



Financial markets survey

26 September 2016

Central banks give a positive signal

WEEKLY ISSUE

GLOBAL MARKET

Last week, stock markets across the world kept a positive dynamics. Decisions of central banks in the US and Japan to support a soft monetary policy served as growth catalysts.

Markets have been expecting the decision of the US Federal Reserve System (FRS) to leave the base interest rate unchanged for almost two weeks. Now, investors will remain certain as regards this issue until December 2016, when the next revision of the base rate will be possible.

After a scheduled meeting and a large-scale revision of its monetary policy, the Bank of Japan made a decision to reject the benchmark of the monetary base as one of the key targeted indicator, switching to targeting the earning rate for government bonds maturing in ten years at the current level close to zero. The central bank will keep the annual pace of buying out Japanese government bonds, which makes it possible to increase assets on the bank's balance sheet by JPY 80 trillion (USD 780 billion) per annum. The Bank of Japan will continue to increase the monetary base (and, respectively, to buy out securities) as long as the rate of inflation in Japan does not recover to a stable 2% per year.

The British FTSE 100 Index has continued to actively recover the losses sustained in the first half of the current month and grew 3% over the previous week. According to information of the Confederation of the British Industry (CBI) representing interests of more than 200,000 companies in the UK, British companies will grow at a more rapid pace during the next three months supported by the background of a serious depreciation of the national currency exchange rate after the Brits had voted for the withdrawal of their country from the European Union (Brexit). At the same time, the CBI has warned that producers will face "numerous difficulties ahead," since the UK will have to adjust to new standards of relations with the European Union and the rest of the world.

By the end of the previous week, the US dollar began to depreciate against the common European currency in connection with the FRS decision to leave the base interest rate unchanged. On Friday, 23 September, trading in the "euro/US dollar" pair closed at USD 1.1222/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,164.7	1.2%	-0.5%	5.9%
FTSE 100 (UK)	6,909.4	3.0%	1.1%	10.7%
MXME (East. Eur.)	130.9	4.1%	2.5%	18.6%
UX (Ukraine)	814.2	5.9%	17.6%	18.7%
RTS (Russia)	993.9	3.4%	3.7%	31.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	156.5	-0.6%	-4.0%	-13.8%
Steel, USD/ton	323.0	0.0%	0.0%	27.7%
Oil, USD/barrel	45.9	0.3%	1.9%	23.1%
Gold, USD/ounce	1,337.2	2.1%	1.1%	26.0%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

In August 2016, industrial output resumed growth after it had been falling in the course of the two previous months. Compared to August 2015, industrial output grew 3.4% in August 2016. Since the beginning of the current year, industrial output grew 2.0% year-on-year.

Processing industry went up 5.5% year-on-year in August 2016. In particular, output jumped 12.4% in chemical industry, 5.0% in steel industry and 1.8% in machine-building.

Mining industry continues to demonstrate non-uniform dynamics month after month. In August, output shrank 1.7% because of lower output of petroleum, gas and iron ores.

Over January-August 2016, the country registered growing output of all industrial groups of goods, except for durable consumer goods. Output of intermediate goods (2.7%) grew the most.

GDP

According to preliminary data of the State Statistics Service, Ukraine's GDP grew 1.4% in the second quarter of 2016 compared to the second quarter of 2015. Compared to the first quarter of 2016, the country's GDP inched up 0.6%.

Investment recovered at a rapid pace during the second quarter of 2016: gross accumulation of fixed capital soared 17.6%. Household consumption rose 4.3%. The impact of foreign trade on GDP has continued to stay negative: exports of goods and services shrank 6.5% over the second quarter of 2016.

GDP deflator reached 15.2% in the second quarter of 2016.

Unemployment

The rate of unemployment among economically active population of Ukraine aged 15-70 (in accordance with the International Labor Organization methodology) reached 9.0% in the second quarter of 2016 compared to 9.9% in the first quarter of the current year. The rate of unemployment went down because of the recovery of economic growth in the country in the first half of the current year.

In Q2'2015, the rate of unemployment among female population totaled 7.3% and among male population – 10.8%. Unemployment rates among rural residents reached 9.4% and among urban population – 8.7%.

BOND MARKET

Last week, the market of internal borrowings grew much more active. On 20 September, the Ministry of Finance of Ukraine held a tender to place internal government bonds. As a result of this tender, UAH 3.4 billion was raised to the State Budget of Ukraine against UAH 10.1 million raised a week earlier.

