

# Financial markets survey

25 July 2016

## Staying positive

### WEEKLY ISSUE

#### GLOBAL MARKET

Last week, western markets followed mainly the upward trend, while stock market indices in the US set new record-highs again.

Investors focused their attention on the results of corporate financial statements for the second quarter of 2016, statistical data on the US real estate market and decisions of the European Central Bank.

Corporate financial statements of American companies for April-June 2016 can be called rather ambiguous. It is expected that corporate profits will shrink for the fourth consecutive quarter. At the same time, there aren't any unexpected failures.

The number of new houses in the US grew faster than forecast in June. The construction of residential houses is demonstrating a weak recovery. However, it has failed to demonstrate a serious progress due to a shortage of land plots for construction and rigid lending conditions. At the same time, sales of houses on the secondary real estate market in the US went up 1.1% in June 2016 compared to the previous month – to 5.57 million houses calculated in annual terms. This indicator has set a new record-high since February 2007.

Based on the results of its meeting on Thursday, 21 July, the European Central Bank (ECB) left the interest rate on the main refinancing operations at zero level. The ECB also kept the rate on the deposit facility at -0.40% per annum and the interest rate on the marginal lending facility – at 0.25% per annum. The monthly asset purchases program was left unchanged at EUR 80 billion per month.

Last week, the British FTSE 100 Index demonstrated a more rapid growth than American indices again. Investors are making use of a break in the fuss around the Brexit. The country's top officials stated that, this year, the UK would not activate Article 50 of the Lisbon Treaty, which officially launches the process of withdrawal from the European Union and determines the rules for such a withdrawal.

The dynamics of the euro exchange rate against the US dollar was hotchpotch during the previous week. However, a downward trend prevailed. By the end of the previous week, the euro exchange rate depreciated record-low over the last four months. On Friday, 22 July, trading in the "euro/US dollar" pair closed at USD 1.0973/EUR.

#### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,175.0	0.6%	4.3%	6.4%
FTSE 100 (UK)	6,730.5	0.9%	7.5%	7.8%
MXME (East. Eur.)	125.3	-1.1%	0.5%	13.6%
UX (Ukraine)	711.60	-0.9%	7.1%	3.8%
RTS (Russia)	936.0	-2.9%	0.9%	23.6%

#### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	153.0	-2.2%	-12.1%	-15.7%
Steel, USD/ton	313.0	1.6%	0.0%	23.7%
Oil, USD/barrel	45.7	-4.0%	-8.4%	22.6%
Gold, USD/ounce	1,322.0	-1.2%	4.4%	24.6%

Source: Thomson Reuters

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## MACROECONOMICS

### Industrial output

In June 2016, industrial output shrank 3.4% compared to June 2015. Industrial output started shrinking after it had been consistently growing from February through May. Over January-June 2016, industrial output grew 2.0% year-on-year.

In June, a drop was registered in mining and processing industries. In particular, steel output declined 11.7% year-on-year, which is probably connected with shrinking prices for steel industry products in the second quarter of 2016. Coal production went down 14.5% year-on-year in June 2016.

Over January-June 2016, the country registered growing output of all industrial groups of goods, except for durable consumer goods. Output of investment goods (3.3%), output of intermediate goods (3.3%) grew the most.

### BOND MARKET

During the previous week, the Ministry of Finance of Ukraine held a tender to place internal government bonds on 19 July. As a result of this tender, UAH 3.7 billion was raised to the State Budget of Ukraine against UAH 1.2 billion raised at a tender a week earlier.

The highest number of bids – 25 – was submitted for purchasing internal government bonds denominated in US dollars and maturing in two years. The Ministry of Finance of Ukraine satisfied 20 bids, having set the earning rate at 7.20% per annum. The weighted average interest rate for the above-mentioned bonds stood at 7.15% per annum. One month earlier, the weighted average interest rate for similar internal government bonds landed at 7.39% per annum.

During the current week, the Ministry of Finance plants to hold a tender on Tuesday, 26 July. The Ministry of Finance will offer four types of internal government bonds denominated in hryvnias and maturing in six months to two years.

