

Financial markets survey

01 August 2016

No changes

WEEKLY ISSUE

GLOBAL MARKET

After two weeks of rapid growth, western markets followed a side trend. By the end of the previous week, indices of the leading western trading platforms did not register any statistically important changes. Perhaps, the traditional summer slackening has finally arrived on securities markets.

At a meeting of the US Federal Reserve System, which took place on Wednesday, 27 July, it was decided to leave the base interest rate in the US unchanged. This decision was expected, this is why, neither the expectation of this decision, nor the decision itself has resulted in significant anxiety on the market.

Petroleum prices continued falling, having dropped record-low since April 2016. However, this decline had little impact on the moods of securities traders.

Statistical data on the US economy and the euro-area economy published during the previous week were not uniform; however, they hardly differed from forecasts of analysts.

New homes sales in the US grew higher than expected in June 2016. This indicator registered a record-high growth since February 2008. New houses sales jumped 3.5% to 592,000 houses in annual terms with due consideration for seasonal factors. In the second quarter of 2016, the US GDP grew 1.2% in annual terms. At the same time, the US GDP grew 0.8% over January-March 2016 instead of 1.1% as was reported earlier. Therefore, the dynamics of the American GDP over January-March 2016 happened to be the worst for the last two year.

The economy of the 19 euro-area countries grew 0.3% in the second quarter of 2016 compared to the first quarter of 2016. The euro-area GDP grew 0.6% in the first quarter of the current year and 1.7% year-on-year. In June, the rate of unemployment in the euro-area remained unchanged compared to the previous month and stayed record-low since July 2011 – at 10.1%.

During the previous week, the exchange rate of the common European currency appreciated against the US dollar and returned to the values registered at the beginning of July. The main factor, which influenced the weakening of the US dollar, was the US FRS decision to leave the base rate unchanged. On Friday, 29 July, trading in the “euro/US dollar” pair closed at USD 1.1170/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,173.6	-0.1%	5.0%	6.3%
FTSE 100 (UK)	6,724.4	-0.1%	5.7%	7.7%
MXME (East. Eur.)	124.0	-1.1%	0.9%	12.3%
UX (Ukraine)	716.96	0.8%	8.9%	4.5%
RTS (Russia)	927.6	-0.9%	-0.4%	22.5%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	155.0	1.3%	-7.5%	-14.6%
Steel, USD/ton	323.0	3.2%	3.2%	27.7%
Oil, USD/barrel	42.5	-7.1%	-16.1%	13.9%
Gold, USD/ounce	1,350.6	2.2%	2.4%	27.3%

Source: Thomson Reuters

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MACROECONOMICS

Wages

In June 2016, real wages grew at a more rapid pace. According to information of the State Statistics Service, wages in Ukraine rose 17.3% in real terms compared to June 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 5,337 in June 2016, which 3.7 times exceeds the minimum wage. The highest wages were observed in the city of Kyiv, Kyiv and Donetsk oblasts. The lowest wages were registered in Ternopil, Chernivtsi and Kirovograd oblasts.

Balance of payments

Over January-June 2016, deficit of Ukraine's current account balance totaled USD 184 million against a deficit of USD 114 million registered in the first half of 2015. The situation in the external sector improved seriously in the second quarter: Ukraine registered a surplus of the current account totaling USD 918 million against a deficit of USD 1.1 billion in the first quarter of 2016.

Deficit of the country's trade balance reached USD 1.4 billion in the first half of 2016 against USD 0.6 billion over the same period in 2015.

Exports of goods shrank 11.9% in the first half of 2016 mainly because of lower exports to Russia and Asia. At the same time, exports of goods to the EU countries grew 6.7%, while the share of exports to the EU countries rose from 28.0% in the first half of 2015 to 33.9% in H1'2016.

Imports of goods dropped 8.9% in the first half of 2016 mainly because of lower imports from Russia. Imports from the EU countries and Asia grew 2.2% and 16.9% respectively.

Net investments provided from abroad (the total balance of the current account and the capital account) reached USD 141 million over January-June 2016, whereas net loans from abroad stood at USD 282 million in the first half of 2015. Net inflows under the financial account reached USD 0.5 billion in the first half of 2016 against an outflow of USD 1.6 billion in H1'2015.

As of 1 July 2016, Ukraine's total stocks of international reserves landed at USD 14 billion.

BOND MARKET

During the previous week, the Ministry of Finance of Ukraine held a tender to place internal government bonds on 26 July. As a result of this tender, UAH 0.8 billion was raised to the State Budget of Ukraine against UAH 3.7 billion raised at a tender a week earlier.

The highest number of bids – 14 – was submitted for purchasing internal government bonds maturing in two years. The Ministry of Finance of Ukraine satisfied 12 bids, having set the earning rate at 16.60% per annum. The weighted average interest rate for the above-mentioned bonds stood at 16.59% per annum. Two weeks earlier, the weighted average interest rate for similar internal government bonds landed at 16.62% per annum.

