

Weekly Insight

Monthly inflation slows markedly in February

Key messages of the today's comments

MONDAY, 17 MARCH 2025

Ukrainian bond market

MoF increases interest rates again

The MoF increased interest rates for military bonds after the NBU hiked its key policy rate a week ago. In March, the MoF will continue to offer the same military securities, implying it's unlikely to raise substantial funds even with higher yields.

Initial steps towards ceasefire deal offer some relief

Prices of Ukrainian Eurobonds reversed after news of ceasefire negotiations between Ukraine and the US emerged last week.

Foreign exchange market

Hryvnia retreats from this year's record

After three weeks of appreciation, the NBU weakened the hryvnia exchange rate last week.

Economics

Monthly inflation slows markedly in February

Consumer inflation slowed to 0.8% MoM in February and marked the third month of steep deceleration from 1.9% MoM in November.

Banks' reserves market (14 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	15.50	+0bp	+50bp
ON rate (%)	15.50	+0bp	+50bp
Reserves (UAHm) ²	267,256	-19.9	+25.5
CDs (UAHm) ³	452,735	+3.7	-15.0

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) (14 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	676,622	+0.0	-0.9
Banks	846,867	-1.1	+26.7
Residents	193,275	-6.9	+29.9
Individuals	82,483	-2.2	+42.4
Foreigners	19,633	-2.5	-50.6
Total	1,819,291	-1.4	+13.8

Source: NBU, ICU.

FX market indicators (14 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.4217	+0.4	+6.7
EUR/USD	1.0879	+0.4	+0.0
DXY	103.718	-0.1	+0.3

Source: Bloomberg, ICU.

Market gov't bond quotes (17 March 2025)

Maturity	Bid (%)	Ask (%)
6 months	15.50	14.25
12 months	16.50	15.25
2 years	18.00	16.75
3 years	18.50	17.25
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF increases interest rates again

The MoF increased interest rates for military bonds after the NBU hiked its key policy rate a week ago. In March, the MoF will continue to offer the same military securities, implying it's unlikely to raise substantial funds even with higher yields.

Last week, the MoF increased interest rates for military bills by 50bp or half of the increase of the NBU's key policy rate. Higher rates allowed the MoF to borrow almost UAH3.5bn, the largest weekly proceeds from placement of military bonds YTD. Also, the MoF sold UAH5bn worth of reserve bonds with marginal changes in interest rates. See details in the [auction review](#).

Investors actively reinvested funds from last week's debt redemption in the secondary market. The total amount of deals with UAH bonds rose by 25% to UAH14.5bn while trading in FX-denominated bond fell by 87% to the equivalent of UAH0.3bn. Trading was the most active in the new reserve bond with a 21% share. Military bonds accounted for 52%.

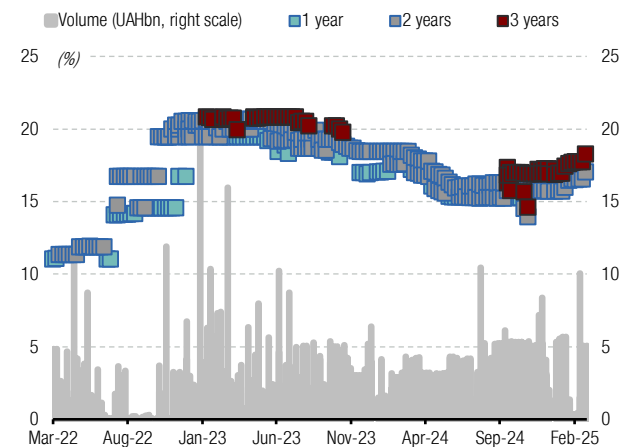
This week, the MoF will redeem three bonds for UAH3.2bn, US\$318m, and EUR275m.

ICU view: UAH borrowings amounted to UAH15bn so far in March, less than last week's redemption. To meet 100% rollover in 1Q25, the MoF needs to borrow at least UAH26bn in the last two weeks of March. Yet, the MoF plans to offer only two of the usual military bills with a UAH5bn cap per week each, while demand for these securities was low in recent months. Therefore, we will not see full rollover in 1Q25, and the MoF will likely try to scale up borrowings later this year when the NBU will switch to a monetary policy loosening cycle. We do not expect the MoF to increase interest rates further in the following weeks.

The MoF plans to offer two FX-denominated securities in US dollars and euros in March to refinance this week's redemptions, but only partly as supply caps will fall short of redemptions. Therefore, we will not see a 100% rollover for FX-denominated debt in 1Q25 either.

