

Financial markets survey

21 June 2016

Markets in expectation of Brexit

WEEKLY ISSUE

GLOBAL MARKET

Last week, global financial markets found themselves in the red. There is a growing uncertainty as the Brexit, a British referendum that should take place on 23 June and that should decide whether the UK will continue to be a member of the European Union, comes closer.

Petroleum prices began going down again, which was warming up the downward trend on the securities market. Data of the US Department of Energy published on Wednesday indicated that gaso-line and petroleum inventories are shrinking, and that petroleum production is being curtailed. Nevertheless, petroleum inventories declined at a more sluggish pace than the market expected.

Chair of the US Federal Reserve System (FRS) Janet Yellen has refused to indicate any timeframe for the next increase of interest rates at a press-conference that took place on Wednesday, 15 June, following the June meeting of the Federal Open Market Committee (FOMC). Based on the results of a meeting dated 14-15 June, the American central bank made a decision to leave the interest rate in the targeted range of 0.25-0.50% per annum. Experts are expecting the next report on the labor market, which should come out on 8 July. If this report meets the expectations, the FRS will have the grounds to raise the federal funds rate as soon as the next month.

Last week, interest rates for government bonds of Germany, Switzerland and Japan set new record-lows on the background of growing demand for protective assets after meetings of the three leading central banks across the world took place and in expectations of Brexit. Lowering yields of Europe-an government bonds to subzero values brings a new problem for the European Central Bank (ECB): more and more government bonds in the euro-area become ineligible for re-purchase by the central bank as part of the quantitative easing (QE) program.

By the end of the previous week, the common European currency depreciated against the US dollar. For the entire previous week, the exchange rate was below USD 1.13/EUR. However, the dynamics of the market was volatile, while the exchange rate has, so far, found no serious support in the new range of exchange rates. On Friday, 17 June, trading in the "euro/US dollar" pair closed at USD 1.1274/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,071.2	-1.2%	1.2%	1.3%
FTSE 100 (UK)	6,021.1	-1.5%	-2.3%	-3.5%
MXME (East. Eur.)	121.9	-2.1%	-3.4%	10.5%
UX (Ukraine)	665.46	1.1%	3.2%	-3.0%
RTS (Russia)	910.3	-1.6%	-1.8%	20.2%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	174.5	1.5%	-0.3%	-3.9%
Steel, USD/ton	363.0	0.0%	-15.6%	43.5%
Oil, USD/barrel	49.2	-2.7%	0.5%	31.9%
Gold, USD/ounce	1,298.2	1.9%	3.2%	22.4%

Source: Thomson Reuters

www.pumb.ua

Department of Investment Business
Andriivska St., 4, Kiev, Ukraine 04070
tel. +38 044 231 7380

MACROECONOMICS

Agriculture

In May 2016, agricultural output shrank at a more sluggish pace. According to information of the State Statistics Service, agricultural output in Ukraine dropped 1.3% over January-May 2016 compared to the same period in 2015.

At that, output at agricultural enterprises declined 0.5%, while output at private farms shrank 2.0%.

Prices for selling agricultural products grew 1.6% in May 2016 compared to the previous month. At that prices for plant-growing products grew 1.9%, whereas prices for livestock-breeding products remained unchanged. In annual terms, prices for selling agricultural products grew 6.7% in May 2016. At that, prices for plant-growing products jumped 22.3%, and prices for livestock-breeding products declined 3%.

BOND MARKET

During the previous week, the market of internal borrowings grew much more active. Last week, the Ministry of Finance of Ukraine managed to raise UAH 3.5 billion to the State Budget of Ukraine against 309.0 million raised a week earlier by way of placing internal government bonds.

Two market participants purchased bonds maturing in five years and yielding 16.75% per annum. Compared to the previous week, the earning rate for internal government bonds maturing in one year did not change and stood at 16.85% per annum.

During the current week, the Ministry of Finance plants to hold a tender for primary placement of internal government bonds on Tuesday, 21 June. The Ministry of Finance will offer seven types of internal government bonds maturing in three months to five years, including bonds maturing in two years and denominated in US dollars.

NBU OPERATIONS

On 14 and 17 June, the NBU allocated overnight loans to one bank for the total of UAH 1.6 million and UAH 11.1 million respectively. On 15 June, the NBU allocated a refinancing loan to one bank for the total of UAH 717.6 million. The loan was provided for 28 days. The NBU rate for refinancing loans stands at 20.00% per annum.

On 17 June, the National Bank carried out a swap transaction with one market participant for the total of UAH 9.4 million for the period of seven days. The interest rate spread under this transaction totaled 20%.

