



Financial markets survey

18 July 2016

Setting new historical record-highs

WEEKLY ISSUE

GLOBAL MARKET

Despite the height of summer, western markets continue picking up speed. Last week, US stock market indices set new historical record-highs. The S&P 500 Index grew 1.5% over the previous week and 5.8% since the beginning of the current year.

Meanwhile, the British FTSE 100 Index is still far from new historical record-highs. However, since the beginning of the current year, it has been demonstrating a better dynamics than the US indices.

By the end of the previous week, petroleum prices started growing again. Analysts and investors agree in the opinion that the US Federal Reserve System will postpone a higher federal funds rate until December of the current year. Nevertheless, statistical data demonstrate that the US labor market is in a rather good condition. In particular, the number of primary applications for unemployment benefit has been staying below 300,000 for 71 weeks by now, which has not been observed since 1973.

Investors were satisfied with the first outcomes of corporate financial statements for the second quarter, which began to come in during the previous week. Earnings per share of JPMorgan Chase & Co, the largest bank in the United States by total assets, went up in the second quarter of 2016, whereas market participants expected them to go down on the average. Delta Air Lines, a major American airline, reported a higher than expected adjusted profit over August-June.

Based on the results of a two-day meeting, the Bank of England made a decision to leave the base interest rate at 0.5% per annum, whereas the market expected it to be lowered to 0.25% per annum. The base rate of the British central bank has been unchanged for more than seven years – since March 2009. The majority of the Bank of England’s top officials expected the monetary policy to soften already in August 2016.

Since the end of June, the exchange rate of the common European currency against the US dollar has remained actually flat. On Friday, 15 July, trading in the “euro/US dollar” pair closed at USD 1.1034/EUR.

STOCK MARKETS

| Index | last | week ch. | mon. ch. | YTD |
|-------------------|---------|----------|----------|-------|
| S&P 500 (US) | 2,161.7 | 1.5% | 4.4% | 5.8% |
| FTSE 100 (UK) | 6,669.2 | 1.2% | 11.8% | 6.8% |
| MXME (East. Eur.) | 126.7 | 3.6% | 4.1% | 14.8% |
| UX (Ukraine) | 718.13 | 2.7% | 7.5% | 4.7% |
| RTS (Russia) | 963.7 | 3.1% | 5.9% | 27.3% |

COMMODITIES

| Commodity | last | week ch. | mon. ch. | YTD |
|-----------------|---------|----------|----------|--------|
| Wheat, USD/ton | 161.5 | 0.0% | -7.4% | -11.0% |
| Steel, USD/ton | 308.0 | 0.0% | -15.2% | 21.7% |
| Oil, USD/barrel | 47.6 | 1.8% | -2.8% | 27.7% |
| Gold, USD/ounce | 1,337.5 | -2.1% | 3.6% | 26.1% |

Source: Thomson Reuters

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MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine dropped 0.3% over January-June 2016 compared to the same period in 2015. Over the above-mentioned period, output of plant-growing products grew 11.5%, whereas output of livestock-breeding products dropped 2.1%.

There is a serious difference in output indicators at agricultural enterprises and private farms. Over the above-mentioned period, output of plant-growing products soared 34% at agricultural enterprises and rose only 4.5% at private farms. Output of livestock-breeding products shrank at both agricultural enterprises and private farms. Output of livestock-breeding products declined 1.8% at agricultural enterprises and 2.3% at private farms.

BOND MARKET

During the previous week, the Ministry of Finance of Ukraine held a tender to place internal government bonds on 12 July. As a result of this tender, UAH 1.2 billion was raised to the State Budget of Ukraine against UAH 270.9 million raised at a tender a week earlier.

Bonds maturing in two years enjoyed the highest demand. As a result of selling the above-mentioned bonds, the Ministry of Finance of Ukraine managed to raise UAH 900.4 million. The weighted average interest rate for the above-mentioned bonds stood at 16.62% per annum, while the assigned yields landed at 16.70% per annum.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 19 July. The Ministry of Finance will offer five types of internal government bonds, including bonds denominated in hryvnias maturing in six months to three years, as well as internal government bonds denominated in US dollars and maturing in two years.

