

# Weekly Insight

## MoF shows no interest in raising rates

### Key messages of the today's comments

MONDAY, 20 JANUARY 2025

### Ukrainian bond market

#### MoF shows no interest in raising rates

Last week, the MoF rejected more than half of the demand for military bills, as it refused to accept an increase in interest rates.

#### Volatility in Eurobond prices minimal

Ukrainian Eurobond prices fluctuated in a tight range last week, but rose slightly on Friday.

### Foreign exchange market

#### NBU moves to strengthen hryvnia

Despite tightening imbalances in the FX market, NBU weekly interventions remained almost unchanged at above US\$1bn, which contributed to strengthening the hryvnia.

### Banks' reserves market (17 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.50	+0bp	-150bp
ON rate (%)	13.50	+0bp	-150bp
Reserves (UAHm) <sup>2</sup>	280,478	+18.2	+32.9
CDs (UAHm) <sup>3</sup>	455,058	-9.5	-21.6

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) (17 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.8
Banks	879,981	-0.9	+33.9
Residents	199,570	+0.0	+39.8
Individuals	77,226	-3.9	+39.9
Foreigners	21,199	+0.3	-51.5
<b>Total</b>	<b>1,855,994</b>	<b>-0.6</b>	<b>+16.6</b>

Source: NBU, ICU.

### FX market indicators (17 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	42.1158	-0.3	+11.2
EUR/USD	1.0273	+0.3	-5.6
DXY	109.347	-0.3	+5.7

Source: Bloomberg, ICU.

### Market gov't bond quotes (20 January 2025)

Maturity	Bid (%)	Ask (%)
6 months	15.25	14.25
12 months	16.00	15.00
2 years	17.00	16.00
3 years	17.75	16.75
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## MoF shows no interest in raising rates

Last week, the MoF rejected more than half of the demand for military bills, as it refused to accept an increase in interest rates.

The demand at the primary bond auction last week improved from a week before—to UAH3.3bn for 1.5-year and UAH3.9bn for 2.5-year instruments. More than half of this demand came in with interest rates higher than those prevailing in the past several months. Therefore, the MoF sold only UAH1.3bn and UAH1.9bn worth of these bonds, respectively. At the same time, the four-year note saw almost a 9x oversubscription, causing interest rates to fall by 130bp to 14.7%. See details in the [auction review](#).

The focus of the secondary bond market was mostly on military and regular bonds, which accounted for 49% and 39% of total weekly turnover.

Last week's debt redemption led to a decline in portfolios of most investor groups, but they recovered slightly by the end of week.

**ICU view: The domestic bond market remains segmented into two parts: 1. reserve bonds that are in high demand by banks, and 2. military and regular bonds that enjoy high demand from retail and corporate investors. Banks are incentivized to buy reserve bonds due to the NBU-set reserve requirements, while non-bank investors show no interest in them due to lower yields that such bonds offer. In addition, reserve bonds have longer maturities, while retail investors are interested in short securities with a remaining maturity of less than one year.**

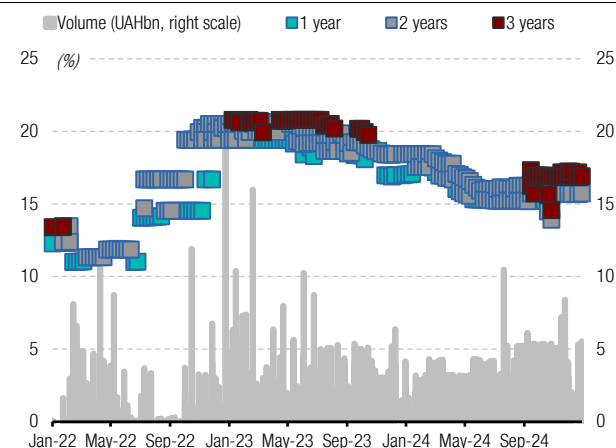
**We do not expect demand for military bonds will significantly exceed supply tomorrow. At the same time, banks will compete for the four-year paper, which may soon be labelled as a designated reserve bond by the NBU.**

**Also, this week the NBU will hold its first Monetary Policy Committee meeting of 2025, and we expect an increase in the key policy rate of 50-100bp to 14-14.5%. However, it is difficult to say at this point whether the Ministry of Finance will be ready to raise rates on government bonds in response to monetary policy tightening.**

