

Weekly Insight

Interest in UAH bonds is up

Key messages of the today's comments

MONDAY, 24 MARCH 2025

Ukrainian bond market

Interest in UAH bonds is up

The increase in yields for UAH bonds incentivized investors to increase bids in the primary market, allowing the MoF to increase borrowings via UAH military bills significantly.

Eurobond prices slide without significant progress in negotiations

Prices of Ukrainian Eurobond fell last week as there was almost no progress in achieving a ceasefire agreement between Ukraine and Russia.

Foreign exchange market

NBU slows hryvnia weakening

Last week, the NBU barely changed the official hryvnia exchange rate, while slightly increasing interventions.

Banks' reserves market (21 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	15.50	+0bp	+100bp
ON rate (%)	15.50	+0bp	+100bp
Reserves (UAHm) ²	234,140	-12.4	+4.0
CDs (UAHm) ³	510,291	+12.7	-3.7

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 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	676,622	+0.0	-0.9
Banks	848,954	+0.2	+25.9
Residents	190,745	-1.3	+26.1
Individuals	81,925	-0.7	+37.6
Foreigners	21,064	+7.3	-48.9
Total	1,819,734	+0.0	+13.0

Source: NBU, ICU.

FX market indicators (21 March 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.5600	+0.3	+6.9
EUR/USD	1.0818	-0.6	-0.4
DXY	104.088	+0.4	+0.1

Source: Bloomberg, ICU.

Market gov't bond quotes (24 March 2025)

Maturity	Bid (%)	Ask (%)
6 months	16.25	14.75
12 months	16.75	15.50
2 years	18.50	16.75
3 years	18.75	17.25
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Interest in UAH bonds is up

The increase in yields for UAH bonds incentivized investors to increase bids in the primary market, allowing the MoF to increase borrowings via UAH military bills significantly.

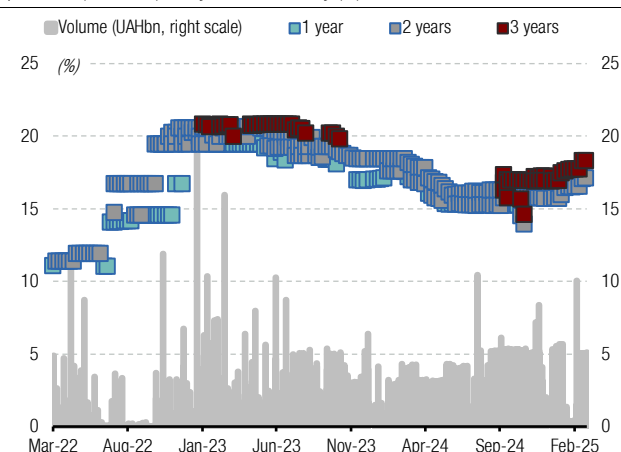
Total demand for UAH-denominated military bonds reached almost UAH15bn last week, more than in the previous six weeks combined. Some of the yields on bids were above the cut-off rates in the previous auction, and the ministry refused to change the rates for these instruments. Therefore, the MoF sold UAH5bn worth of 15-month bills and UAH2.3bn worth of two-year paper, raising the same amount of funds as a week before, when the key part in proceeds was secured via a placement of reserve notes. The MoF also sold EUR188m of FX-denominated bills, implying total budget proceeds of above UAH17bn, a weekly record high YTD. See details in the [auction review](#).

The volume of trading in the secondary market decreased by 15% to UAH12.6bn. Military bonds, especially those with a maturity of up to one year, enjoyed the highest demand. They accounted for almost third of the total trading volume.

ICU view: Last week, the MoF demonstrated that it does not plan to raise interest rates on government bonds further in the near future. It is prepared to increase yields by only half the increase in the NBU key policy rate. This signal from the MoF encouraged buyers to submit more bids, and they significantly increased their purchase of bonds in the primary market.

