Focus
Ukraine

Markets
Government bonds, FX market, and macro

Research team
Vitaliy Vavryshchuk
Alexander Martynenko
Taras Kotovych

Weekly Insight

NBU reserves nearly hit US$40bn again

Key messages of the today's comments

MONDAY, 9 DECEMBER 2024

Ukrainian bond market

Bond market focuses on reserve paper

The MoF received an oversubscription for all offered bonds, and it was the largest for reserve securities.

Investors remain cautiously optimistic

Ukrainian Eurobond prices rose last week after the Ukrainian President said the country may agree to no retake occupied territories by force in exchange for NATO protection.

Foreign exchange market

NBU strengthens hryvnia despite much larger FX shortage

The NBU slightly increased its FX interventions and strengthened the hryvnia through the end of last week, while the hard currency shortage increased significantly last week.

Economics

NBU reserves nearly hit US$40bn again

The gross international reserves of the NBU surged 9.1% in November (-1.4% YTD) to US$39.9bn after a significant decline in Sep-Oct.

Banks' reserves market (6 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	13.00	+0bp	-300bp
ON rate (%)	13.00	+0bp	-300bp
Reserves (UAHm)[2]	238,359	-1.6	+12.6
CDs (UAHm)[3]	446,990	-0.7	-12.9

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) (6 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.8
Banks	867,539	-0.3	+39.4
Residents	162,519	+0.4	+25.0
Individuals	74,444	+2.1	+45.9
Foreigners	23,008	-1.1	-48.3
Total	**1,805,802**	**+0.0**	**+17.3**

Source: NBU, ICU.

FX market indicators (6 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.4500	-0.4	+13.0
EUR/USD	1.0568	-0.1	-1.8
DXY	106.055	+0.3	+1.8

Source: Bloomberg, ICU.

Market gov't bond quotes (9 December 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

Bond market focuses on reserve paper

The MoF received an oversubscription for all offered bonds, and it was the largest for reserve securities.

Last week, the MoF continued to offer new 3.5-year notes, which the NBU has added to the list of designated reserve bonds that banks can use to cover a part of their mandatory reserves from this Wednesday. At last week's primary auction, the MoF offered UAH7bn of these bonds; they were oversubscribed by a factor of 8x. High competition between banks allowed the MoF to slash interest rates by almost 80bp, implying the cut-off rate was 15.48%, and weighted-average rate was 15.22%.

Since last week, the MoF refreshed the offerings of military bonds. Despite all three new bonds receiving an oversubscription of 1.5–2.5x, the MoF wasn't able to change interest rates significantly. The MoF set the coupon rate for 14-month bills at 15.09%, just 11bp below the interest rates for 1.5-year bonds at the end of November. For 2.5-year paper, the MoF decreased the weighted-average rate by only 2bp to 16.17%. At the same time, the MoF set the coupon rate for the new three-year note at 16.46%, 34bp below the interest rate for the bond due in February 2028. See details in the auction review.

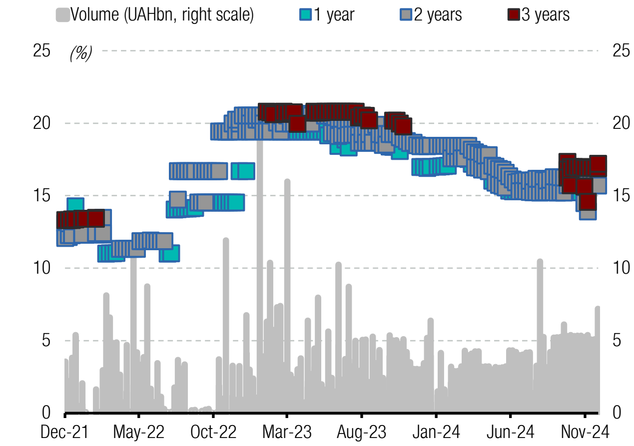
The secondary bond market also focused on reserve bonds. Total turnover almost doubled from the previous week, and nearly a third of the trades were with reserve securities.