During the current week, the Ministry of Finance plants to hold a tender on Tuesday, 2 August. The Ministry of Finance will offer four types of internal government bonds denominated in hryvnias and maturing in six months to five years. Our analysts expect interest rates for bonds to be placed to go

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in June 2016, % year-on-year	17.3
Current account balance in H1'2016, USD millions	-184.0

Source: the State Statistics Service, NBU

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
26 July	182 days	16.20%	2/2	188.0
26 July	364 days	16.10%	1/1	54.7
26 July	714 days	16.59%	14/12	557.1

Source: the Ministry of Finance of Ukraine

down in connection with the NBU discount rate which was lowered during the previous week (see **NBU OPERATIONS**).

NBU OPERATIONS

The Board of the National Bank made a decision to lower the discount rate to 15.50% per annum starting from 29 July 2016. The reason for this decision was lower risks to price stability. In particular, the rate of inflation declined to 6.9% in annual terms in June 2016.

On 27 July, the National Bank satisfied one bid of banks for a refinancing loan for the total of UAH 677.5 million for the period of fourteen days. The interest rate stood at 18.50% per annum. In addition, on 29 July, two banks received overnight loans totaling UAH 1.15 billion. The interest rate for overnight loans dropped down from 18.50% per annum to 17.50% per annum in connection with a lower NBU discount rate.

The total sum of NBU deposit certificates placed during the previous week reached UAH 54.7 billion against UAH 64.2 billion placed a week earlier, including overnight certificates of deposit totaling UAH 33.2 billion. On 29 July, the interest rate for deposit certificates maturing in 14 days went down from 16.50% per annum to 15.50% per annum and for overnight certificates of deposit – from 14.50% per annum to 13.50% per annum.

During the previous week, the overall level of the banking system liquidity remained practically unchanged.

STOCK MARKET

During the previous week, the Ukrainian stock market registered a slight growth.

By the end of the previous week, the Ukrainian Exchange (UX) Index inched up 0.8% and closed at 716.96 points on Friday, 29 July. Since the beginning of the current year, the UX Index grew 4.5%. In monthly terms, the UX Index rose 8.9%.

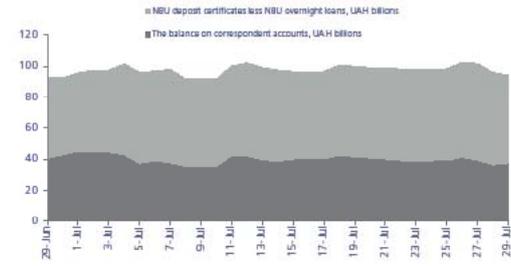
FOREIGN EXCHANGE MARKET

During the previous week, the exchange rate of the Ukrainian national currency was volatile. Attempts to hold the exchange rate below UAH 24.80/USD failed to be successful.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.76-24.82/USD on Monday, 25 July, UAH 24.76-24.82/USD on Tuesday, 26 July, UAH 24.78-24.84/USD on Wednesday, 27 July, UAH 24.77-24.83/USD on Thursday, 28 July, and UAH 24.78-24.83/USD on Friday, 29 July. The maximum foreign exchange sales volumes were registered on Thursday, 28 July: USD 0.302 billion (all currencies), including sales of the American currency alone for the total of USD 0.180 billion.

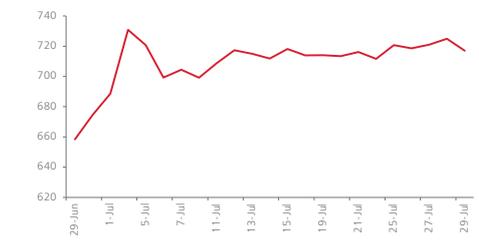
During the previous week, the overall foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.4 billion, which coincided with the indicator registered a week earlier. The National Bank held tenders to purchase foreign exchange on the interbank foreign exchange market every day, except for Thursday. Over the above-mentioned period, market participants sold USD 99.9 million to the National Bank against USD 58.6 million sold a week earlier. The weighted average exchange rate for these

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Thomson Reuters

EXCHANGE RATE (UAH/USD)



Source: NBU



purchases ranged within the limits from UAH 24.79/USD to UAH 24.80/USD.

INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market remained unchanged. The cost of overnight loans 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 fell below UAH 40 billion during the second half of the previous week. As of Friday morning, 29 July, the balance on correspondent accounts stood at UAH 37.7 billion.

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	-1.4 (January-June)
Official exchange rate, annual average, UAH/ USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.42 (January-July)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	24.81 (end of July)
Banking system assets, % of gr owth	3.0	-4.7	-0.5 (January-June)

Source: the State Statistics Service, NBU



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