



Focus
Ukraine

Markets
Government bonds,
FX market, and macro

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Weekly Insight

NBU interventions hit record high

Key messages of the today's comments

MONDAY, 23 DECEMBER 2024

Ukrainian bond market

MoF slashes bond offerings

After selling UAH10bn of military bonds last week, the MoF halved this week's offering.

Bondholders stay optimistic

Last week, Ukrainian Eurobond prices rose by 0.7% on the average.

Foreign exchange market

NBU stops hryvnia weakening with record interventions

Last week, the NBU sold a record-high amount of hard currency from international reserves to keep the hryvnia below UAH42/US\$.

Banks' reserves market (20 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	13.50	+0bp	-150bp
ON rate (%)	13.50	+0bp	-150bp
Reserves (UAHm) ²	215,750	-50.5	-6.0
CDs (UAHm) ³	516,020	+105.5	-1.5

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) (20 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.8
Banks	888,192	+0.4	+39.7
Residents	171,708	+3.3	+27.0
Individuals	77,070	+1.9	+45.5
Foreigners	21,809	+0.0	-51.1
Total	1,837,079	+0.6	+17.7

Source: NBU, ICU.

FX market indicators (20 December 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.9550	+0.6	+11.6
EUR/USD	1.0430	-0.7	-4.7
DXY	107.621	+0.6	+5.1

Source: Bloomberg, ICU.

Market gov't bond quotes (23 December 2024)

Maturity	Bid (%)	Ask (%)
6 months	15.25	14.25
12 months	15.75	14.75
2 years	16.75	15.50
3 years	17.75	16.50
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

DUE TO HOLIDAY SEASON WE PLAN TO SEND THE NEXT WEEKLY ON JANUARY 13, 2025.

Ukrainian bond market

MoF slashes bond offerings

After selling UAH10bn of military bonds last week, the MoF halved this week’s offering.

The MoF decreased last week’s caps for military bonds from UAH5bn a week before to UAH3-4bn and sold a planned UAH10bn worth of military bonds. Demand was limited, and only 14-month bills were oversubscribed. Demand nearly matched the supply for two and three-year securities. Interest rates in bids were mostly at the cut-off level, leaving weighted-average interest rates unchanged. See details in the [auction review](#).

In the secondary bond market, trading fell by 25% to UAH13.8bn, of which 48% were military bonds.

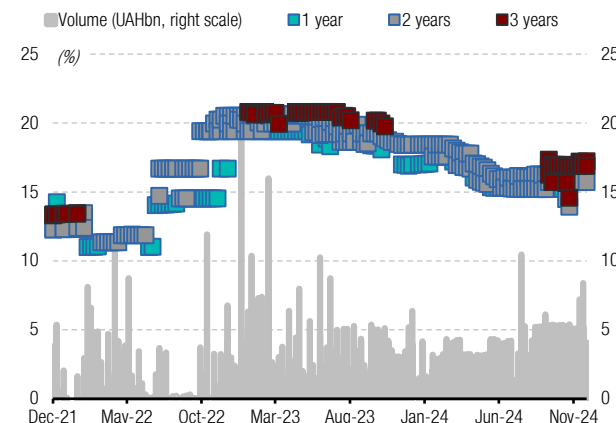
Portfolio of retail investors rose to a new high, over UAH77.3bn, mostly due to new purchases.

ICU view: The MoF will likely use funds from international aid to cover budget needs through end-December, decreasing domestic borrowings. The last primary auction of 2024 will be held this week, with only UAH5bn offered in three military bonds combined. We expect demand will be close to supply and not cause any visible movements in interest rates.