ICU view: Last week, interest in new reserve bonds rose as the MoF redeemed UAH20bn of reserve bonds issued last year. The MoF will increase the offering of reserve bonds tomorrow to UAH8bn and will most likely be able to cut interest rates further due to high competition among banks. However, interest rates for military bonds will likely stay unchanged. We note that the yield on the new 14-month paper is closer to that of the 1.5-year bond rather than the yield of the 11-month paper that stood at 14.65% during last placement in October. If the NBU surprises the market with an unexpected revision of the key policy rate this week, we may see yields on short-term papers moving up slightly.

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

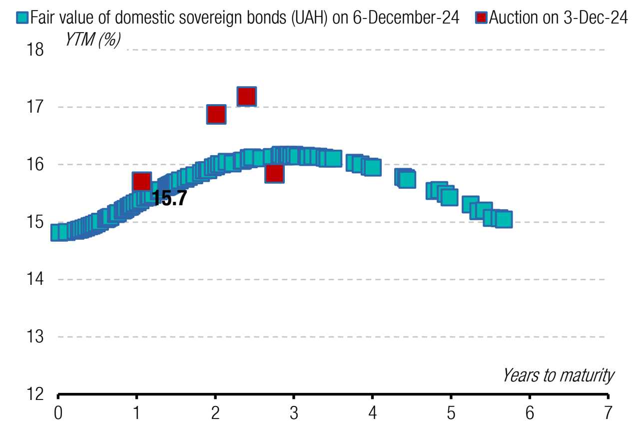
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

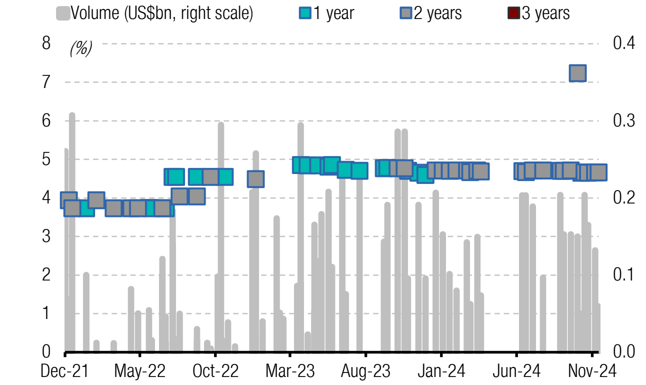
YTMs of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

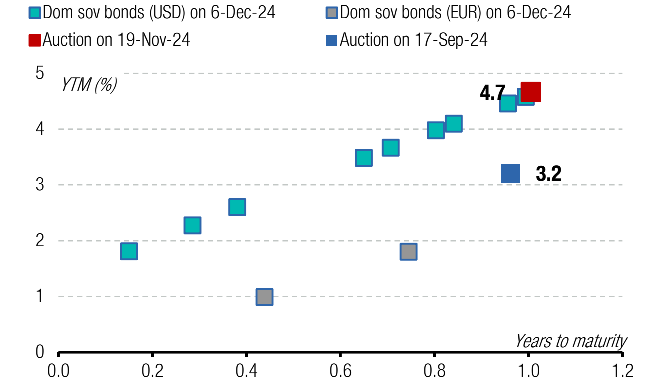
Chart 2. FX-denominated bonds

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.

Investors remain cautiously optimistic

Ukrainian Eurobond prices rose last week after the Ukrainian President said the country may agree to no retake occupied territories by force in exchange for NATO protection.

Last Monday, President V. Zelensky told Sky News that Ukraine may abandon the idea of using troops to return to the occupied territories in exchange for inviting the country to NATO within the 1991 borders. Such a cession could end the hot stage of full-scale invasion.

Eurobond prices rose by 0.4% last Monday and continued to rise for most of the week. Overall, most prices rose by an average of 2%, while for UKRAIN'B34 and UKRAIN'B36, prices slid by 0.1% and 0.5%, respectively.

