

Weekly Insight

MoF refreshes offering of military bonds

Key messages of the today's comments

MONDAY, 2 DECEMBER 2024

Ukrainian bond market

Domestic debt rollover slightly up in November

Borrowings by MoF declined in November vs October, but domestic debt rollover rose slightly on significantly lower redemptions.

MoF refreshes offering of military bonds

Last week, the MoF sold a new 3.5-year UAH note and from this week for all further offerings it replaces all military bonds with new securities.

Eurobond investor optimism cools

Last week, fluctuations in Eurobond prices were insignificant, as there was no critical news about Ukraine.

Foreign exchange market

NBU renews hryvnia weakening

Last week, the NBU allowed the hryvnia to weaken to a new record low.

Banks' reserves market (29 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	13.00	+0bp	-300bp
ON rate (%)	13.00	+0bp	-300bp
Reserves (UAHm) ²	242,353	-1.8	+17.6
CDs (UAHm) ³	450,044	+7.2	-10.4

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) (29 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.8
Banks	870,228	+1.5	+40.5
Residents	161,816	+3.2	+25.9
Individuals	72,895	+3.4	+45.7
Foreigners	23,268	-1.1	-45.8
Total	1,806,500	+1.1	+17.9

Source: NBU, ICU.

FX market indicators (29 November 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.6057	+0.4	+14.3
EUR/USD	1.0577	+1.5	-3.6
DXY	105.737	-1.7	+2.9

Source: Bloomberg, ICU.

Market gov't bond quotes (2 December 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

Domestic debt rollover slightly up in November

Borrowings by MoF declined in November vs October, but domestic debt rollover rose slightly on significantly lower redemptions.

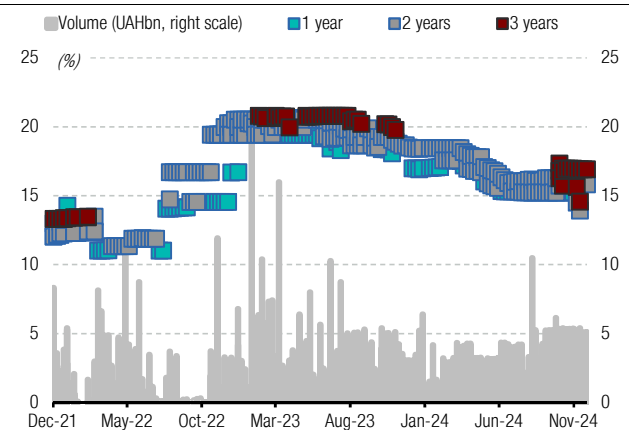
The MoF borrowed UAH79bn in November, 23% less than a month before, including UAH71bn and US\$188m. At the same time, the MoF repaid UAH30bn and US\$287m in November, which is just 60% of redemptions in October. Therefore, the total rollover rate for the domestic debt was 188% in November and 157% in 11M24, up by 4pp compared with 10M24. Rollover for UAH-denominated debt was 237% in November and 188% in 11M24, up from 181% in 10M24. The rollover for USD-denominated debt was at just 65% in November, implying the 11M24 rollover was down to 113% from 119% in 10M24. The rate for EUR-denominated debt remained unchanged at 83% for the fourth month, as there were neither repayments nor borrowings in euros.

ICU view: The MoF continues to borrow substantially more than what is needed to refinance maturing debts, and clearly prefers borrowings in local currency. In December, the MoF plans to redeem several bonds worth UAH25bn, less than the monthly average redemptions this year. As there is no redemption in foreign currencies this month, the MoF only plans to offer UAH bonds. Therefore, we anticipate rollover rates going up in December for UAH debt and in total, while they will remain unchanged for debt in hard currencies.

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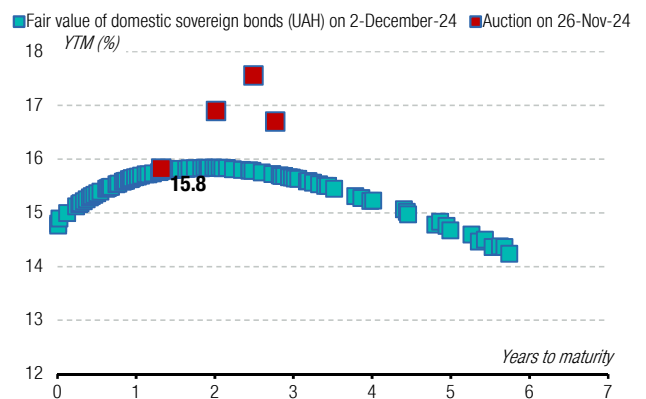
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