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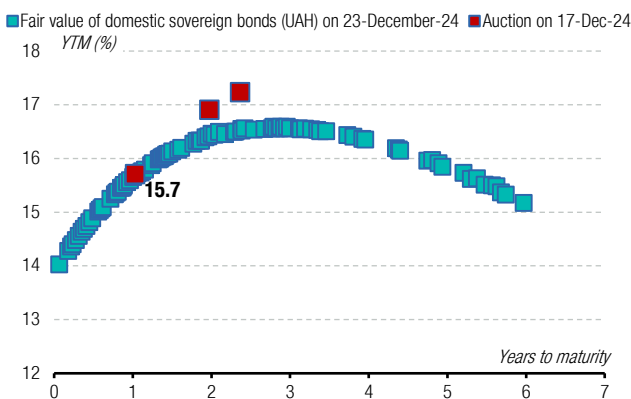
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

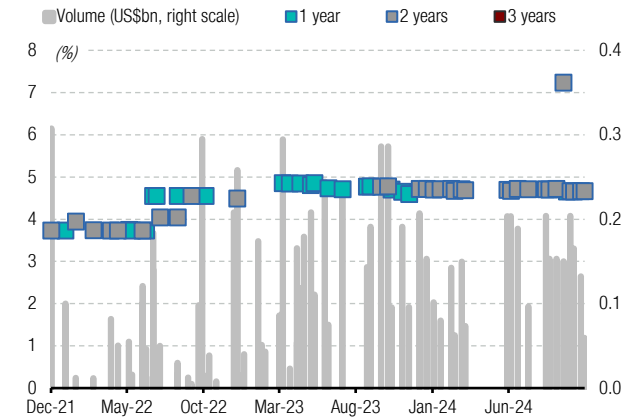
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

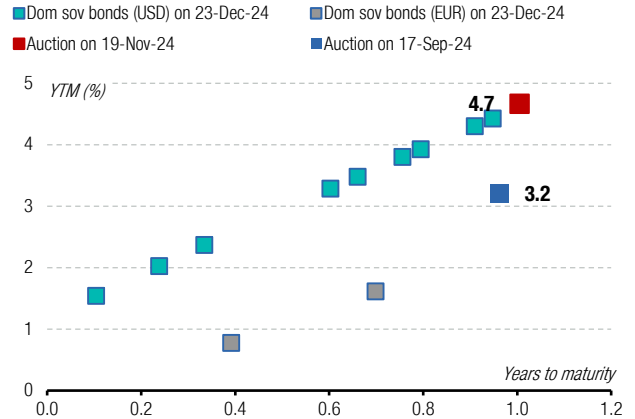
Chart 2. FX-denominated bonds

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.

Bondholders stay optimistic

Last week, Ukrainian Eurobond prices rose by 0.7% on the average.

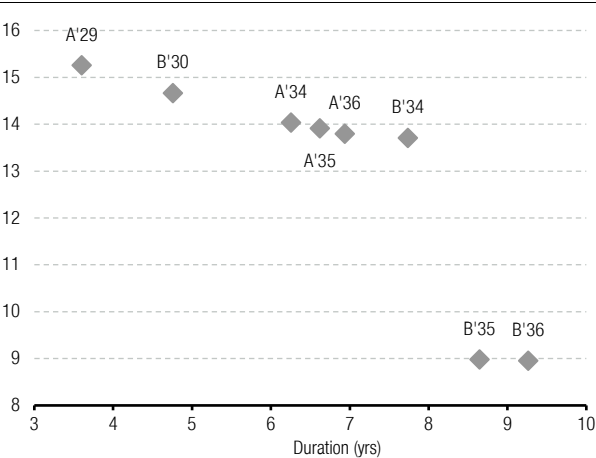
Eurobond prices rose mostly at the short end of the yield curve while UKRAIN'B'35 and UKRAIN'B'36 prices slid a mere 0.3% and 0.5%. However, spreads to the benchmark tightened by 5-41bp as US Treasuries YTM rose slightly during the week. The EMBI index declined by 1.9%. VRI's price rose by 1% to 76.7 cents per dollar of notional value.

ICU view: Investors' expectations regarding the priorities and first actions of the new US presidential team remain broadly optimistic, supporting a positive sentiment toward Ukrainian Eurobonds. Therefore, their prices rose slightly in contrast to the worsening sentiment in the global bond market. The holiday season will decrease bond market activity, keeping Eurobond price almost unchanged.