Bonds denominated in US dollars and maturing in two years enjoyed the highest demand. The weighted average interest rate for the above-mentioned bonds totaled 6.48% per annum. The Ministry of Finance of Ukraine rejected bids requesting an earning rate above 6.50% per annum. A month earlier, the weighted average interest rate for similar internal government bonds landed at 6.69% per annum.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in August 2016, % year-on-year	3.4
GDP change in Q2'2016, % year-on-year	1.4
Unemployment rate (ILO methodology) in Q2'2016, %	9.0

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
20 Sept	364 days	15.20%	1/1	20.0
20 Sept	707 days	16.00%	2/1	807.1
20 Sept	721 days denom. in USD	6.48%	25/23	100.1*

* - USD millions

Source: the Ministry of Finance of Ukraine

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 27 September. The most interesting offer will be primary placement of indexed bonds maturing in 2023. In addition, market players will have a chance to purchase bonds denominated in hryvnia and maturing in six months to two years.

NBU OPERATIONS

On 21 September, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 800.0 million for the period of fourteen days. In addition, the NBU allocated overnight loans on a daily basis. The total sum of overnight loans reached UAH 2.13 billion over the previous week. At that, the NBU allocated overnight loans totaling UAH 1.60 billion to two banks on Friday, 23 September. This is a record-high sum for an overnight loan allocated since the beginning of the current year. The interest rate for refinancing loans of the NBU stood at 17.00% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 37.5 billion against UAH 40.4 billion placed a week earlier, including overnight certificates of deposit totaling UAH 22.5 billion. The interest rate for deposit certificates maturing in fourteen days stood at 15.00% per annum and for overnight certificates of deposit – at 13.00% 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

Confident growth of the Ukrainian stock market continued during the previous week.

On 23 September, Ukraine placed Eurobonds secured by the US Government for the total of USD 1 billion with the interest rate of 1.471% per annum, which is a record-low in the entire history of Ukraine.

By the end of the previous week, the Ukrainian Exchange (UX) Index grew 5.9%. Since the beginning of the current year, the UX Index grew 18.7%. On Friday, 23 September, the UX Index landed at 814.21 points by closing time of the Ukrainian Exchange.

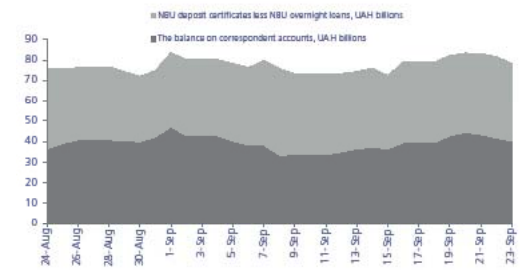
FOREIGN EXCHANGE MARKET

During the previous week, the trend towards appreciation of the Ukrainian national currency came to a stop. By the end of the previous week, the exchange rate came very close to UAH 26.00/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 25.65-25.79/USD on Monday, 19 September, UAH 25.74-25.97/USD on Tuesday, 20 September, UAH 25.94-26.05/USD on Wednesday, 21 September, UAH 25.87-25.99/USD on Thursday, 22 September, and UAH 25.95-26.05/USD on Friday, 23 September. The maximum foreign exchange sales volumes were registered on Wednesday, 21 September: USD 0.352 billion (all currencies), including sales of the American currency alone for the total of USD 0.259 billion.

During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.5 billion against USD 1.3 billion registered a week earlier. Last week, the NBU resumed tenders to sell

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Thomson Reuters

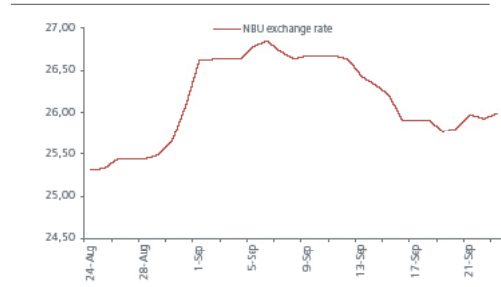
foreign exchange after it had actively purchased foreign exchange on the market just a week earlier. On 21 September, the National Bank sold USD 10.9 million to market participants. The weighted average exchange rate for this sale totaled UAH 25.97/USD. A week earlier, the NBU purchased USD 19.7 million from market participants.

INTERBANK LENDING MARKET

Over the previous week, the upper limit for the cost of overnight loans went down on the interbank lending market. By the end of the previous week, the cost of overnight loans stood at 15.00-15.50% 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 40 billion for the entire previous week. As of Friday morning, 23 September, the balance on correspondent accounts stood at UAH 40.2 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-6.8	-9.9	1.4 (second quarter)
Industrial output, %	-10.1	-13.4	3.4 (August)
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



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