The total sum of NBU deposit certificates placed in the course of the previous week reached UAH 63.5 billion against UAH 70.2 billion placed a week earlier, including overnight certificates of deposit totaling UAH 31.8 billion. The interest rate for deposit certificates maturing in 14 days stood at 18.00% per annum and for overnight certificates of deposit – 16% per annum.

Last week, the overall level of the banking system liquidity remained practically unchanged. A decline in the volume of deposit certificates in circulation was compensated by an increase in the balance on correspondent accounts.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-May 2016, % year-on-year	-1.3

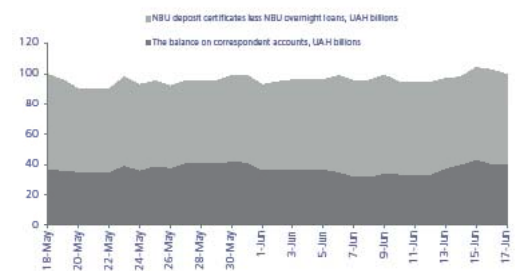
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
14 June	336 days	16.85%	3/3	156.7
14 June	1,064 days	17.38%	6/6	501.5
14 June	1,813 days	16.75%	5/2	2,818.7

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

Last week, the Ukrainian stock market resumed its growth. By the end of the previous week, the Ukrainian Exchange (UX) Index went up 1.1% and closed at 665.46 points on Friday, 17 June. In monthly terms, the UX Index grew 3.2%.

FOREIGN EXCHANGE MARKET

Last week, the exchange rate of the Ukrainian national currency dropped below the UAH 25.00/USD mark, reaching a record-low level since January of the current year.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.95-25.00/USD on Monday, 13 June, UAH 24.90-24.95/USD on Tuesday, 14 June, UAH 24.87-24.92/USD on Wednesday, 15 June, UAH 24.88-24.94/USD on Thursday, 16 June, and UAH 24.89-24.94/USD on Friday, 17 June. The maximum foreign exchange sales volumes were registered on Thursday, 16 June: USD 0.367 billion (all currencies), including sales of the American currency alone for the total of USD 0.222 billion.

During the previous week, the overall foreign exchange sales volumes on the interbank foreign ex-change market totaled USD 1.3 billion against USD 1.2 billion registered a week earlier. From Monday through Wednesday of the previous week, the National Bank held tenders to purchase foreign exchange on the interbank foreign exchange market. The volume of such purchases went up landing at USD 108.7 million against USD 94.7 million purchased a week earlier. The weighted average ex-change rate for these purchases went down from UAH 24.97/USD to UAH 24.90/USD.

INTERBANK LENDING MARKET

Last week, rates for loans on the interbank lending market remained practically unchanged. The cost of overnight loans stood at 16.50-17.50% per annum. Rates for weekly resources were 17.00-19.00% per annum, while the cost of monthly resources stood at 19.00-19.50% per annum by the end of the previous week.

The balance on correspondent accounts went up and, for the most part of the previous week, was above UAH 40 billion. As of Friday morning, 17 June, the balance on correspondent accounts stood at UAH 40.6 billion.

THE UX INDEX



Source: Thomson Reuters

EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-6.8	-9.9	
Industrial output, %	-10.1	-13.4	3.5 (April)
Consumer price growth, % year-on-year	24.9	43.3	7.5 (May)
Producer price growth, % year-on-year	31.8	25.4	16.4 (May)
Balance of trade, USD billions	-4.6	-1.2	-1.2 (January-April)
Official exchange rate, annual average, UAH/ USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.65 (January-May)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	25.14 (end of May)
Banking system assets, % of gr owth	3.0	-4.7	1.1 (January-April)

Source: the State Statistics Service, NBU



DEPARTMENT OF INVESTMENT BUSINESS

Anton Stadnik
Head of department
+38 044 231 7046
anton.stadnik@fuib.com

Marina Timbay
Trading and brokerage
+38 044 231 7053
marina.timbay@fuib.com

Yevhenia Akhtyrko
Research
+38 044 231 7380
evgeniya.ahtirko@fuib.com

**INTERNATIONAL FINANCING
AND TRANSACTION STRUCTURING**

Serhiy Zubro
+38 044 231 7055
serhiy.zubro@fuib.com

TRANSACTION SERVICES

Anton Gurban
+38 044 231 7530
anton.gurban@fuib.com

PUBLIC RELATIONS

Anna Kokoba
+38 044 231 7252
anna.kokoba@fuib.com

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