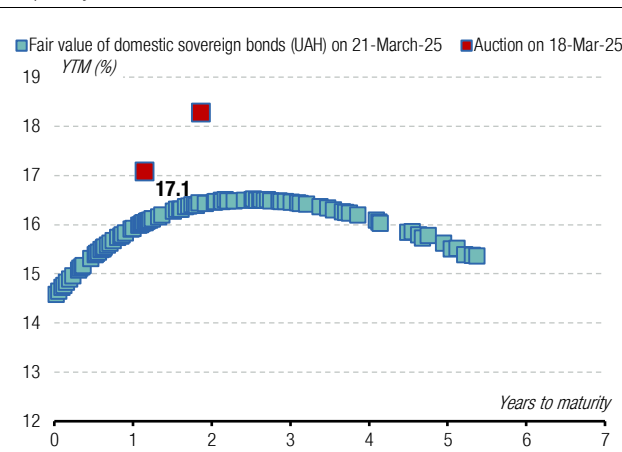
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

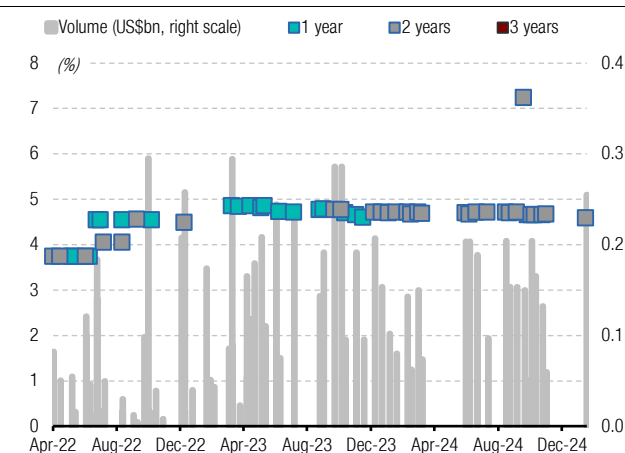
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

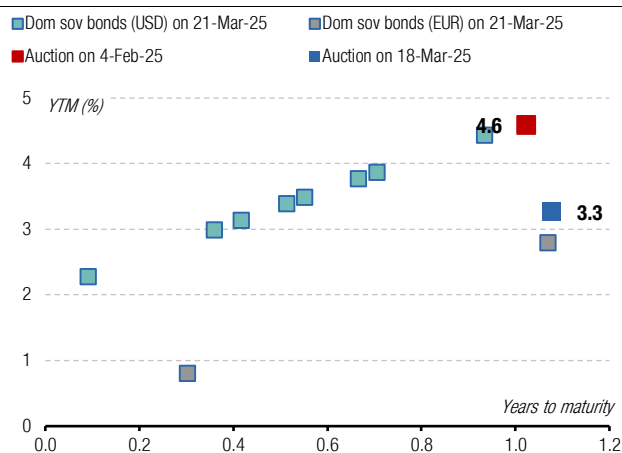
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond prices slide without significant progress in negotiations

Prices of Ukrainian Eurobond fell last week as there was almost no progress in achieving a ceasefire agreement between Ukraine and Russia.

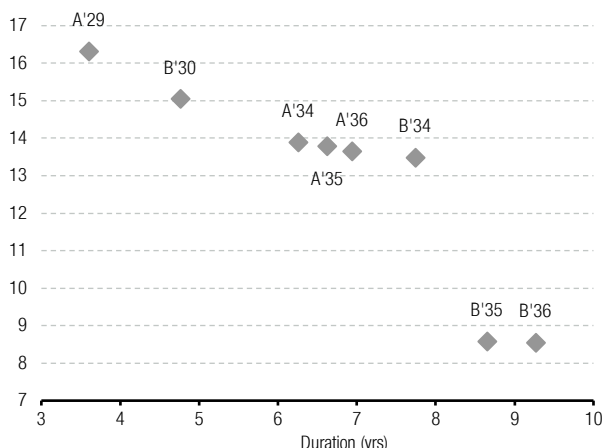
The conversation between the US and Russian presidents did not give any realistic hope for a progress with a ceasefire agreement. The Russian side has made it clear that it has no incentive to reduce the intensity of hostilities and attacks on civil infrastructure behind the frontline. The idea of a pause in the shelling of energy facilities has not yet taken concrete form as an agreement. This week's main news will be the negotiations in Saudi Arabia as Ukraine and Russia will be communicating via a US representative avoiding direct interaction.

On average, the value of Ukrainian securities slid by an average of 3% WoW. In anticipation of restructuring negotiations, VRIs stayed slightly below 81 cents per dollar of notional face value. The EMBI index rose by 0.4% over the past week.

