

# Financial markets survey

04 July 2016

## After-shock growth

WEEKLY ISSUE

### GLOBAL MARKET

Following a swift drop, which markets survived after the outcomes of the Brexit, the British referendum regarding the UK's membership in the European Union, were announced, indices made a U-turn and demonstrated rapid growth.

Over the previous week, the British FTSE 100 Index leapt 7.2%, registering faster growth since the beginning of the current year compared to American stock markets. It is difficult to find a fundamental reasoning for such a rapid U-turn of markets, because the European and the global community is only beginning to estimate political and economic consequences of such unexpected developments.

Petroleum prices continue growing, which is also warming up the market. Over the second quarter of the current year, oil prices grew more than 25%, which is a record-high quarterly growth indicator over the last seven years. There are reasons to assume that petroleum price growth will be suspended in the second half of 2016, since facilities of the petroleum industry infrastructure in Nigeria, which suffered from a gunmen's attack, will be restored.

Another important trend of the second quarter was shrinking yields of bonds of many developed countries. In particular, the earning rates of Japanese, German and British bonds set new record-lows in the course of the second quarter.

Having survived the fall on 27 June, the common European currency appreciated during the previous week, however, not as swiftly as stock markets. On Friday, 1 July, trading in the "euro/US dollar" pair closed at USD 1.1135/EUR.

### STOCK MARKETS

| Index             | last    | week ch. | mon. ch. | YTD   |
|-------------------|---------|----------|----------|-------|
| S&P 500 (US)      | 2,103.0 | 3.2%     | 0.2%     | 2.9%  |
| FTSE 100 (UK)     | 6,577.8 | 7.2%     | 6.2%     | 5.4%  |
| MXME (East. Eur.) | 123.0   | 1.5%     | 1.8%     | 11.5% |
| UX (Ukraine)      | 688.65  | 4.6%     | 10.2%    | 0.4%  |
| RTS (Russia)      | 933.3   | 2.3%     | 4.8%     | 23.3% |

### COMMODITIES

| Commodity       | last    | week ch. | mon. ch. | YTD   |
|-----------------|---------|----------|----------|-------|
| Wheat, USD/ton  | 174.0   | 0.0%     | 1.5%     | -4.1% |
| Steel, USD/ton  | 313.0   | 0.0%     | -13.8%   | 23.7% |
| Oil, USD/barrel | 50.4    | 4.0%     | 1.3%     | 35.1% |
| Gold, USD/ounce | 1,341.9 | 2.0%     | 10.7%    | 26.5% |

Source: Thomson Reuters

[www.pumb.ua](http://www.pumb.ua)

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

## MACROECONOMICS

### Wages

In May 2016, real wages grew at a more rapid pace. According to information of the State Statistics Service, wages in Ukraine rose 12.2% in real terms compared to May 2015. Slower inflation and the recovery of economic growth in the country helped wages accelerate.

The average monthly wage of full-time employees totaled UAH 4,984 in May 2016, which 3.4 times exceeds the minimum wage. The highest wages were observed in the city of Kyiv, Donetsk and Dnipropetrovsk oblasts. The lowest wages were registered in Ternopil, Chernivtsi and Kirovograd oblasts.

### BOND MARKET

During the previous week, the Ministry of Finance of Ukraine did not hold tenders to place internal government bonds. The last tender took place on 21 June, when the Ministry of Finance of Ukraine managed to raise UAH 3.5 billion to the State Budget of Ukraine.

### NBU OPERATIONS

On 23 June, the Board of the National Bank made a decision to lower the discount rate to 16.5% per annum starting from 24 June. The reason for this decision was further decline of the inflation rate – the relevant indicator totaled 7.5% in annual terms in May 2016.

On 29 June, the NBU allocated a refinancing loan to one bank for the total of UAH 1.3 million. The loan was provided for 14 days. Thanks to a lower discount rate, the NBU rate for refinancing loans went down from 20.00% to 18.5% per annum.

The total sum of NBU deposit certificates placed in the course of the four working days of the pre-vious week reached UAH 52.5 billion, including overnight certificates of deposit totaling UAH 31.6 billion. Starting from 24 June, the interest rate for deposit certificates maturing in 14 days has been 16.50% per annum and for overnight certificates of deposit – 14.50% per annum.

