

Financial markets survey

10 October 2016

Growth everywhere, except the US

WEEKLY ISSUE

GLOBAL MARKET

Last week turned out to be very successful for global stock markets. However, the US did not fit into this picture. By the end of the previous week, the US stock market found itself in the red.

American investors expected publication of a report by the US Department of Labor delivering September data on unemployment. The data published turned out to be weaker than experts expected. However, it did not reduce the expectations that the US Federal Reserve will raise the base interest rate at its December meeting. On Friday, 7 October, President of the Federal Reserve Bank (FRB) of Cleveland Loretta Mester stated that the September labor market report, although was weaker than analysts expected, still looked strong enough. According to Loretta Mester, the situation on the US labor market and gradual growth of the inflation rate in the US completely justify a higher base interest rate.

A new wave of expectations related to an upcoming increase of the base rate traditionally resulted in lower quotations of securities. At the moment, the market estimated the likelihood that the US Federal Reserve System will raise the base rate in December 2016 at 66%.

The British FTSE 100 Index grew 2.1% over the previous week and came very close to setting a new historical record-high. This index rose swiftly with a steep fall of the British pound in the background. Depreciation of the pound exchange rate was triggered by the words of President of France Francois Hollande that Brussels should take a firm position in respect of London in the course of negotiations on the country's hard withdrawal from the EU.

By the end of the previous week, the common European currency depreciated against the US dollar in connection with growing expectations related to a higher base interest rate in December. On Friday, 7 October, trading in the "euro/US dollar" pair closed at USD 1.1199/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,153.7	-0.7%	-1.5%	5.4%
FTSE 100 (UK)	7,044.4	2.1%	2.9%	12.8%
MXME (East. Eur.)	132.2	2.4%	-0.3%	19.8%
UX (Ukraine)	839.6	3.6%	9.7%	22.4%
RTS (Russia)	1,002.1	1.1%	-0.4%	32.4%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	158.5	2.6%	-0.3%	-12.7%
Steel, USD/ton	316.0	-2.2%	-2.2%	24.9%
Oil, USD/barrel	51.9	5.8%	8.2%	39.3%
Gold, USD/ounce	1,256.5	-4.5%	-6.6%	18.4%

Source: Thomson Reuters

www.pumb.ua

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

MACROECONOMICS

Inflation

The period of deflation, which has lasted for three summer months in a row, is over now. According to information of the State Statistics Service, consumer prices went up 1.8% in September 2016 compared to the previous month. Since the beginning of the current year, consumer prices grew 6.4%. However, consumer inflation slowed down to 7.9% in annual terms.

Consumer prices leapt mainly because of higher prices for non-food products, as well as higher rates for housing and utility services. Prices for clothes and footwear jumped 10.3% in September, which is likely connected with the replacement of summer collections with autumn and winter clothes, as well as the beginning of the academic year. Prices for housing and utility services went up 3.7%. In particular, electricity rates soared 27.8%

In September 2016, producer prices began to grow again. Producer prices went up 2.6% compared to the previous month. In annual terms, producer prices accelerated to 19.6%. Prices in mining industry grew 8.3%. In particular, prices jumped 12.8% in mining of iron ores and 7.3% in the production of petroleum and gas.

BOND MARKET

During the previous week, market participants did not show any interest in purchasing internal government bonds.

On 4 October, the Ministry of Finance of Ukraine held a tender to place internal government bonds. One bid was submitted for purchasing internal government bonds maturing in five years. However, the Ministry of Finance of Ukraine did not satisfy this bid.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 11 October. The Ministry of Finance will offer four types of internal government bonds denominated in hryvnia and maturing in six months to two years.

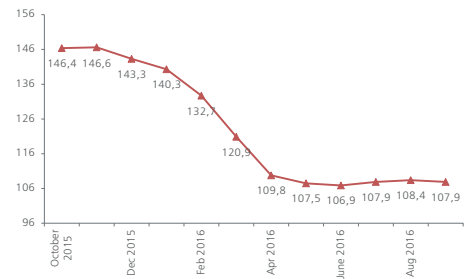
NBU OPERATIONS

On 5 October, the National Bank satisfied three 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 on 3 October and over 5-7 October. The total sum of overnight loans reached UAH 0.959 billion over the previous week against UAH 2.9 billion allocated a week earlier. 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 36.6 billion against UAH 38.3 billion placed a week earlier, including overnight certificates of deposit totaling UAH 23.5 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.