ICU view: Eurobond holders' mood may be characterized as a growing scepticism, as the prospect of achieving even a 30-day complete ceasefire is becoming increasingly distant. Russia does not look to seek to end the war, putting forward conditions that are unacceptable to Ukraine and Europe. All of Trump's efforts to reach a peace deal are facing significant resistance from the aggressor. Today, the Americans will try to put on the table real, rather than public, demands of both parties to bring them closer together in the format of shuttle diplomacy.

Chart 3. Ukrainian Eurobond YTM and prices

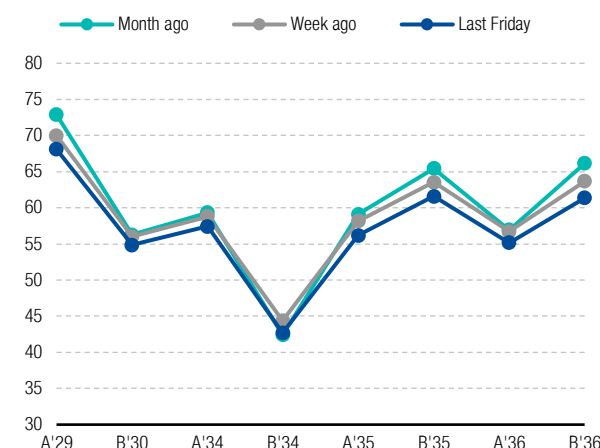
Eurobonds yield map



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 slows hryvnia weakening

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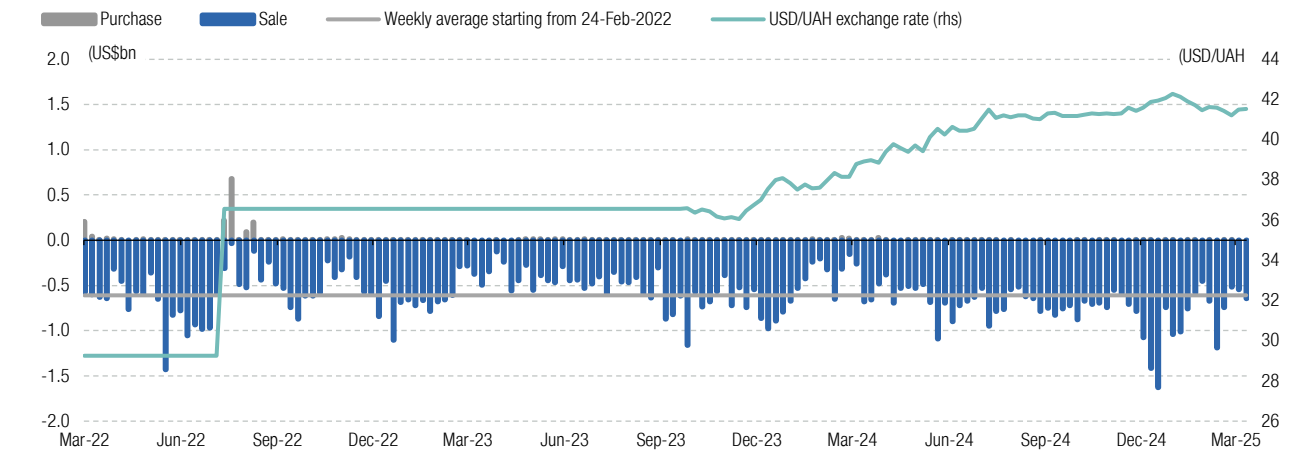
In general, the FX market shortage was little changed. The foreign currency deficit increased 16% WoW to US\$406m. In the retail segment, net FX purchases decreased by 39% WoW, while they surged by 54% in the interbank market. The NBU interventions increased by 18% WoW to US\$644m, which is only 5% more than the average weekly volume since the start of the full-scale war.

The increase in interventions allowed the NBU to keep the official hryvnia exchange rate almost unchanged, weakening it only to UAH41.53/US\$.

ICU view: The NBU's recent steps show that the regulator considers the FX rate slightly above UAH41.5/US\$ to be comfortable and is trying to contain further weakening by increasing interventions. The FX market is currently quite stable, with a relatively large but broadly flat deficit. This means that the NBU may maintain this approach in the coming weeks unless there is a sharp and significant increase in hard currency purchases in the interbank FX market.

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.

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