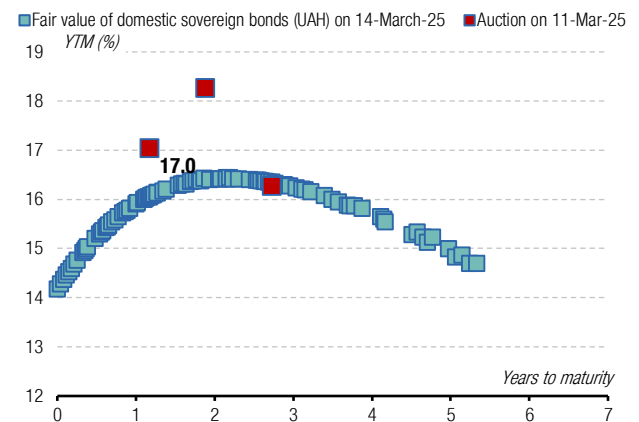
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

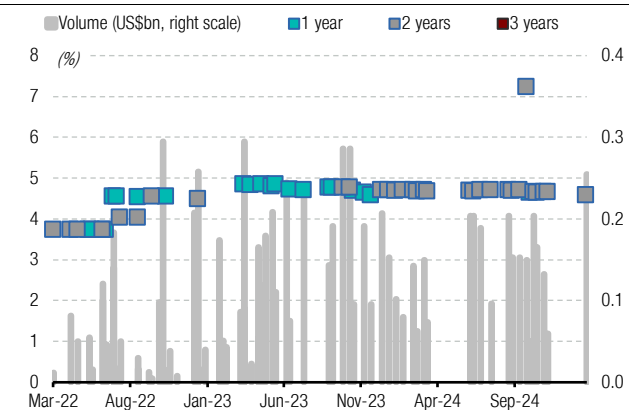
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

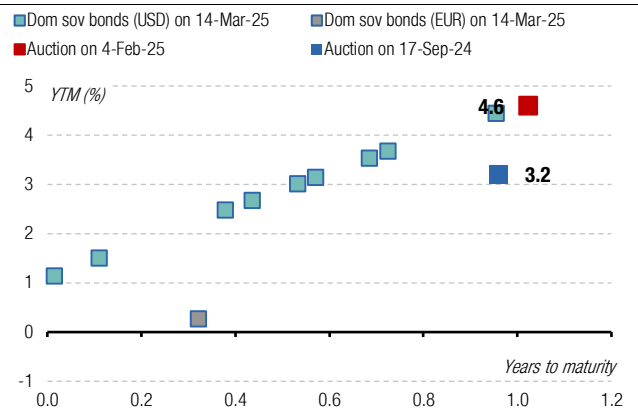
Chart 2. FX-denominated bonds

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.

Initial steps towards ceasefire deal offer some relief

Prices of Ukrainian Eurobonds reversed after news of ceasefire negotiations between Ukraine and the US emerged last week.

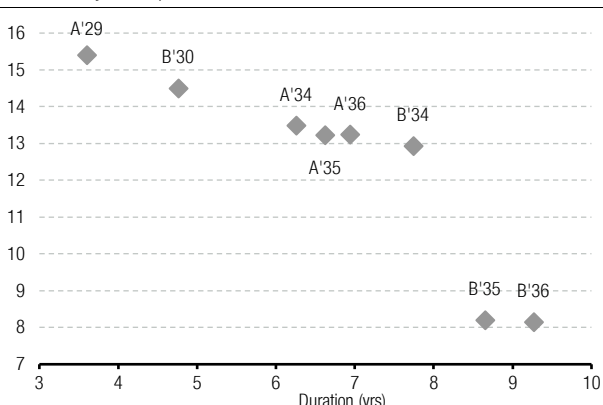
US-Ukrainian ceasefire negotiations took place last week. The parties agreed on the necessity of a 30-day ceasefire, and the US resumed arms supply and intelligence exchange with Ukraine. Last Thursday, the US special envoy met with the Russian president to discuss the conditions agreed with the Ukrainian delegation in Saudi Arabia. Last Friday, the US President wrote that "there is a very good chance that this horrible, bloody war can finally come to an end".

On this news, Eurobond prices gradually rose by 1.4% on average. VRIs' price remains below 81 cents per dollar of notional value. EMBI index slid by 0.3% last week.