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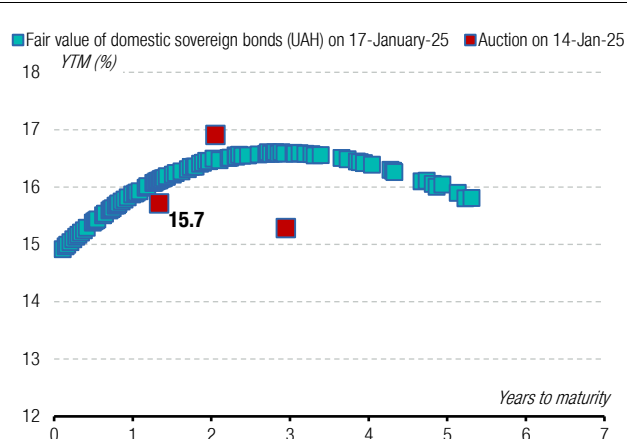
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

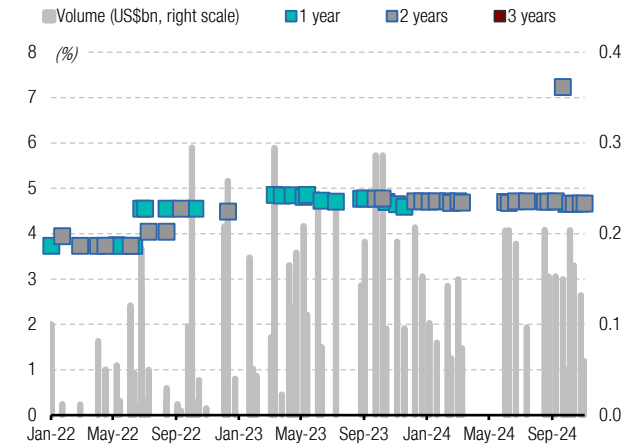
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

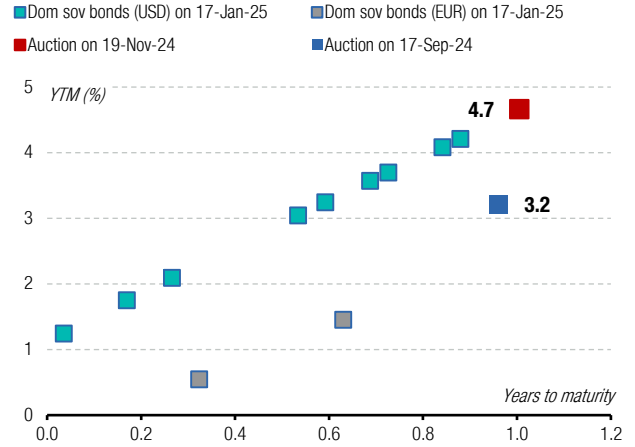
**Chart 2. FX-denominated bonds**

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

**Volatility in Eurobond prices minimal**

Ukrainian Eurobond prices fluctuated in a tight range last week, but rose slightly on Friday.

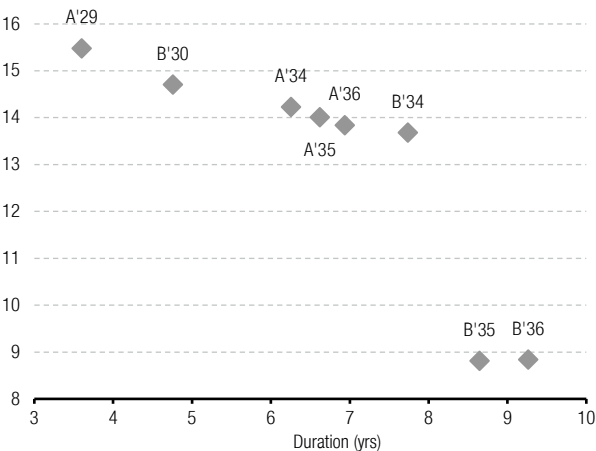
For most of last week, prices stayed close to this year's lows that were reached a week before. But on Friday, the last business day before the inauguration of the new US President, prices moved up slightly. Overall for the week, the increase in prices was, on average, less than 1%. The EMBI index rose by 0.9%. VRI's price rose by 0.8% to 81.2 cents per dollar of notional value, a new three-year high.

