



# Financial markets survey

12 September 2016

## An unexpected fall at the week's end

WEEKLY ISSUE

### GLOBAL MARKET

For the most part of the previous week, the US stock market remained practically flat. However, it collapsed on Friday, 9 September. The S&P 500 Index lost more than 2% by the end of the previous week. Investors demonstrated growing concerns that the US Federal Reserve System (FRS) will make the decision to raise the base rate in the nearest future. Such a change in the moods on the market took place after a "hawkish" comment made by an FRS member who has been known for his mainly "dove-like" position. The above-mentioned change in the moods was totally unexpected, since, already at the beginning of the previous week, the absolute majority of polled economists were confident that rates would not be raised in September.

Meanwhile, the European Central Bank (ECB) left the interest rate on the marginal lending facility at zero level based on the results of its meeting, which took place on Thursday, 8 September. The monthly size of the asset re-purchase program (QE) was left unchanged – at EUR 80 billion. Also, in its statement, the bank emphasized again that the ECB expected the key rates to remain at present or even lower levels for an "extended period of time." At the same time, expectations of a number of experts that the ECB may extend the quantitative easing (QE) program timeframes for the second time failed to get confirmation.

By the end of the previous week, petroleum prices went up. However, the dynamics of prices for this commodity was not uniform in the course of the previous week. First, prices began growing rapidly in connection with the news about a sharp drop in petroleum extraction in the US. However, by the end of the previous week, prices started falling, since experts demonstrated doubts regarding the trend towards shrinking petroleum inventories in the US.

During the previous week, the common European currency appreciated against the US dollar. This appreciation was fostered by the ECB's decision not to extend the quantitative easing program. On Friday, 9 September, trading in the "euro/US dollar" pair closed at USD 1.1229/EUR.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,127.8	-2.4%	-2.2%	4.1%
FTSE 100 (UK)	6,777.0	-1.7%	-1.3%	8.6%
MXME (East. Eur.)	129.9	1.8%	1.3%	17.7%
UX (Ukraine)	738.2	1.9%	5.9%	7.6%
RTS (Russia)	987.9	1.9%	4.4%	30.5%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	159.0	-2.8%	-1.2%	-12.4%
Steel, USD/ton	323.0	0.0%	0.0%	27.7%
Oil, USD/barrel	48.0	2.5%	9.0%	28.8%
Gold, USD/ounce	1,327.7	0.2%	-0.8%	25.1%

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

### Inflation

Consumer prices in Ukraine have been shrinking for three consecutive months. According to information of the State Statistics Service, consumer prices inched down 0.3% in August 2016 compared to the previous month. However, consumer inflation accelerated to 8.4% in annual terms. Since the beginning of the current year, consumer prices grew 4.5%.

Prices for food products went down 1.0% in August 2016. In particular, prices for vegetables, fruits, bread, and bakery products declined. Prices for clothes and footwear dropped 3.3%. At the same time, prices for housing and utility services went up 0.7% in August 2016, mainly because of growing rates for sewerage services and water supply.

In August 2016, producer prices slowed down and grew a mere 0.2% compared to the previous month. In annual terms, producer prices accelerated to 18.9%. Prices in mining industry grew 1.8% because of higher prices in the extraction of iron ores. Prices in the delivery of electric energy, gas and vapor rose 2% in connection with a 2.2% growth of electricity rates. At the same time, prices in processing industry slipped 0.7% over the previous month.

### BOND MARKET

Last week, the Ministry of Finance of Ukraine held a tender on 6 September to place internal government bonds. The tender failed to bring any results. Market participants submitted no bids for purchasing internal government bonds denominated in the national currency.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 13 September. The Ministry of Finance will offer four types of internal government bonds denominated in hryvnia and maturing in six months to five years.

### NBU OPERATIONS

On 7 September, the National Bank satisfied a bid of one bank for a refinancing loan for the total of UAH 685.0 million for the period of fourteen days. The refinancing rate stood at 17.50% per annum.

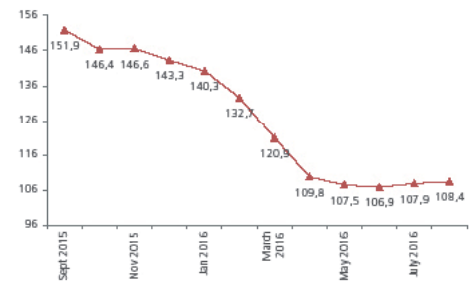
The total sum of NBU deposit certificates placed during the previous week reached UAH 52.5 billion against UAH 50.8 billion placed a week earlier, including overnight certificates of deposit totaling UAH 37.9 billion. The interest rate for deposit certificates maturing in 14 days stood at 15.50% per annum and for overnight certificates of deposit – at 13.50% per annum.