By the end of the previous week, the overall level of the banking system liquidity went up thanks to both an increase in the volume of deposit certificates in circulation and an increment in the balance on correspondent accounts.

### STOCK MARKET

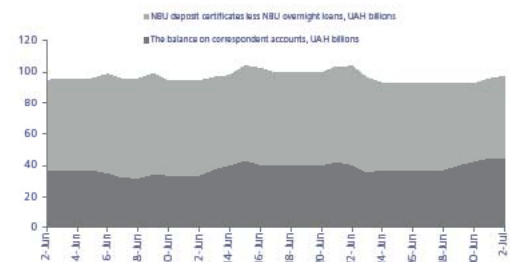
Last week, the Ukrainian stock market moved in unison with the global market and demonstrated a good growth indicator. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 4.6% and closed at 688.65 points on Friday, 1 July. In monthly terms, the UX Index grew 10.2%. Thanks such a swift growth in June, the UX Index managed to return to the positions registered at the beginning of the current year.

## LATEST MACROECONOMIC DATA

| Indicator  | Value |
|--|-------|
| Change in real wages in May 2016, % year-on-year | 12.2% |

Source: the State Statistics Service

## BANKING SYSTEM LIQUIDITY



Source: NBU

## THE UX INDEX



Source: Thomson Reuters

**FOREIGN EXCHANGE MARKET**

Last week, the Ukrainian national currency continued to revalue.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.82-24.85/USD on Wednesday, 29 June, UAH 24.81-24.84/USD on Thursday, 30 June, and UAH 24.80-24.82/USD on Friday, 1 July. The maximum foreign exchange sales volumes were registered on Thursday, 30 June: USD 0.475 billion (all currencies), including sales of the American currency alone for the total of USD 0.322 billion.

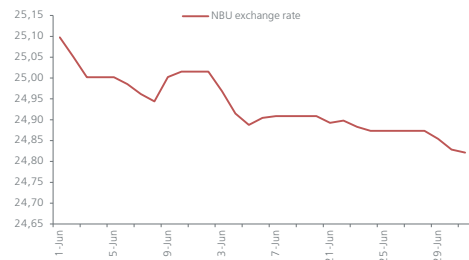
During the three trading days of the previous week, the overall foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.1 billion. On 30 June and 1 July, the National Bank held tenders to purchase foreign exchange on the interbank foreign exchange market. Over the above-mentioned two days, market participants sold USD 97.8 million to the National Bank. The weighted average exchange rate for these purchases inched down from UAH 24.83/USD to UAH 24.82/USD.

**INTERBANK LENDING MARKET**

Last week, rates for loans on the interbank lending market went down in connection with a lower NBU discount rate. By the end of the previous week, the cost of overnight loans stood at 15.00-16.00% per annum, rates for weekly resources were 16.50-17.50% per annum, while the cost of monthly resources shrank to 17.00-18.50% per annum.

The balance on correspondent accounts went up and, for the most part of the previous week, was above UAH 40 billion. As of Saturday morning, 2 July, the balance on correspondent accounts stood at UAH 44.6 billion.

**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 | 0,2<br>(May)            |
| Consumer price growth,<br>% year-on-year                                | 24.9  | 43.3  | 7.5<br>(May)            |
| Producer price growth, %<br>year-on-year                                | 31.8  | 25.4  | 16.4<br>(May)           |
| Balance of trade, USD<br>billions                                       | -4.6  | -1.2  | -1.2<br>(January-April) |
| Official exchange rate,<br>annual average, UAH/<br>USD                  | 11.89 |       |                         |
| Weighted average interbank<br>exchange rate, annual average,<br>UAH/USD | 11.89 | 21.85 | 25.53<br>(January-June) |
| Weighted average interbank<br>exchange rate, by year end,<br>UAH/USD    | 15.77 | 24.00 | 24.83<br>(end of June)  |
| Banking system assets, % of gr<br>owth                                  | 3.0   | -4.7  | -0.2<br>(January-May)   |

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.ahtyrko@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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