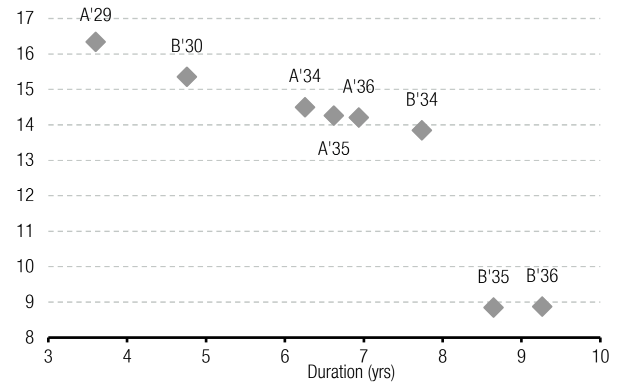
Spreads to benchmark (US Treasuries) mostly tightened last week. The EMBI index rose by 0.4%.

ICU view: Eurobond holders remain cautiously optimistic that a ceasefire agreement may be reached next year, if the parties can make the necessary concessions. Last Saturday's trilateral meeting in Paris between Messrs. Zelensky, Trump, and Macron supports optimistic sentiment. Fitch's decision to affirm Ukraine's Long-Term Foreign-Currency Issuer Default Rating at "Restricted Default" (RD) should not be an important factor to take into consideration.

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

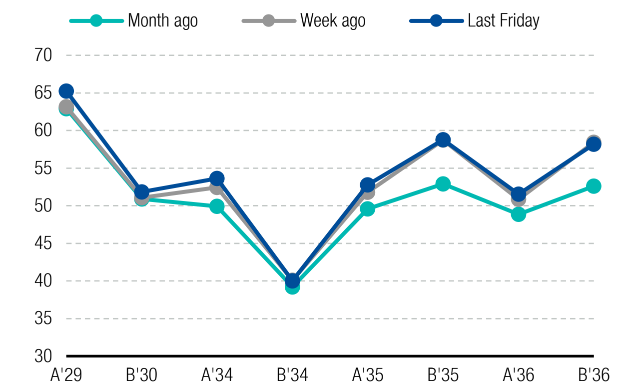
Chart 3. Ukrainian Eurobond YTMs and prices

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 strengthens hryvnia despite much larger FX shortage

The NBU slightly increased its FX interventions and strengthened the hryvnia through the end of last week, while the hard currency shortage increased significantly last week.

Net foreign currency purchases rose 31% WoW (in four business days) to US$534m, including US$296m in the interbank FX market (up 47% WoW) and US$238m in retail segment (up 15% WoW).

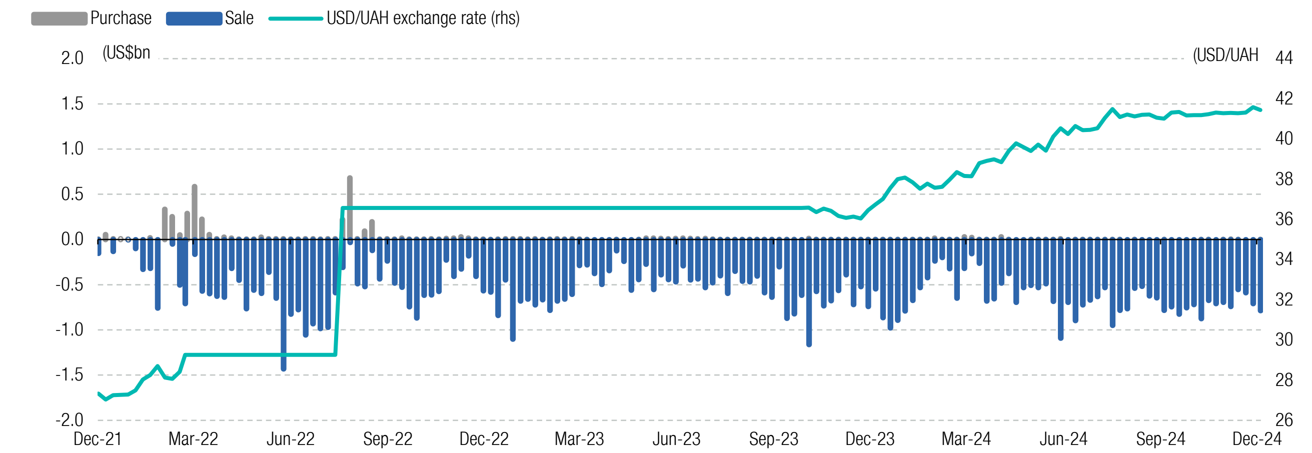
At the same time, the NBU increased its interventions by only 11% to US$786m, but these interventions were enough to strengthen the hryvnia official exchange rate to UAH41.45/US$, or by 0.3% WoW and 0.6% from its new record low of UAH41.7/US$ seen last Tuesday.

