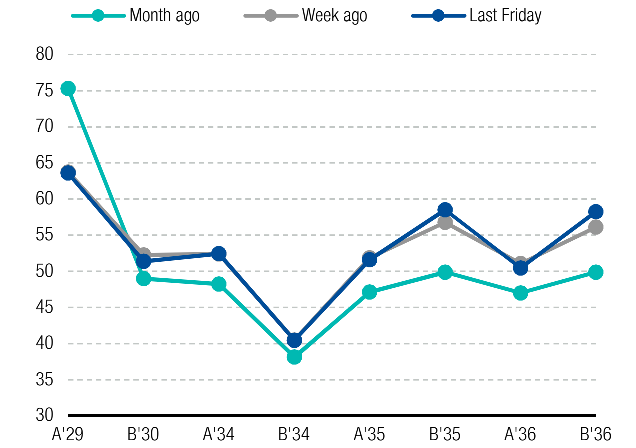
Chart 3. Ukrainian Eurobond YTMs and prices

Eurobonds yield map



Source: Bloomberg, ICU.

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



Source: Bloomberg, ICU.

Foreign exchange market

NBU weakens hryvnia gradually

NBU kept interventions below this year's weekly average, allowing the hryvnia to weaken slightly against the background of an even smaller hard-currency deficit in the FX market.

The total hard-currency deficit significantly declined last week. Net hard-currency purchases fell by 6% WoW to US$290m, including US$59m in the interbank segment (lower by 4% WoW) and US$231m in the retail segment (down by 4%). However, the NBU increased interventions by 7% to US$590m, keeping them below this year's weekly average.

The official exchange rate fluctuated in a tight range around UAH41.3/US$ and weakened by 0.1% to UAH41.32/US$ until the end of last week.

ICU view: The hard currency shortage in the interbank segment declined below US$100m last week, a level not seen since this spring. However, the retail segment continued to be a drag on the market. The NBU kept its interventions high, but slightly below this year's weekly average, allowing the hryvnia to fluctuate below July and this month's highs (UAH41.49/US$ and UAH41.45/US$, respectively) at around UAH41.3/US$ with an insignificant weakening WoW. The NBU may further weaken the hryvnia exchange rate to at least UAH42/US$ by the end of the year.

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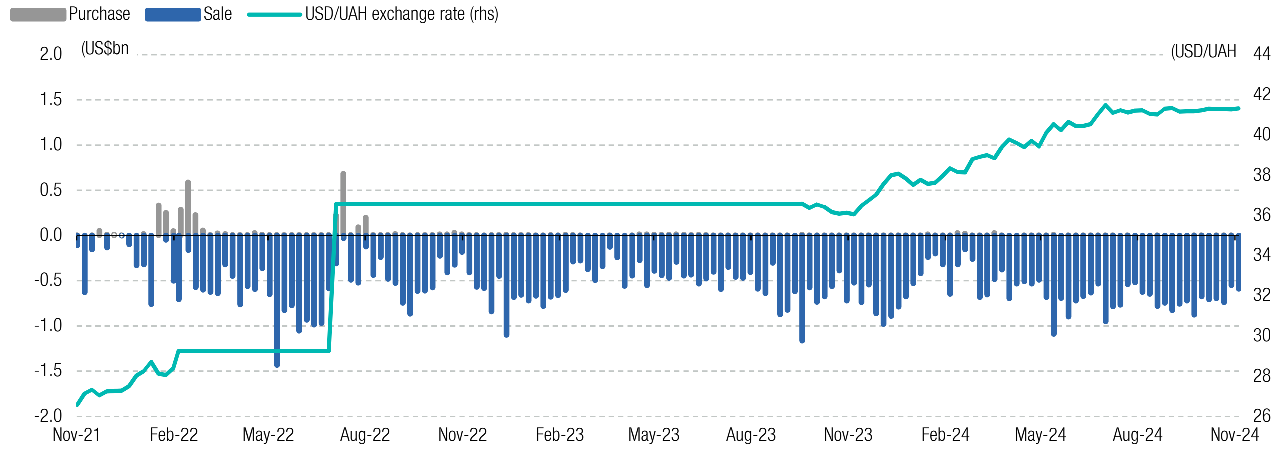
Chart 4. FX market indicators, 3-year history

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



Source: NBU, Bloomberg, ICU.

Economics

Ukraine, IMF reach staff level agreement on 6th program review

Last week, the IMF announced it reached a staff level agreement on the 6th review of the Extended Fund Facility program. All quantitative performance criteria and structural benchmarks due for the review have been met.

The IMF emphasized the continued resilience of the Ukrainian economy against the backdrop of unprecedented challenges. The Fund upgraded its forecast for economic growth to 4% in 2024, but lowered the rate to 2.5-3.5% for 2025, which reflects shortages of labor and damages to the energy infrastructure. The 2025 state budget envisages a deficit of 19% of GDP, and is assessed as being in line with the program parameters. Yet, the IMF made it clear that the recently adopted tax package (expected to generate revenue of about 1.6% of GDP) must be enacted before the Board approves the review. Foreign financial support will remain critical to Ukraine's macroeconomic stability. The final approval of the staff assessment by the IMF board will open a way for a USD1.1bn loan tranche for Ukraine. This will bring total disbursement under the program to US$9.8bn out of US$15.6bn scheduled for the full length of the program.

ICU view: The successful completion of the 6th program review was broadly expected by the market. As no negative surprises materialized, we don't expect any delays with other financial aid packages from the EU, the US, and other international partners.

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