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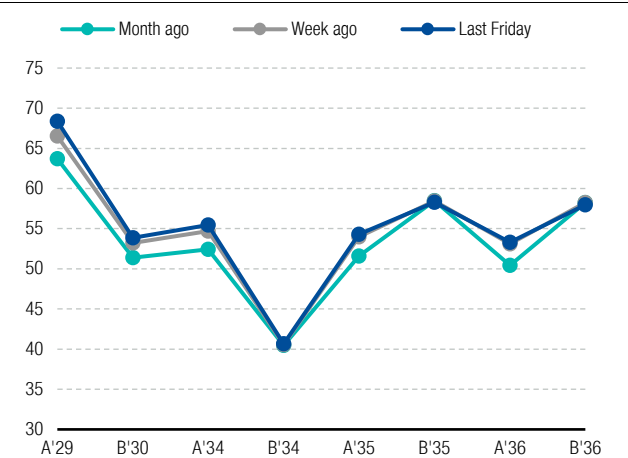
Chart 3. Ukrainian Eurobond YTM's and prices

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 stops hryvnia weakening with record interventions

Last week, the NBU sold a record-high amount of hard currency from international reserves to keep the hryvnia below UAH42/US\$.

The hard currency deficit declined compared with the previous week (in four business days, the NBU will publish Friday's data tomorrow). Net foreign currency purchases by banks' clients fell by 19% WoW to US\$619m, including US\$427m in the interbank FX market (down 21% WoW) and US\$192m in the retail segment (down 12.5% WoW).

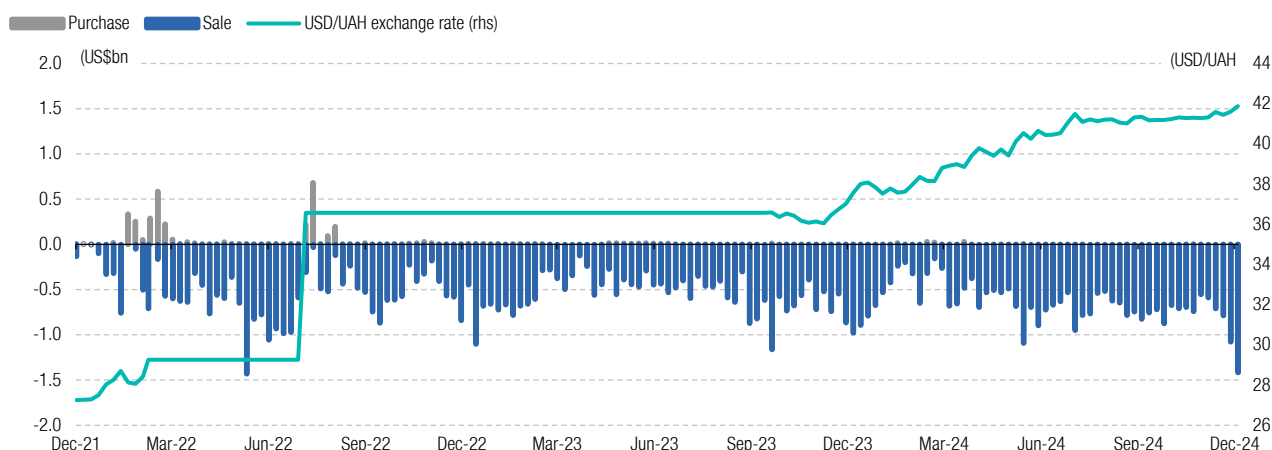
However, it seems that banks also purchased hard currency from the NBU to replenish their FX accounts after selling foreign currency to their clients. In response the NBU had to increase its interventions significantly. The NBU sold US\$1.4bn during the week, which is a third more than in the week before while weakening hryvnia by 0.7% to UAH41.88/US\$ and keeping its official exchange rate below UAH42/US\$ on all days.

ICU view: Last week's NBU interventions were just 1% below the weekly record registered in May 2022. The NBU demonstrated it was not prepared to allow a sharp weakening of the hryvnia. In the remaining days of the years, the NBU may see a sharp increase in demand for hard currency but will do its best keep volatility of the hryvnia limited and prevent its sharp weakening. The NBU will likely allow the hryvnia to depreciate only marginally above UAH42/US\$ until the end of this year. FX market activity will decrease in January, supporting the NBU's efforts to control the hryvnia exchange rate. The NBU will gradually weaken the hryvnia next year, but we forecast the depreciation will not exceed 10% during 2025.

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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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