ICU view: The bond market reaction was positive, but muted, as ceasefire negotiations finally started to take very specific shape. The president of Russia did not explicitly reject the idea of a ceasefire, but, expectedly, hinted that the conditions proposed by the US were not fully acceptable. President Trump is expected to call the Russian president soon to discuss the ceasefire plan and proceed with the next stage of the Ukrainian-US negotiations in Saudi Arabia. Therefore, we expect the Eurobond market to remain volatile, but with a general trend towards slow price growth.

Chart 3. Ukrainian Eurobond YTM's and prices

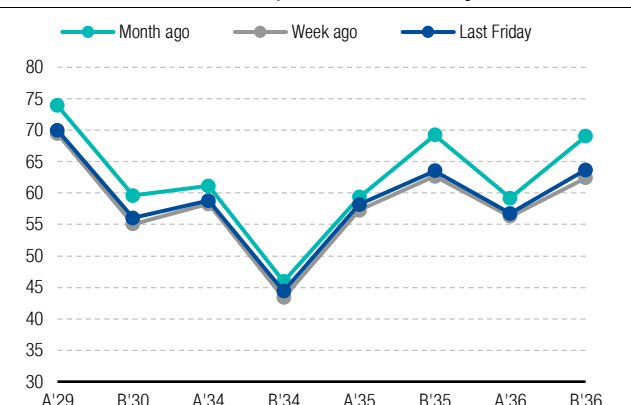
Eurobonds yield map



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 ago and a month ago



Source: Bloomberg, ICU.

Foreign exchange market

Hryvnia retreats from this year's record

After three weeks of appreciation, the NBU weakened the hryvnia exchange rate last week.

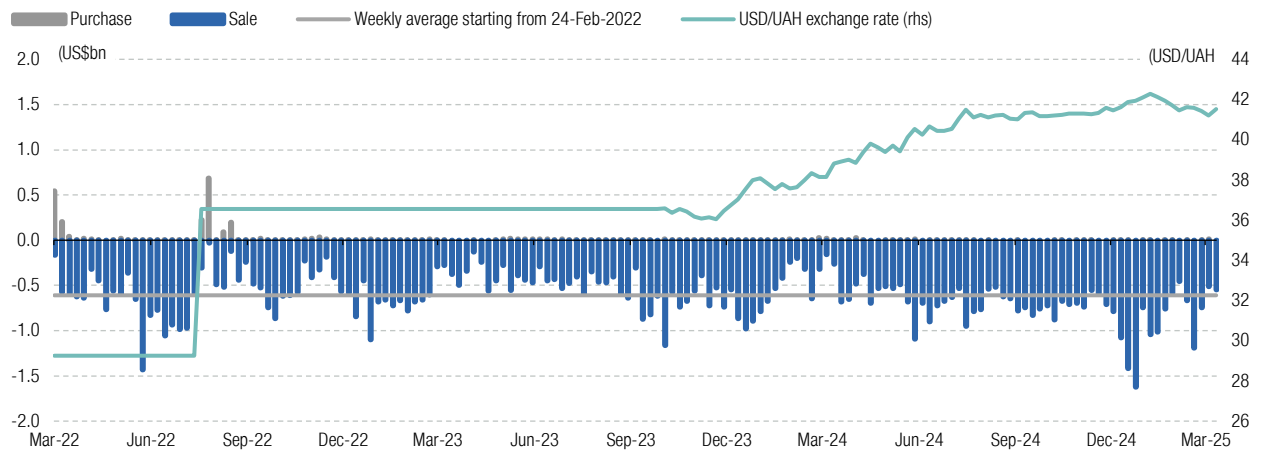
The hard currency shortage declined further last week to a six-week low. Net foreign currency purchases fell by 23% to US\$321m as net purchases in the retail segment halved to US\$115m. In the interbank FX market, the hard currency shortage rose by 13% to US\$207m. The NBU sold US\$545m from international reserves last week, or +6% WoW.

The NBU weakened the hryvnia exchange rate by 0.7% WoW to UAH41.51/US\$ despite the calm in the FX market.

ICU view: The hryvnia trend during the last week shows that the NBU is gradually increasing exchange rate fluctuations and may proceed with further weakening. Keeping the hryvnia strong for a long time may be a risky bet if international assistance is reduced substantially in 2026 and later periods.

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 and weekly average starting from 24-Feb-2022)



Source: NBU, Bloomberg, ICU.

Economics

Monthly inflation slows markedly in February

Consumer inflation slowed to 0.8% MoM in February and marked the third month of steep deceleration from 1.9% MoM in November.

