

# Weekly Insight

## NBU reserves down 1.8% in January

### Key messages of the today's comments

MONDAY, 10 FEBRUARY 2025

### Ukrainian bond market

#### MoF maintains upward trend of bond yields

The MoF continues to gradually increase interest rates for military bonds in UAH after the NBU made a cumulative 150bp hike in the key policy rate since December.

#### Comment from US official encourage Eurobond holders

Ukrainian Eurobond prices rose to new historical highs last Thursday following comments by the US Presidential Special Envoy Keith Kellogg about the seriousness of intentions to stop the war in the near future.

### Foreign exchange market

#### NBU slashes interventions

Higher activity in the FX market and a wider hard-currency deficit did not prevent the NBU from reducing interventions and strengthening the official hryvnia exchange rate.

### Economics

#### NBU reserves down 1.8% in January

Gross international reserves of the NBU were down 1.8% in January to US\$43.0bn on high NBU FX sale interventions.

### Banks' reserves market (7 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	14.50	+0bp	-50bp
ON rate (%)	14.50	+0bp	-50bp
Reserves (UAHm) <sup>2</sup>	203,262	+1.7	-5.4
CDs (UAHm) <sup>3</sup>	527,626	+2.0	-8.5

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) (7 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.4
Banks	882,269	+0.3	+33.7
Residents	202,028	+2.0	+36.9
Individuals	80,498	+4.3	+36.5
Foreigners	22,454	+5.9	-48.7
<b>Total</b>	<b>1,865,267</b>	<b>+0.6</b>	<b>+16.6</b>

Source: NBU, ICU.

### FX market indicators (7 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.5239	-0.4	+10.5
EUR/USD	1.0328	-0.3	-4.1
DXY	108.040	-0.3	+3.8

Source: Bloomberg, ICU.

### Market gov't bond quotes (10 February 2025)

Maturity	Bid (%)	Ask (%)
6 months	15.25	14.25
12 months	16.25	15.25
2 years	18.00	16.50
3 years	18.50	17.00
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## MoF maintains upward trend of bond yields

The MoF continues to gradually increase interest rates for military bonds in UAH after the NBU made a cumulative 150bp hike in the key policy rate since December.

Last week, the MoF raised interest rates for UAH military bills by additional 25bp after raising rates 50bp a week ago. Given this decision, the MoF managed to increase borrowings 5x compared with the previous week. Additionally, the MoF sold US\$250m of FX-denominated bills without material changes in interest rates. See details in the [auction review](#).

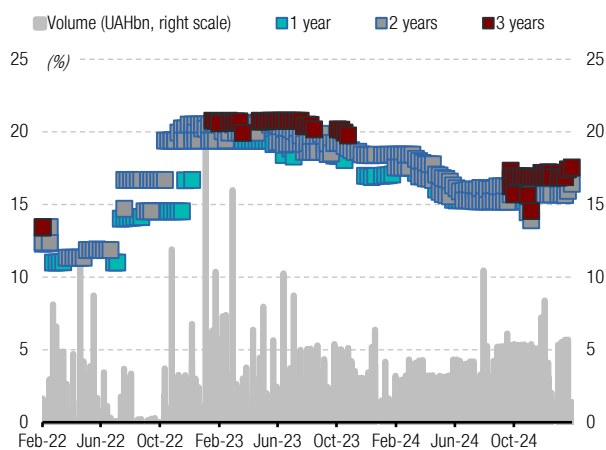
Total trading in the secondary bond market almost doubled last week to UAH9.9bn. Deals with UAH bonds doubled to UAH7bn. The share of FX bonds in trading declined from 34% to 30%. The most traded papers were military bonds (73% of total turnover), dominated by UAH paper (43% of total turnover). Yet, yields on UAH bonds in the secondary market hardly reacted to increases in rates in the primary market.

Individuals almost re-built their portfolios after recent redemptions and may soon set a new record. Interestingly, foreign investors increased their portfolios by almost 4%.

**ICU view: So far, the MoF raised its rates by only half of the size of the NBU's cumulative rate hike during the current monetary policy tightening cycle. This rate hike at primary auctions exceeded our expectations. The MoF will likely increase rates in much smaller steps further or may even stop at current levels of yield. The reaction of yields in the secondary bond market will likely be even more muted, as the NBU has signalled a possible transition to a rate-cutting cycle as soon as this summer.**

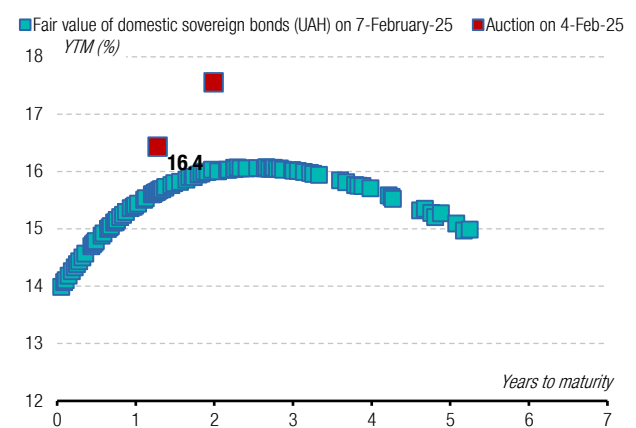
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

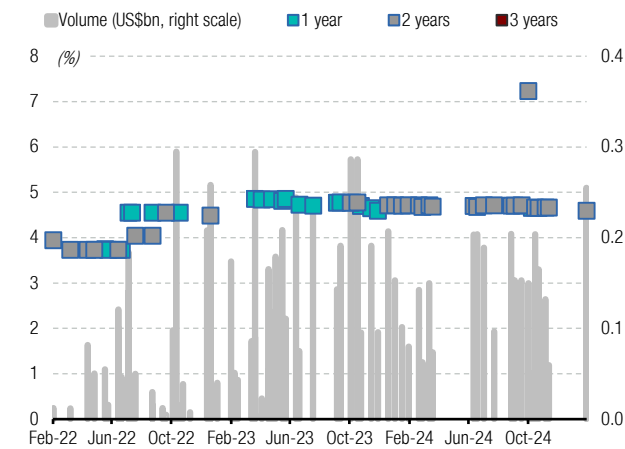
YTM's of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

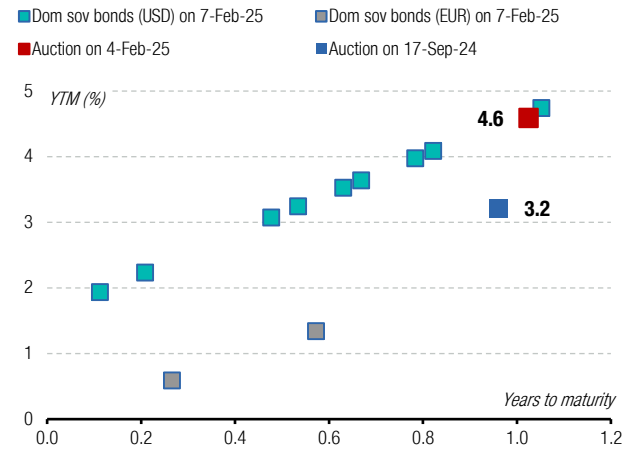
**Chart 2. FX-denominated bonds**

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.

**Comment from US official encourage Eurobond holders**

Ukrainian Eurobond prices rose to new historical highs last Thursday following comments by the US Presidential Special Envoy Keith Kellogg about the seriousness of intentions to stop the war in the near future.

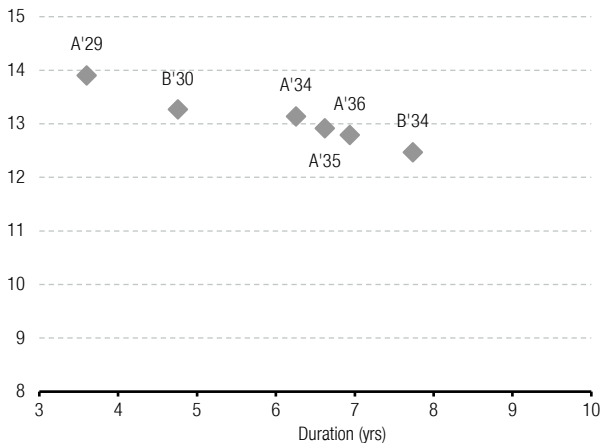
Last week, the US Presidential Special Envoy Keith Kellogg announced he plans to visit the Munich Security Conference to meet European and Ukrainian leaders. Kellogg hopes to hold dialogues with the representatives of the United Kingdom, Germany, Denmark, and other partners, on the best ways to end the war in Ukraine. US President Donald Trump also mentioned Ukraine last Friday, hinting that there has been some progress in the negotiations to achieve a peace deal.