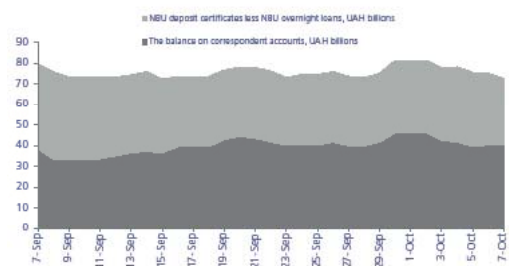
During the previous week, the overall level of the banking system liquidity declined mainly because of a drop in the volume of deposit certificates in circulation.

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



Source: the State Statistics Service

**BANKING SYSTEM
LIQUIDITY**



Source: NBU

STOCK MARKET

The Ukrainian stock market was growing swiftly during the previous week. Over the previous week, the Ukrainian Exchange (UX) Index rose 3.6% and closed at 839.55 points on Friday, 7 October.

In monthly terms, the UX Index grew 9.7%. Since the beginning of the current year, the UX Index went up 22.4%.

FOREIGN EXCHANGE MARKET

In the course of the previous week, the exchange rate of the Ukrainian national currency appreciated slightly against the US dollar and landed at UAH 25.84/USD on Friday, 7 October.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 25.88-25.98/USD on Monday, 3 October, UAH 25.80-25.90/USD on Tuesday, 4 October, UAH 25.84-25.94/USD on Wednesday, 5 October, UAH 25.84-25.94/USD on Thursday, 6 October, and UAH 25.78-25.92/USD on Friday, 7 October. The maximum foreign exchange sales volumes were registered on Wednesday, 5 October: USD 0.326 billion (all currencies), including sales of the American currency alone for the total of USD 0.222 billion.

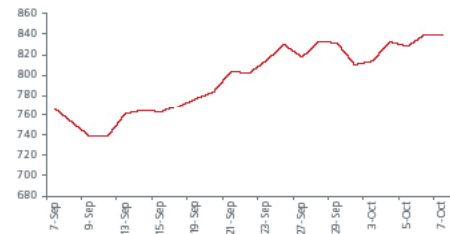
During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.5 billion against USD 1.6 billion registered a week earlier. At a tender held on 7 October, the National Bank purchased USD 18.1 million from market participants. The weighted average exchange rate for this purchase totaled UAH 25.85/USD. A week earlier, the NBU purchased USD 28.2 million from market participants.

INTERBANK LENDING MARKET

Over the previous week, rates on the interbank lending market remained practically unchanged. By the end of the previous week, the cost of overnight loans stood at 15.00-15.50% per annum, while rates for weekly and monthly resources landed at 16.00-17.00% per annum.

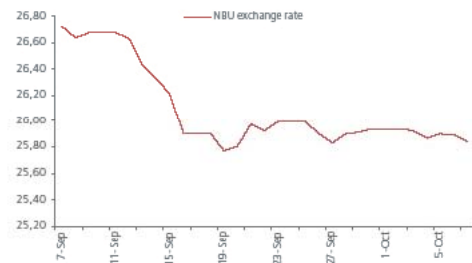
During the previous week, the balance on correspondent accounts remained at a relatively high level. As of Friday morning, 7 October, the balance on correspondent accounts stood at UAH 40.6 billion.

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	1.4 (second quarter)
Industrial output, %	-10.1	-13.4	3.4 (August)
Consumer price growth, % year-on-year	24.9	43.3	7.9 (September)
Producer price growth, % year-on-year	31.8	25.4	19.6 (September)
Balance of trade, USD billions	-4.6	-1.7	-3.0 (January-August)
Official exchange rate, annual average, UAH/USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.49 (January-September)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	25.94 (end of September)
Banking system assets, % of growth	3.0	-4.7	2.2 (January-August)

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.ahtyrko@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

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.