



Financial markets survey

19 September 2016

Expectations change

WEEKLY ISSUE

GLOBAL MARKET

During the previous week, the US stock market was recovering from losses sustained on 9 September. The fears that the US Federal Reserve System (FRS) will make the decision to raise the base rate already in September have started to subside. On Monday, 12 September, three FRS representatives made statements, which made it clear that they did not see the need to hurry with such a decision. Also, it became known that the FRS leadership was lacking unanimity to take decisive actions.

In the course of the previous week, statistical data on the US economy came in. These data supported the opinion that, after all, it made no sense to hurry up with toughening the country's monetary policy. Retail sales in the US went down 0.3% in August 2016 compared to the previous month. This drop in sales in August was registered for the first time over the last five months. On the average, analysts expected this indicator to slide a mere 0.1%. Industrial output in the US shrank 0.4% in August 2016 compared to the previous month, while analysts expected this indicator to drop 0.2% on the average.

After the rapid summer growth, the British FTSE 100 Index has been volatile for the past several weeks and demonstrated mainly a downward trend. By the end of the previous week, the FTSE 100 Index lost 1%. However, it has still been outpacing indicators of the US stock markets in terms of growth pace since the beginning of the current year. There are growing fears that the BREXIT will have significant negative consequences for the British economy.

By the end of the previous week, the common European currency depreciated against the US dollar again. The exchange rate returned to the values registered at the beginning of the current month. On Friday, 16 September, trading in the "euro/US dollar" pair closed at USD 1.1153/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,139.2	0.5%	-2.0%	4.7%
FTSE 100 (UK)	6,710.3	-1.0%	-2.2%	7.5%
MXME (East. Eur.)	125.7	-3.2%	-3.0%	13.9%
UX (Ukraine)	769.2	4.2%	11.1%	12.1%
RTS (Russia)	961.4	-2.7%	-0.4%	27.0%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	157.5	-0.9%	0.6%	-13.2%
Steel, USD/ton	320.0	-0.9%	-0.9%	26.5%
Oil, USD/barrel	45.8	-4.7%	-8.2%	22.8%
Gold, USD/ounce	1,310.1	-1.3%	-3.1%	23.5%

Source: Thomson Reuters

www.pumb.ua

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

MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine inched up 0.1% over January-August 2016 compared to the same period in 2015.

Over the above-mentioned period, output of plant-growing products grew 1.7%, whereas output of livestock-breeding products dropped 2.4%. At the same time, output grew only at private farms. Over the above-mentioned period, output at agricultural enterprises shrank 1.6%.

BOND MARKET

Last week, the Ministry of Finance of Ukraine held a tender on 13 September to place internal government bonds. As a result of this tender, UAH 10.1 million was raised to the State Budget of Ukraine.

The Ministry of Finance of Ukraine satisfied one bid for purchasing internal government bonds maturing in five years with the earning rate at 16.00% per annum.

NBU OPERATIONS

On 15 September, the Board of the National Bank made a decision to lower the discount rate to 15.00% per annum starting from 16 September 2016. A softer monetary policy is fostered by further decline of risks to price stability. In August 2016, annual inflation totaled 8.4%, which is in line with the targeted inflation indicator for 2016 – 12%+/-3 pp.

On 14 September, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 800.0 million for the period of twenty-eight days. In addition, over 13-16 September, one bank received an overnight loan from the National Bank totaling UAH 100.00 million. On Friday, the interest rate for refinancing loans of the NBU dropped to 17.00% from 17.50% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 40.4 billion versus UAH 52.5 billion placed one week earlier, including overnight certificates of deposit totaling UAH 20.7 billion. On Friday, the interest rate for deposit certificates maturing in fourteen days dropped to 15.00% from 15.50% per annum and for overnight certificates of deposit – to 13.00% from 13.50% per annum.

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

STOCK MARKET

Over the previous week, the Ukrainian stock market demonstrated confident growth. Positive moods of traders were supported by the IMF decision to allocate a new loan tranche to Ukraine, as well as a stabilized situation on the country's foreign exchange market.

By the end of the previous week, the Ukrainian Exchange (UX) Index grew 4.2%. Since the beginning of the current year, the UX Index grew 12.1%. On Friday, 16 September, the UX Index closed at 769.16 points.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-August 2016, % year-on-year	0.1

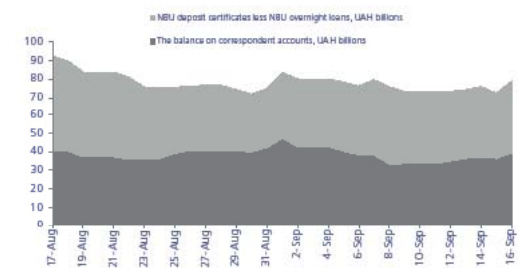
Source: the State Statistics Service

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
13 Sep	1,792 days	16.00%	2/1	10.1

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Thomson Reuters

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued to appreciate. This was fostered by the news about a positive decision passed by the IMF to allocate the third loan tranche to Ukraine. On 16 September, USD 1.0 billion was transferred to Ukraine as part of that loan. That day, the exchange rate went below UAH 26.00/USD for the first time since 31 August 2016.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 26.57-26.67/USD on Monday, 12 September, UAH 26.28-26.53/USD on Tuesday, 13 September, UAH 26.25-26.40/USD on Wednesday, 14 September, UAH 26.15-26.25/USD on Thursday, 15 September, and UAH 25.80-26.00/USD on Friday, 16 September. The maximum foreign exchange sales volumes were registered on Thursday, 15 September: USD 0.272 billion (all currencies), including sales of the American currency alone for the total of USD 0.185 billion.

During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.3 billion against USD 1.5 billion registered a week earlier. Last week, the NBU held a tender to purchase foreign exchange for the first time since the beginning of September.

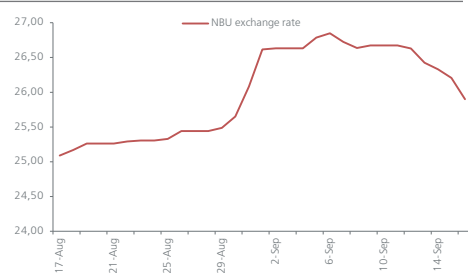
On 13 September, the National Bank purchased USD 19.7 million from market participants. The weighted average exchange rate for this purchase totaled UAH 26.30/USD. A week earlier, the NBU sold USD 87.2 million to market participants.

INTERBANK LENDING MARKET

By the end of the previous week, the cost of overnight loans stood at 15.00-17.00% per annum, rates for weekly resources were 15.00-16.50% 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 up and stood above UAH 35 billion for the entire previous week. As of Friday morning, 16 September, the balance on correspondent accounts stood at UAH 39.5 billion.

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 growth	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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