ICU view: The first week of the month usually sees some growth in demand for hard currency in the interbank and retail FX markets. The NBU increased its interventions to an eight-week high and prevented further weakening of the hryvnia. At the same time, we still anticipate that the NBU may allow the hryvnia to weaken to above UAH42/US$ by the end of the year, and we can see exchange rate fluctuations at around UAH41.5/US$ or higher this week.

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.

Economics

NBU reserves nearly hit US$40bn again

The gross international reserves of the NBU surged 9.1% in November (-1.4% YTD) to US$39.9bn after a significant decline in Sep-Oct.

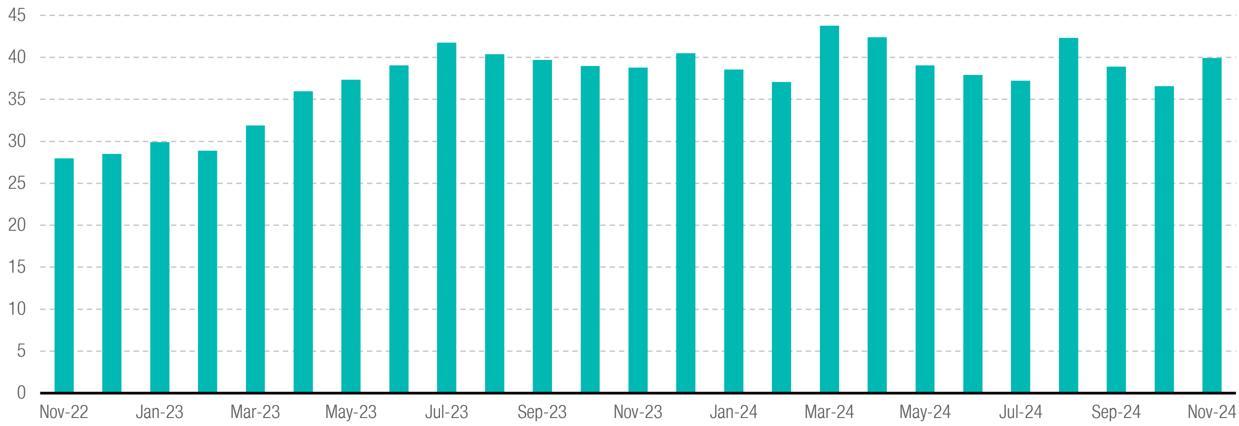
The growth came on the back of sizable foreign financial aid that Ukraine received in November. The largest financial assistance packages included a US$4.8bn loan from the World Bank, US$1.4bn grant from the US, US$0.2bn loan from Japan, and several smaller loans and grants. That was more than enough to offset US$2.7bn in FX sale interventions by the NBU over the month. Repayments on external FX debt totaled nearly US$0.4bn.

ICU view: December will also see substantial inflow of foreign financial aid, including a major tranche of the Ukraine Facility from the EU. With this in mind, we project that end-2024 NBU reserves will exceed US$44bn. For 2025, Ukraine received strong commitments of foreign financial aid of about US$38bn. This implies that NBU reserves will likely remain in the range of US$40-45bn next year. This is a fully comfortable safety cushion that will enable the central bank to supply the necessary hard currency to the FX market.

Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

Chart 5. NBU gross international reserves, US$bn

NBU reserves nearly hit US$40bn again



Source: NBU, ICU.

This page is intentionally left blank

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

WEB www.icu.ua

RESEARCH

Vitaliy Vavryshchuk
Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko
Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER