

Weekly Insight

MoF launches bond swap auctions

Key messages of the today's comments

MONDAY, 24 FEBRUARY 2025

Ukrainian bond market

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Trump's harsh statements cause Eurobond prices to slide

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Foreign exchange market

FX demand up without impact on hryvnia

The NBU nearly doubled interventions last week to offset higher demand for hard currency, with no material impact on the hryvnia exchange rate.

Banks' reserves market (21 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	14.50	+0bp	-50bp
ON rate (%)	14.50	+0bp	-50bp
Reserves (UAHm) ²	243,845	-5.2	+9.0
CDs (UAHm) ³	501,328	+3.8	-11.0

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) (21 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.1
Banks	875,851	-0.3	+32.3
Residents	206,634	+0.6	+36.7
Individuals	84,537	+1.7	+40.8
Foreigners	22,583	+1.3	-48.3
Total	1,867,623	+0.0	+16.5

Source: NBU, ICU.

FX market indicators (21 February 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.6266	+0.1	+8.0
EUR/USD	1.0458	-0.3	-3.3
DXY	106.612	-0.1	+2.5

Source: Bloomberg, ICU.

Market gov't bond quotes (24 February 2025)

Maturity	Bid (%)	Ask(%)
6 months	15.50	14.25
12 months	16.50	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 launches local bond swap auctions

Last week, the MoF held two primary auctions, a regular auction and a swap auction, which is a new type of auctions for the local bond market. Still, the MoF did not manage to increase borrowings.

The MoF's usual primary auction, held last Tuesday, offered two military bills. The Ministry accepted all bids without changes in the cut-off rate and borrowed just UAH249m. See details in the [auction review](#).

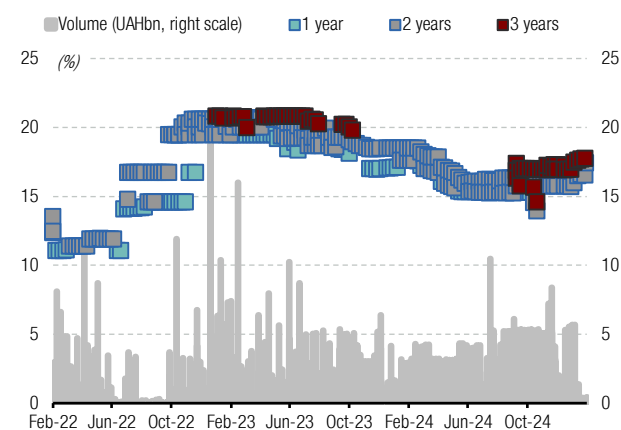
Last Wednesday, the MoF held a new bond swap auction. The Ministry offered investors the opportunity to exchange old bonds due this Wednesday for a new two-year paper. The MoF received bids for new bonds valued at UAH438m that are issued to replace old bonds also valued at UAH438m. Details of the new auction are in our [special review](#).

The secondary bond market was very active last week. Total turnover rose by 89% to UAH13.6bn, including a significant increase in FX-denominated bond trading – UAH5.5bn or 46% in total turnover.

ICU view: This Wednesday, the MoF will have to make the largest ever redemption of hryvnia bonds worth UAH41bn. The MoF will have to tap budget revenues to redeem this bond, since it did not accumulate enough funds from the bond market, as net borrowings stand at just UAH11.5bn YTD. Later into the week, the MoF announced a bond swap auction once the NBU had approved the procedure, but the auction yielded minimal results. To reach 100% rollover, the MoF has to borrow at least UAH29bn over the coming few weeks. We expect the primary bond market to become more active from this week as investors will seek to buy new paper with repaid funds. The next redemptions are scheduled for 12 March (UAH20.6bn) and 19 March (UAH3.2bn).

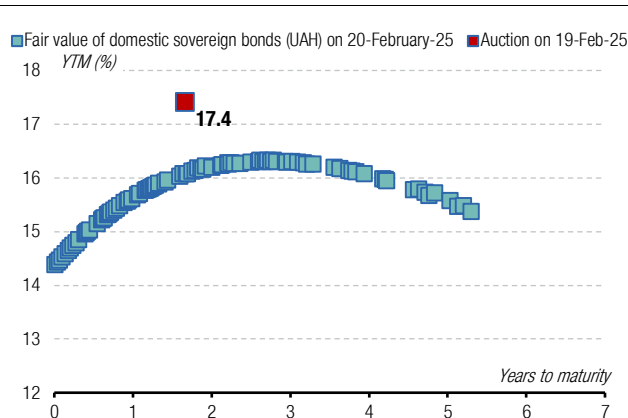
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

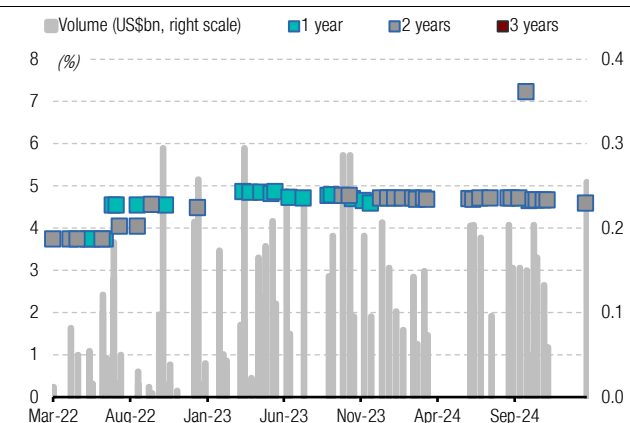
YTM's of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

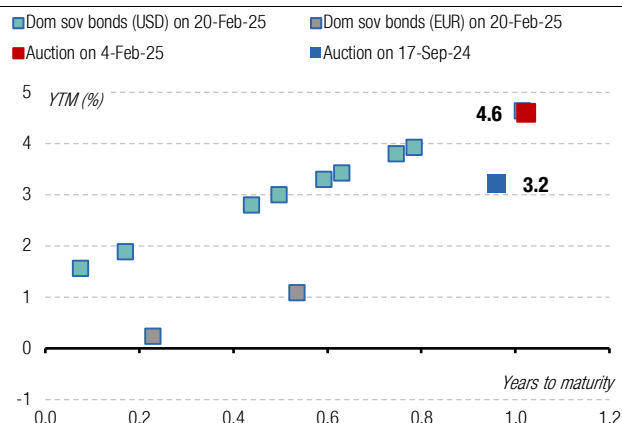
Chart 2. FX-denominated bonds

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.

Trump's harsh statements cause Eurobond prices to slide

Last week, a number of high-level meetings of US officials have so far given no reason for optimism. The US president's harsh statements caused volatility in Eurobond prices.

Last week, the key developments revolved around Russia-US negotiations and statements by the US and Ukrainian presidents. Last Tuesday in Saudi Arabia, Russian and US teams met and formed a high-level group to negotiate an end to the war in Ukraine. Ukraine was not part of this meeting. Later, the US president repeatedly and baselessly criticized Ukraine and its president, insisting Ukraine must hold elections before signing a peace/ceasefire agreement.

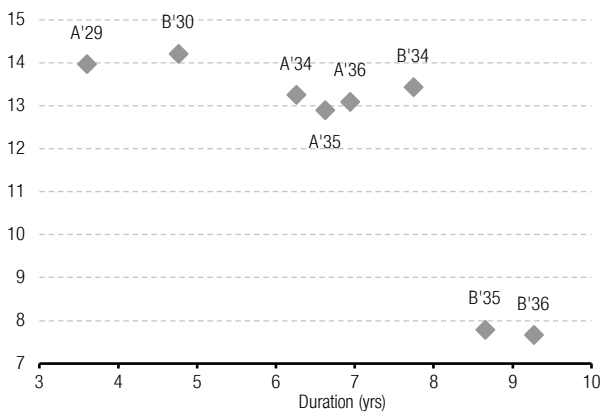
Against this backdrop, Eurobond prices fell by more than 3% in just one day. Eurobonds continued to fall on Wednesday and Thursday, particularly due to uncertainty regarding a minerals agreement between Ukraine and the US. Over three days, Eurobond prices fell by an average of 7.5%, but recovered slightly last Friday, giving prices average decline by 4% WoW. A positive development was the visit of Special Envoy Kellogg to Ukraine, who said the discussions with the president of Ukraine were productive.

VRIs were less responsive to public news. Their price fell to 80.7 cents on Thursday (-5% from Monday) but finally, slid by only 2% WoW to 84 cents per dollar of notional value. The EMBI index was unchanged last week.

ICU view: The flow of negative news and statements around the prospects for peace negotiations set an unfavourable background for Eurobond holders, prompting them to significantly reduce optimism regarding reaching a quick agreement on the ceasefire and peace deal. This week, preparation for an agreement on Ukrainian minerals will continue, and pressure from the US team seems to be the baseline scenario. We also expect some blowback following yesterday's press conference where the president of Ukraine voiced a position that the target volume of the Ukraine minerals fund should be limited to the amount of US aid that Ukraine has, in fact, received from the US. Therefore, we expect volatility to persist in the Eurobond market.

Chart 3. Ukrainian Eurobond YTM and prices

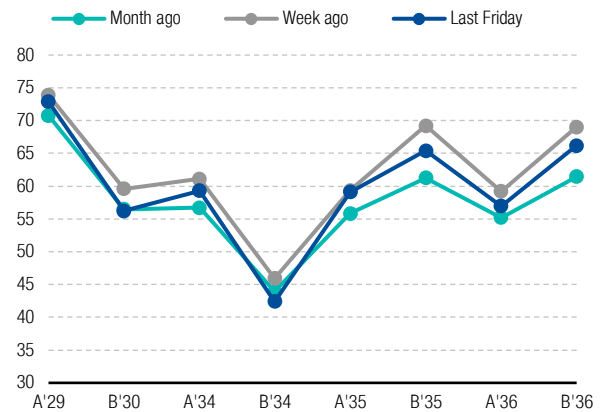
Eurobonds yield map



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

FX demand up without impact on hryvnia

The NBU nearly doubled interventions last week to offset higher demand for hard currency, with no material impact on the hryvnia exchange rate.

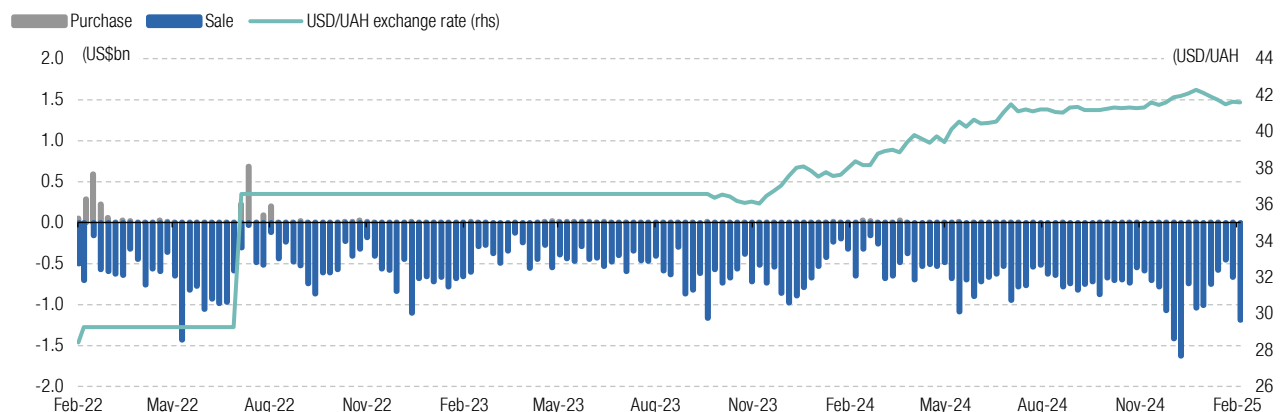
The total hard currency shortage doubled WoW to US\$875m. The deficit rose in the interbank FX market, almost tripling WoW to US\$719m. In the retail segment, net purchases fell by 12% to US\$156m. NBU had to almost double interventions to US\$1.2bn.

The official exchange rate weakened to UAH41.73/US\$ last Thursday, but strengthened last Friday to UAH41.59/US\$, for 0.1% appreciation WoW.

ICU view: The sharp increase in demand for hard currency in the interbank FX market was probably caused by FX purchases by state entities, likely for the defence and/or energy sectors. Therefore, we assume this spike in FX purchases will fade. However, demand still remains high, even if one-off factors are disregarded. Last week, the NBU clearly demonstrated that it is not ready to weaken the hryvnia, even when imbalances increase substantially.

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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