**ICU view: Investors' optimism improved slightly in anticipation of the inauguration of the new US President, which prevented a decline in Eurobond prices. Next week, we may expect official messages and/or statements about plans to end the war in Ukraine, which may have the decisive impact on investors' sentiment and Eurobond prices.**

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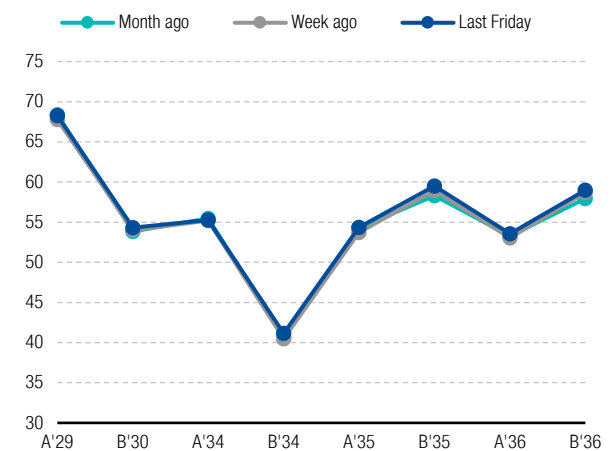
**Chart 3. Ukrainian Eurobond YTM's and prices**

Eurobonds yield map



Source: Bloomberg, ICU.

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



Source: Bloomberg, ICU.

# Foreign exchange market

## NBU moves to strengthen hryvnia

Despite tightening imbalances in the FX market, NBU weekly interventions remained almost unchanged at above US\$1bn, which contributed to strengthening the hryvnia.

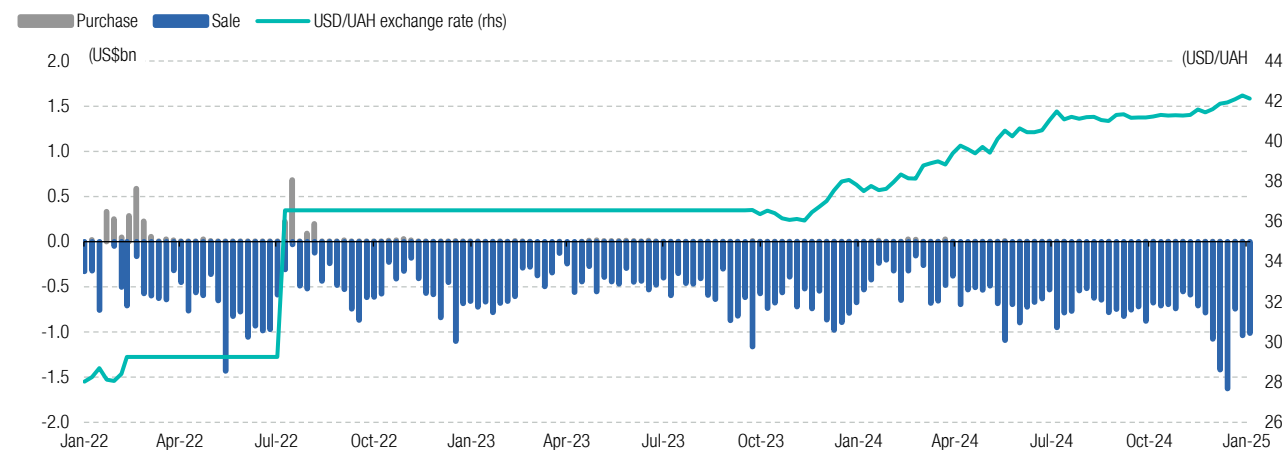
In four business days last week, net hard currency purchases declined by 13% WoW to US\$702m, including US\$448m in the interbank market (-1% WoW) and US\$269m in the retail segment (27% WoW). While the total hard currency deficit declined by about 13%, the NBU decreased interventions only by 2% to US\$1.01bn, strengthening the official hryvnia exchange rate by 0.4% to UAH42.13/US\$.

**ICU view: The National Bank continued to spend large amounts of its international reserves, seeking to calm the market and help stabilize the hryvnia exchange rate. Generous interventions against the backdrop of lower market demand for hard currency helped stabilize the situation on the FX market, and strengthened the hryvnia exchange rate last week. This stabilization should favour an increase in FX supply from exporters and a decline in the need for NBU interventions. We maintain our expectations that the hryvnia official exchange rate will not exceed UAH42.5/US\$ in January, but will move in small steps to approximately UAH46/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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