As a result, Eurobond prices rose sharply by almost 7%, reaching new record highs. However, there were slight corrections last Friday, cutting the total price gain to 5.5%. Prices of UKRAIN'B'35 and UKRAIN'B'36 were up by almost 8% as their holders may get extra bonds in 2030 if the Ukrainian GDP reaches a threshold in 2028. Ukrainian VRI prices rose by 4% to almost 87 cents per dollar of notional value. The EMBI index remained unchanged last week.

**ICU view: Investors' optimism strengthened following comments from US officials, as discussions of a peace plan seem to be gaining some shape. Eurobond holders are betting that a significant reduction in security risks may provide a boost to the Ukrainian economy and conditions for a principle increase of series B Eurobonds maturing in 20235-36 will be met. We are somewhat sceptical about the chances of a real GDP threshold being reached in 2028 given the weak GDP growth rates last year and, likely, this year.**

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

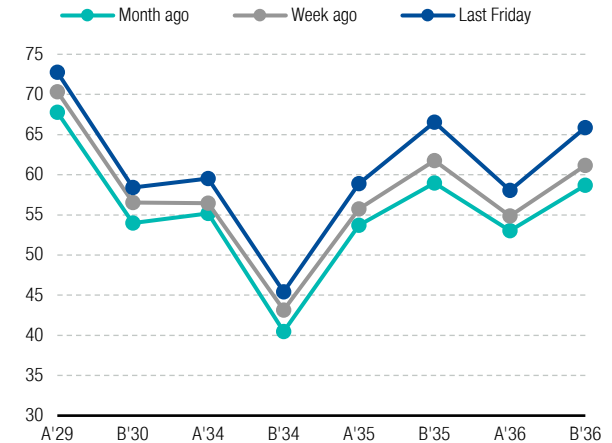
*Eurobonds yield map*



Note: The nominal value of Series B bonds due in 2035 and 2036 may increase in 2030

Source: Bloomberg, ICU.

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



Source: Bloomberg, ICU.

## Foreign exchange market

### NBU slashes interventions

Higher activity in the FX market and a wider hard-currency deficit did not prevent the NBU from reducing interventions and strengthening the official hryvnia exchange rate.

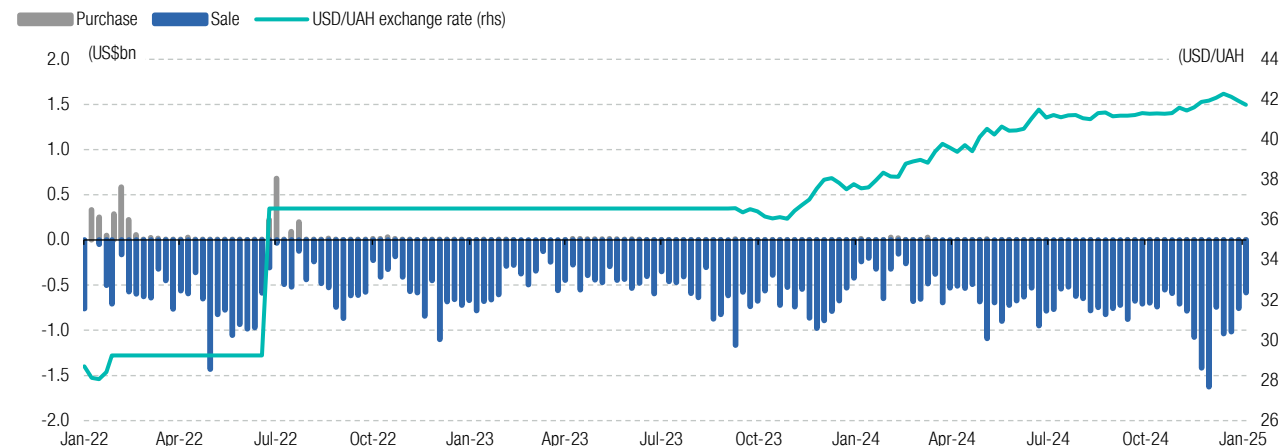
Overall, the FX market deficit increased, as net foreign currency purchases last week (four business days) increased by 8% WoW. In the retail segment, net purchases increased by 16% WoW to US\$247m, while they were up by 8% to US\$94m in the interbank FX market. The total deficit amounted to US\$341m. Despite this, the NBU strengthened the hryvnia further and reduced its interventions by 22% last week to US\$455m, the smallest weekly volume since April 2024.