By the end of the previous week, the overall level of the banking system liquidity went down owing to a drop in the balance on correspondent accounts.

### STOCK MARKET

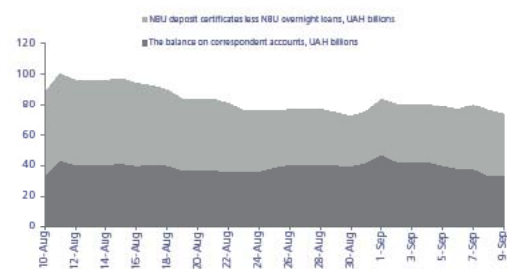
During the first half of the previous week, the Ukrainian stock market continued growing rapidly at a pace set out a week earlier. On Wednesday, 7 September, the Ukrainian Exchange (UX) Index closed at 765.63 points. However, next day the market made a U-turn and began to fall.

### CONSUMER PRICE INDEX (month-on-month of the previous year)



Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

On Friday, 9 September, the UX Index closed at 738.21 points. The UX Index grew 1.9% over the previous week. Since the beginning of the current year, the UX Index grew 7.6%.

**FOREIGN EXCHANGE MARKET**

At the beginning of the previous week, the Ukrainian national currency continued to depreciate. On Tuesday, 6 September, the exchange rate landed at UAH 26.85/USD. Over subsequent days, the exchange rate went down and reached UAH 26.67/USD on Friday, 9 September.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 26.70-26.90/USD on Monday, 5 September, UAH 26.75-26.90/USD on Tuesday, 6 September, UAH 26.65-26.80/USD on Wednesday, 7 September, UAH 26.55-26.70/USD on Thursday, 8 September, and UAH 26.60-26.75/USD on Friday, 9 September. The maximum foreign exchange sales volumes were registered on Thursday, 8 September: USD 0.346 billion (all currencies), including sales of the American currency alone for the total of USD 0.242 billion.

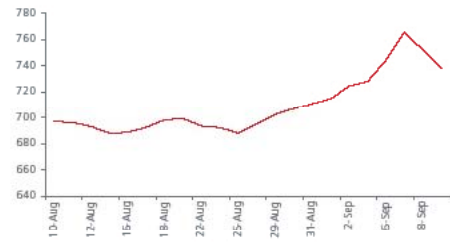
During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.5 billion against USD 1.4 billion registered a week earlier. Over 5-8 September, the National Bank held daily tenders to sell foreign exchange. Market participants purchased USD 87.2 million from the National Bank against USD 110.0 million purchased a week earlier. The weighted average exchange rate for these sales went down from UAH 26.80/USD to UAH 26.61/USD.

**INTERBANK LENDING MARKET**

During the previous week, the cost of overnight loans stood at 14.50-16.50% per annum, rates for weekly resources were 15.00-16.00% per annum, while the cost of monthly resources landed at 15.00-17.00% per annum.

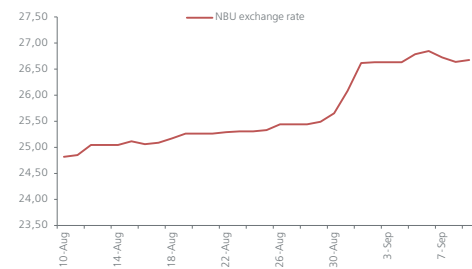
During the previous week, the balance on correspondent accounts went down. As of Friday morning, 9 September, the balance on correspondent accounts stood at UAH 33.7 billion.

**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	0.1 (first quarter)
Industrial output, %	-10.1	-13.4	-0.2 (July)
Consumer price growth, % year-on-year	24.9	43.3	8.4 (August)
Producer price growth, % year-on-year	31.8	25.4	18.9 (August)
Balance of trade, USD billions	-4.6	-1.7	-2.0 (January-July)
Official exchange rate, annual average, UAH/ USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.38 (January-August)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	26.08 (end of August)
Banking system assets, % of gr owth	3.0	-4.7	0.5 (January-July)

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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