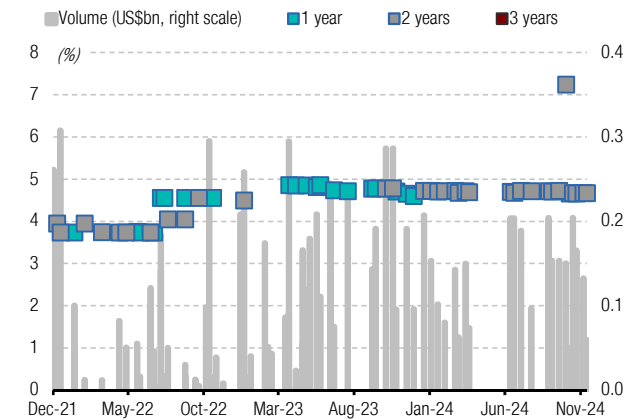
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

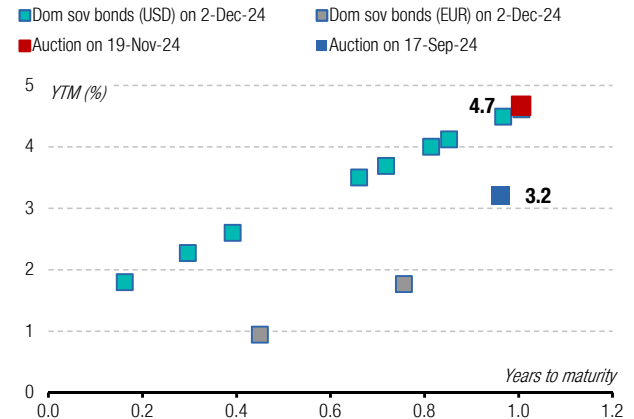
Chart 2. FX-denominated bonds

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.

MoF refreshes offering of military bonds

Last week, the MoF sold a new 3.5-year UAH note and from this week for all further offerings it replaces all military bonds with new securities.

The MoF borrowed UAH19bn last week by selling only UAH-denominated bonds, including UAH10bn from two military bills (over UAH5bn each), almost UAH4bn from the regular 3-year note, and UAH5bn from the new 3.5-year paper, which the NBU may add to the list of reserve bonds. See details in the [auction review](#).

For tomorrow's auction, the MoF announced the offering of three new military bonds due in February 2026, April 2027, and November 2027 and will also suspend offering of older papers. The MoF will cap the offer of each bond at UAH5bn. At the same time, the MoF increases the cap for 3.5 years to UAH7bn.

ICU view: The MoF has reached its usual issuance cap of about UAH20bn for each military and regular bond and will replace them with new maturities. The December auction schedule does not include new offerings of FX-denominated bills. Therefore, the MoF will focus on UAH borrowings, which will likely substantially exceed budget needs for debt rollover. We expect interest rates for military bills to remain broadly unchanged while huge demand for reserve notes from banks will push interest rates down.

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Eurobond investor optimism cools

Last week, fluctuations in Eurobond prices were insignificant, as there was no critical news about Ukraine.

Prices for most Eurobonds fluctuated within a 1% range and remained little changed last week. Only UKRAIN'A'29 was up by about 2%. Spreads to the benchmark (UST) widened by 25bp, keeping Ukrainian Eurobonds YTM unchanged. At the same time, the EMBI index rose by 1.1%. VRIs slid by 0.6% to 76.2 cents per dollar of notional value.

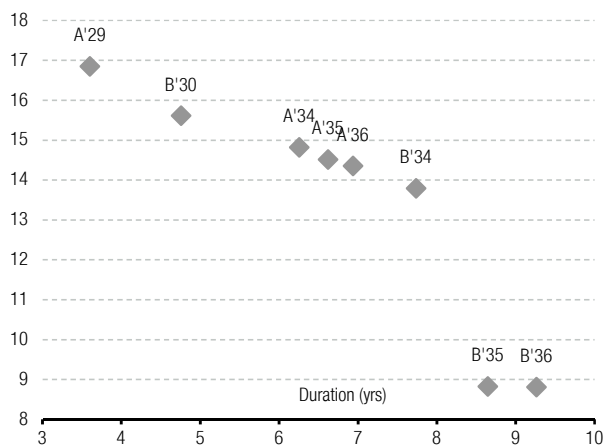
ICU view: Last week did not see any important Ukraine-related news, while US Treasuries prices rose slightly. Therefore, investors' optimism, which had strengthened ahead of and after the US elections, started to cool gradually. Prices and YTM stayed unchanged, reflecting wider spreads. We expect insignificant

fluctuations in the coming weeks, as investors will wait for the disclosure of new US President's initiative to strike a peace deal in Ukraine.