The official hryvnia exchange rate strengthened by 0.6% to UAH41.47/US\$, the most substantial move since early December.

**ICU view:** *The NBU continued to reduce interventions, which were still sufficient to satisfy higher demand and push the hryvnia exchange rate up. The growth in demand in the retail segment was due to new monthly limits for online hard-currency purchases.*

**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 down 1.8% in January

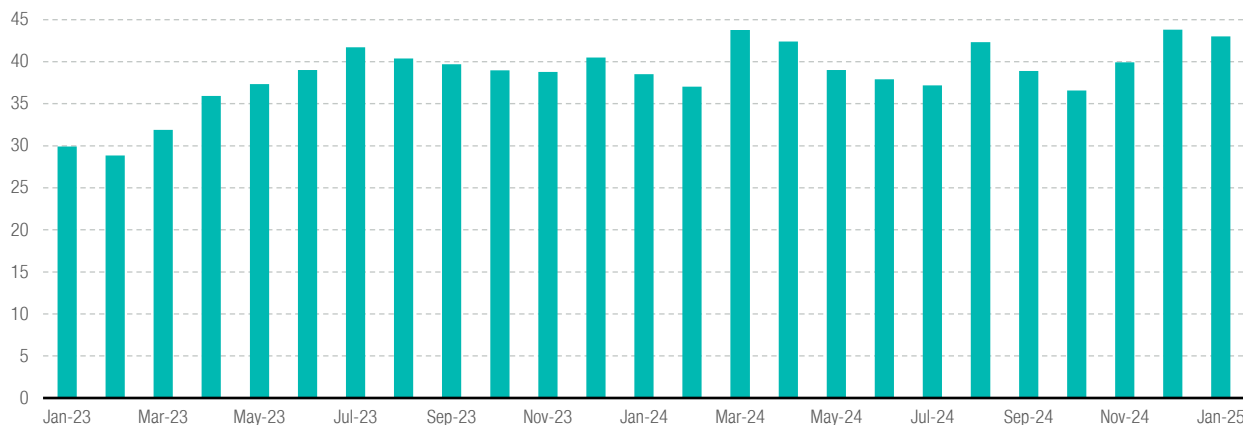
Gross international reserves of the NBU were down 1.8% in January to US\$43.0bn on high NBU FX sale interventions.

The size of FX sale interventions of the NBU, that stood at a net US\$3.7bn last month, was the third largest since the start of Russia's full scale aggression. Meanwhile, NBU reserves were supported with an EUR3.0bn financial package from the EU (ERA facility) and US\$0.4bn income due to revaluation of financial instruments.

**ICU view:** *Given the commitment of Ukraine's international partners to provide nearly US\$39bn in financial aid in 2025, we expect the NBU reserves to remain broadly stable in the range of US\$40-45bn over the year. This implies the NBU will have sufficient resources to keep the FX market relatively balanced. Yet, the focus of our attention is now shifting on the prospect for financial aid in 2026. If expectations materialize that foreign financial aid to Ukraine will decline significantly in 2026, this may create significant pressure on the NBU reserves in 2H25.*

**Chart 5. NBU gross international reserves, US\$bn**

*NBU gross reserves edge down in January*



Source: NBU, ICU.

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