### NBU OPERATIONS

On 20 July, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 760.3 million for the period of fourteen days. The interest rate stood at 18.50% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 64.2 billion against UAH 53.4 billion placed a week earlier, including overnight certificates of deposit totaling UAH 35.4 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 remained practically unchanged.

### LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in H1'2016, % year-on-year	2.0

Source: the State Statistics Service

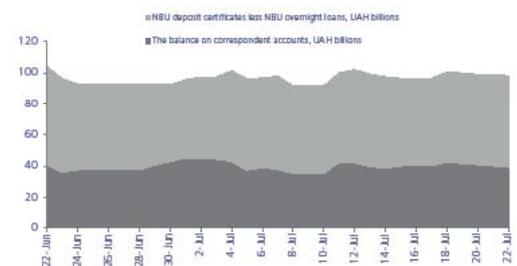
### THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
19 July	245 days	16.28%	2/2	360.6
19 July	1,085 days	16.65%	10/5	890.2
19 July	721 days denom. in US dollars	7.15%	25/20	98.0*

\* - USD millions

Source: the Ministry of Finance of Ukraine

### BANKING SYSTEM LIQUIDITY



Source: NBU

### STOCK MARKET

During the previous week, the Ukrainian stock market stopped growing, and the market stayed practically flat.

By the end of the previous week, the Ukrainian Exchange (UX) Index inched down 0.9% and closed at 711.60 points on Friday, 22 July. Since the beginning of the current year, the UX Index grew 3.8%. In monthly terms, the UX Index rose 7.1%.

### FOREIGN EXCHANGE MARKET

For the most part of the previous week, the exchange rate of the Ukrainian national currency stayed around UAH 24.81/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.81-24.88/USD on Monday, 18 July, UAH 24.78-24.85/USD on Tuesday, 19 July, UAH 24.78-24.84/USD on Wednesday, 20 July, UAH 24.78-24.85/USD on Thursday, 21 July, and UAH 24.79-24.85/USD on Friday, 22 July. The maximum foreign exchange sales volumes were registered on Monday, 18 July: USD 0.293 billion (all currencies), including sales of the American currency alone for the total of USD 0.177 billion.

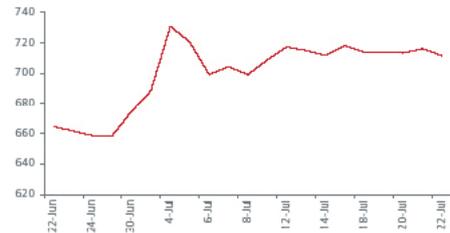
During the previous week, the overall foreign exchange sales volumes on the interbank foreign exchange market went up and totaled USD 1.4 billion against USD 1.2 billion a week earlier. Over 19-21 July, the National Bank held tenders to purchase foreign exchange on the interbank foreign exchange market. Over the above-mentioned period, market participants sold USD 58.6 million to the National Bank against USD 2.7 million sold a week earlier. The weighted average exchange rate for these purchases stood at UAH 24.81/USD.

### INTERBANK LENDING MARKET

Last week, the cost of overnight loans on the interbank lending market stood at 15.50-16.00% per annum, rates for weekly resources were 16.00-17.00% per annum, while the cost of monthly resources landed at 16.50-17.50% per annum.

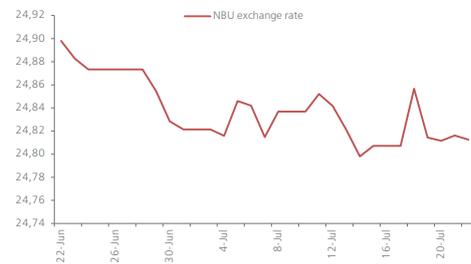
The balance on correspondent accounts remained practically unchanged and, for the most part of the previous week, was above UAH 40 billion. As of Friday morning, 22 July, the balance on correspondent accounts stood at UAH 39.3 billion.

### 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	-3.4 (June)
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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