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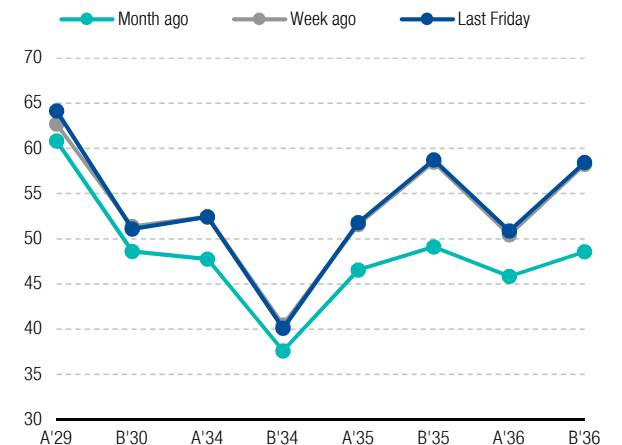
Chart 3. Ukrainian Eurobond YTM and prices

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 renews hryvnia weakening

Last week, the NBU allowed the hryvnia to weaken to a new record low.

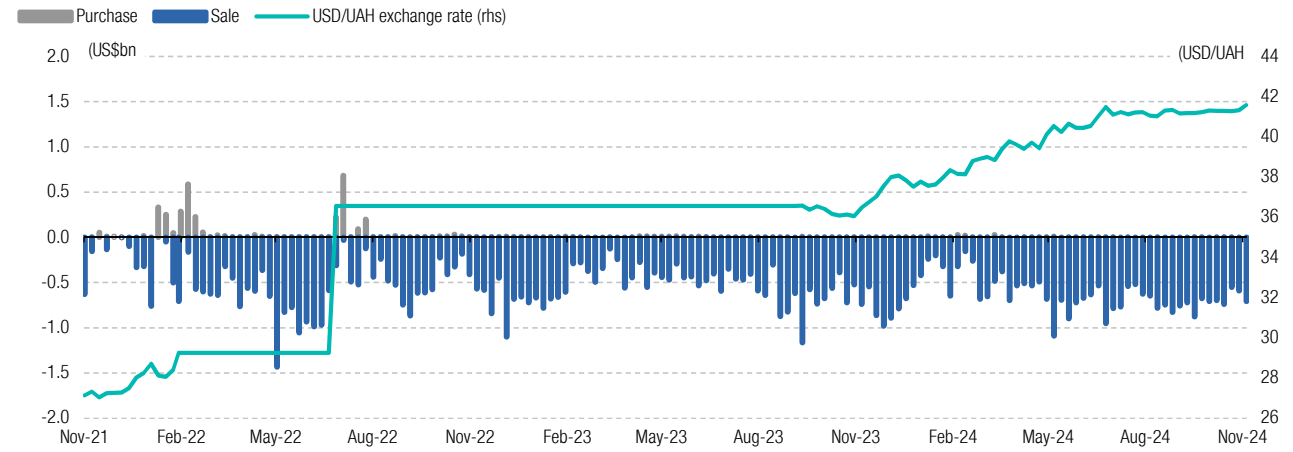
The total FX market deficit increased last week as demand for hard currency rose in the interbank segment. Net hard-currency purchases rose by 41% WoW to US\$408m, including US\$201m in the interbank segment (tripled from the previous week) and US\$207m in the retail segment (down by 11%). However, the NBU increased interventions by 20% to US\$709m. The official exchange rate weakened by 0.6% to UAH41.58/US\$

ICU view: *The interbank market shortage was the key driver of the hryvnia's weakening. However, the NBU did not increase its weekly interventions significantly, allowing the hryvnia to stay above UAH41.5/US\$. It is unlikely that this pace of weakening will be maintained in the coming weeks, but we think the NBU may allow the hryvnia to weaken to above UAH42/US\$ until 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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