NBU OPERATIONS

On 13 July, the National Bank carried out a swap transaction with one market participant for the total of UAH 484.5 million for the period of fourteen days. The interest rate spread under this transaction totaled 18.50%. On 15 July, the NBU allocated an overnight loan to one bank for the total of UAH 1.4 million. The interest rate stood at 18.5% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 53.4 billion against UAH 76.7 billion placed a week earlier, including overnight certificates of deposit totaling UAH 29.8 billion. The interest rate for deposit certificates maturing in 14 days is standing at 16.50% per annum and for overnight certificates of deposit – at 14.50% per annum.

During the previous week, the overall level of the banking system liquidity went up thanks to an increase in the balance on correspondent accounts.

STOCK MARKET

Playing in unison with western markets, the Ukrainian stock market has continued to grow rapidly. Market growth is fostered by the stabilized situation on the foreign exchange market of the country and a gradual

LATEST MACROECONOMIC DATA

| Indicator | Value |
|----------------------------------------------------------------------|-------|
| Change in agricultural output over January-June 2016, % year-on-year | -0.3 |

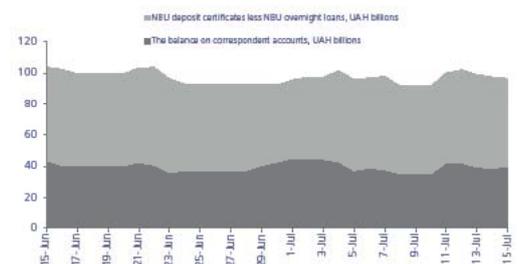
Source: the State Statistics Service

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 |
|-------------------|-----------------------------------|-----------------------|------------------------|----------------------------|
| 12 July | 252 days | 16.30% | 2/1 | 89.9 |
| 12 July | 343 days | 16.15% | 3/3 | 174.6 |
| 12 July | 728 days | 16.62% | 16/11 | 900.4 |

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

recovery of the country's economic growth.

By the end of the previous week, the Ukrainian Exchange (UX) Index grew 2.7% and closed at 718.13 points on Friday, 15 July. Since the beginning of the current year, the UX Index grew 4.7%.

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency recommenced revaluation. On 14 July, the exchange rate went below UAH 24.80/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.83-24.90/USD on Monday, 11 July, UAH 24.81-24.88/USD on Tuesday, 12 July, UAH 24.79-24.86/USD on Wednesday, 13 July, UAH 24.76-24.81/USD on Thursday, 14 July, and UAH 24.77-24.84/USD on Friday, 15 July. The maximum foreign exchange sales volumes were registered on Wednesday, 13 July: USD 0.271 billion (all currencies), including sales of the American currency alone for the total of USD 0.178 billion.

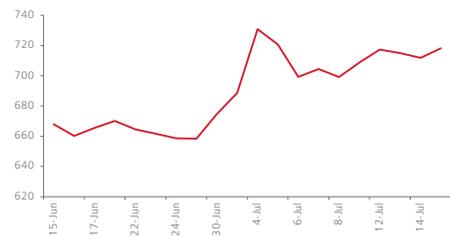
During the previous week, the overall foreign exchange sales volumes on the interbank foreign ex-change market went down and totaled USD 1.2 billion against USD 1.5 billion a week earlier. Last week, the National Bank held only one tender to purchase foreign exchange on the interbank foreign exchange market. On 14 July, market participants sold USD 2.7 million to the National Bank. The weighted average exchange rate for this purchase stood at UAH 24.77/USD.

INTERBANK LENDING MARKET

Last week, the cost of overnight loans on the interbank lending market stood at 15.50-16.50% per annum, rates for weekly resources were 16.00-17.00% per annum, while the cost of monthly re-sources landed at 17.50-18.50% 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 Friday morning, 15 July, the balance on correspondent accounts stood at UAH 40.1 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 | 0.2 (May) |
| Consumer price growth, % year-on-year | 24.9 | 43.3 | 6.9 (June) |
| Producer price growth, % year- on-year | 31.8 | 25.4 | 15.7 (June) |
| Balance of trade, USD billions | -4.6 | -1.7 | -1.3 (January-May) |
| Official exchange rate, annual average, UAH/USD | 11.89 | | |
| Weighted average interbank exchange rate, annual average, UAH/USD | 11.89 | 21.85 | 25.53 (January-June) |
| Weighted average interbank exchange rate, by year end, UAH/USD | 15.77 | 24.00 | 24.83 (end of June) |
| Banking system assets, % of growth | 3.0 | -4.7 | -0.2 (January-May) |

Source: the State Statistics Service, NBU



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