

Financial markets survey

24 October 2016

Some positive

WEEKLY ISSUE

GLOBAL MARKET

By the end of the previous week, the leading global stock platforms closed with a small growth, having partly won back the losses sustained a week earlier. Petroleum prices stabilized at a relatively high level, while gold traders were winning back the losses sustained in the course the three previous weeks.

Statistical data on the US economy published during the previous week was not uniform. On the one hand, retail sales resumed growth in September 2016. On the other, the Consumer Confidence Index fell to 87.9 points in October 2016, which is a record-low since September 2015. However, the news about consumer inflation growing at a more rapid pace in September 2016 turned out to be especially important for investors. Compared to August, consumer prices grew 0.3%, which is a record-high growth since April 2016, whereas annual inflation totaled 1.5%. Data pointing to an overall acceleration of inflation support an increase of the base interest rate by the US Federal Reserve System (FRS).

The so-called Beige Book, a FRS district-based report, covering the period from the end of August to the first ten days of October contains mainly positive estimates of the US economy. The Beige Book is noting an improvement of the situation on the labor market, a sustainable growth of wages, although some districts registered uncertainty in connection with the upcoming presidential election. The majority of experts are expecting that the FRS will refrain from any changes to the country's monetary policy at its November meeting. However, more than 80% of analysts are forecasting that the base interest rate will be raised at the FRS meeting scheduled for 13-14 December 2016.

An important event of the previous week was a meeting of the European Central Bank (ECB) on Thursday, 20 October. Based on the results of that meeting, ECB President Mario Draghi stated that the key interest rates in the euro-area would remain at present or lower levels for an extended period of time. At the same time, the quantitative easing (QE) program, which stands for the ECB's monthly asset purchases of EUR 80 billion, is intended to run until the end of March 2017, or beyond, if necessary.

After the results of the ECB meeting were announced, the common European currency began to depreciate at a rapid pace. The euro exchange rate dropped to the levels registered at the end of the first quarter of the current year. On Friday, 21 October, trading in the "euro/US dollar" pair closed at USD 1.0882/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,141.2	0.4%	-1.0%	4.8%
FTSE 100 (UK)	7,020.5	0.1%	2.7%	12.5%
MXME (East. Eur.)	129.8	0.5%	0.8%	17.7%
UX (Ukraine)	829.1	-1.5%	3.1%	20.9%
RTS (Russia)	986.4	0.3%	0.7%	30.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	163.5	1.9%	4.5%	-9.9%
Steel, USD/ton	316.0	0.0%	-2.2%	24.9%
Oil, USD/barrel	51.8	-0.3%	10.6%	38.9%
Gold, USD/ounce	1,266.3	1.3%	-5.3%	19.4%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

In September 2016, industrial output grew at a more sluggish pace. Compared to September 2015, industrial output grew 2.0% in September 2016. Over January-September 2016, industrial output also grew 2.0% year-on-year.

Processing industry went up 4.6% year-on-year in September 2016. In particular, output increased 4.8% in chemical industry and 4.5% in machine-building. At that, output in steel industry shrank 0.6% in September 2016. However, over January-September 2016, steel output grew 7.1% year-on-year.

Mining industry shrank at a more rapid pace in September 2016. Output in mining industry dropped 5.4% year-on-year.

Over January-September 2016, the country registered growing output of all industrial groups of goods, except for durable consumer goods. Output of non-durable consumer goods (2.3%) grew the most.

BOND MARKET

Last week, the Ministry of Finance of Ukraine held a tender on 18 October to place internal government bonds. As a result of this tender, UAH 160.8 million was raised to the State Budget of Ukraine against UAH 107.5 million raised a week earlier.

Seven market players were willing to purchase bonds maturing in three years. However, the Ministry of Finance satisfied only three bids out of seven, setting up the earning rate at 15.75% per annum.

NBU OPERATIONS

On 19 October, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 720.2 million for the period of fourteen days. In addition, the NBU allocated overnight loans on a daily basis on 17, 18 and 20 October. The total sum of overnight loans reached UAH 440.0 million over the previous week against UAH 1.4 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 38.2 billion, including overnight certificates of deposit totaling UAH 20.6 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 mainly thanks to an increase in the volume of deposit certificates in circulation.

STOCK MARKET

Over the previous week, a downward trend prevailed on the Ukrainian stock market. By the end of the previous week, the UX Index lost 1.5% and closed at 829.06 points on Friday, 21 October.

In monthly terms, the UX Index grew 3.1%. Since the beginning of the current year, the UX Index went up 20.9%.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in September 2016, % year-on-year	2.0

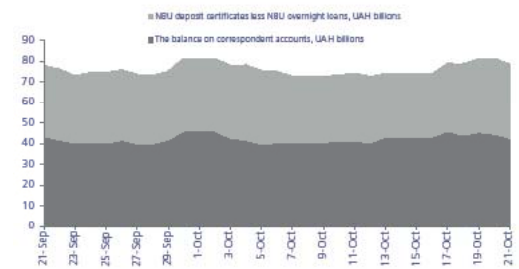
Source: the State Statistics Service

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
18 Oct.	1,050 days	15.75%	7/3	160.8

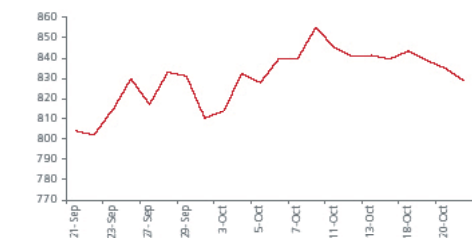
Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Thomson Reuters

FOREIGN EXCHANGE MARKET

By the end of the previous week, the exchange rate of the Ukrainian national currency appreciated against the US dollar. For the most part of the previous week, the exchange rate was below UAH 25.70/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 25.75-25.84/USD on Monday, 17 October, UAH 25.60-25.72/USD on Tuesday, 18 October, UAH 25.62-25.74/USD on Wednesday, 19 October, UAH 25.64-25.76/USD on Thursday, 20 October, and UAH 25.62-25.72/USD on Friday, 21 October. The maximum foreign exchange sales volumes were registered on Tuesday, 18 October: USD 0.351 billion (all currencies), including sales of the American currency alone for the total of USD 0.244 billion.

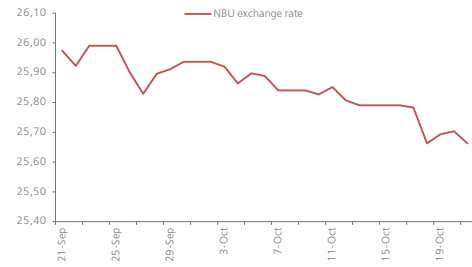
During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.5 billion. At tenders held on 18 and 21 October, the National Bank purchased USD 95.7 million from market participants. The weighted average exchange rate for this purchase totaled UAH 25.66/USD on 21 October. A week earlier, the NBU purchased USD 59.4 million from market participants.

INTERBANK LENDING MARKET

Over the previous week, loan rates on the interbank lending market went down. By the end of the previous week, the cost of overnight loans stood at 13.00-15.00% per annum, rates for weekly resources landed at 15.00-17.00% per annum and monthly resources cost 15.50-17.00% per annum.

During the previous week, the balance on correspondent accounts went up and stood above UAH 42 billion. As of Friday morning, 21 October, the balance on correspondent accounts landed at UAH 42.7 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	2.0 (September)
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



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