Annual headline inflation was up to 13.4% from 12.9% in January while core CPI increased to 12.0% YoY from 11.7% a month before. Food prices accelerated to 15.0% YoY after growth rate remained nearly flat at 14.1-14.4% over the previous three months. Other commodity groups that saw significant price acceleration are alcohol and tobacco (up to 14.9% from 14.2%), transportation (up to 11.1% from 10.2%), and communication (19.5% vs. 19.0%).

On a separate note, last week, Ukrstat published a revised structure of consumer basket that is used for measuring consumer inflation. The table below summarizes key changes vs. 2021, the last full year before the Russia full-scale invasion.

Table 1. Structure of consumer basket

Shares of food, clothes and transportation are down

	2023*	2021	Change, pp
Food and non-alcoholic drinks	40.0%	41.1%	-1.1
Alcohol and tobacco	7.8%	7.9%	-0.1
Clothes and footwear	3.7%	4.8%	-1.1
Housing and utilities	9.8%	8.7%	1.1
Goods for home, appliances	4.6%	4.1%	0.5
Healthcare	9.4%	7.0%	2.4
Transportation	9.6%	9.8%	-0.1
Communication	3.0%	2.9%	0.1
Education	1.3%	1.3%	0.0
Other	10.8%	12.4%	-1.6

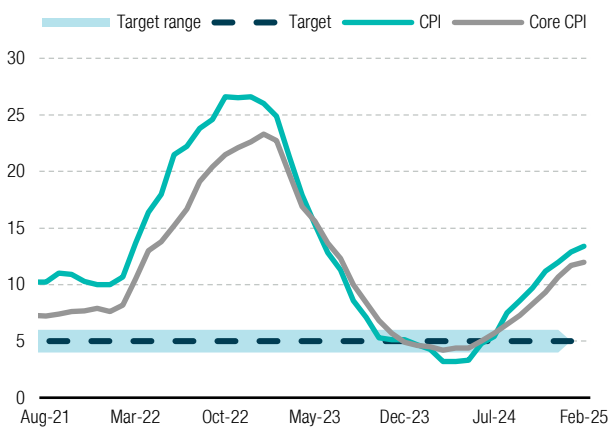
* structure of consumer basket based on 2023 data is used to estimate inflation in 2025

Source: Ukrstat, ICU.

ICU view: A sharp deceleration in monthly CPI for a third consecutive month is definitely a positive development likely pointing that inflationary pressures are starting to ease. An acceleration in food prices in both monthly and yearly terms was a negative surprise, implying the effects of last year’s draught still linger. We expect monthly inflation to stay close to the current level or slightly lower during the spring as many adjustments due to regulatory decisions of the authorities (hike in excise tax on motor fuels, revision of motor vehicle third-party liability insurance) have already taken place during the winter. A supporting factor will be a downward revision of pharmaceutical prices following authorities’ intervention and a signing of a memorandum by producers and distributors. Despite moderation in monthly inflation, the annual tally will continue to gain pace till May on last year’s unusually low base. We remain of the view that annual inflation will continue to fall notably from June and is set to decelerate to 7.0% by the year-end. This projection assumes that the harvest will normalize after last year’s drop, and the authorities will not choose to hike gas and electricity tariffs for households this year. We see the NBU switching to monetary policy loosening cycle already in June.

Chart 5. CPI, core CPI and target, YoY, %

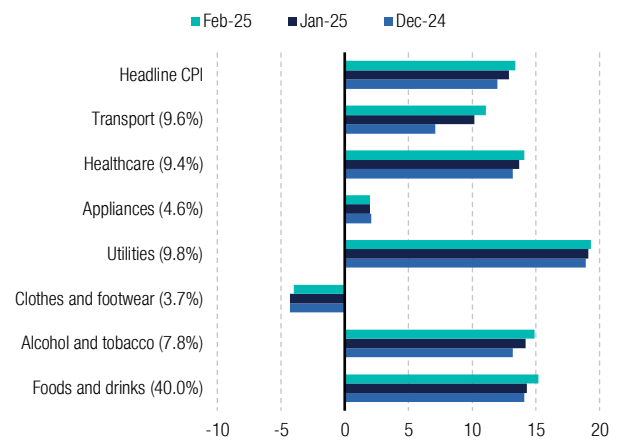
Annual inflation is likely nearing its peak



Source: Ukrstat, NBU, ICU.

Chart 6. CPI and its main components, YoY, %

Growth in food prices is up again



* numbers in brackets indicate the share of the component in consumer basket

Source: Ukrstat, ICU.

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