



Financial markets survey

31 October 2016

Positive signals from Europe

WEEKLY ISSUE

GLOBAL MARKET

Last week, indices of the leading trading platforms across the world faced a downward trend. Petroleum prices set new record-lows over the last two weeks after the publication of sector-based data demonstrating a serious growth of fuel inventories in the US. In addition, markets are getting closer and closer to December, when the US Federal Reserve System is expected to raise the base interest rate.

During the previous week, the first results of corporate financial statements for the third quarter of 2016 began to come in. On the whole, there have been no unpleasant surprises so far. However, on the average, the data published surpassed forecasts of analysts just a fraction. The results failed to appear to be strong enough in order to change moods of investors.

Statistical data coming from the euro-area begins to inspire some optimistic moods. Data that came in during the previous week demonstrate stronger positive trends. Over the second quarter of 2016, budget deficit of the 19 countries that are part of the euro-area shrank record-low for the last eight years – to 1.5% of GDP compared to 2.1% of GDP over the same period during the previous year. The Economic Sentiment Index for the euro-area (a composite index of business and consumer confidence in the euro-area economy) rose to 106.3 points in October 2016 from 104.9 points in September. The value of this index registered in October was a record-high since December 2015. Over the third quarter of 2016, the rate of unemployment in Spain fell record-low for more than six years thanks to growing employment in the services sector.

Last week, swift depreciation of the common European currency stopped, in many respects, thanks to positive statistical data. By the end of the previous week, the cost of the euro against the US dollar went up. On Friday, 28 October, trading in the “euro/US dollar” pair closed at USD 1.0983/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,126.4	-0.7%	-2.1%	4.0%
FTSE 100 (UK)	6,996.3	-0.3%	2.1%	12.1%
MXME (East. Eur.)	130.8	0.8%	1.8%	18.6%
UX (Ukraine)	839.1	1.2%	0.7%	22.3%
RTS (Russia)	992.7	0.6%	1.8%	31.1%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	165.0	0.9%	6.8%	-9.1%
Steel, USD/ton	316.0	0.0%	-2.2%	24.9%
Oil, USD/barrel	49.7	-4.0%	2.1%	33.3%
Gold, USD/ounce	1,275.9	0.8%	-3.4%	20.3%

Source: Thomson Reuters

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MACROECONOMICS

Wages

In September 2016, real wages in Ukraine continued to grow at a swift pace, rising 15.6% compared to September 2015. Rapid growth of real wages is the result of the low baseline of the previous year, slower inflation and the recovery of economic growth in the country.

The average monthly wage of full-time employees totaled UAH 5,358 in September 2016, which 3.7 times exceeds the minimum wage. The highest wages were observed in the city of Kyiv, Donetsk and Kyiv oblasts. The lowest wages were registered in Ternopil, Chernivtsi and Khmelnytskyi oblasts.

Balance of payments

In September 2016, deficit of Ukraine's current account balance grew to USD 875 million, which is a record-high indicator in monthly terms since the beginning of 2014. Over January-September 2016, deficit of Ukraine's current account totaled USD 2.3 billion against a surplus of USD 128 million registered over January-September 2015.

Deficit of trade in goods reached USD 625 million in September 2016. Compared to September 2015, exports of goods shrank 7.1%. In September 2016, imports of goods grew at a more sluggish pace, shrinking to 6.8% from 16.3% in August 2016.

Since the beginning of the current year, exports of goods shrank 9.7%, while imports of goods declined 2.3%.

Net investments provided from abroad (the total balance of the current account and the capital account) reached USD 869 million in September 2016, whereas net loans from abroad stood at USD 150 million in September 2015. Net inflows under the financial account reached USD 1.3 billion in September 2016 as a result of placing internal government bonds for the total of USD 1.0 billion, which were guaranteed by the US Government.

As of 1 October 2016, Ukraine's total stocks of international reserves landed at USD 15.6 billion.

BOND MARKET

During the previous week, the internal borrowings market grew much more active in expectation of a lower NBU discount rate. Last week, the Ministry of Finance of Ukraine held a tender on 25 October to place internal government bonds. As a result of this tender, UAH 4.3 billion was raised to the State Budget of Ukraine against UAH 160.8 million raised a week earlier.

Bonds denominated in Euros and maturing in two years enjoyed the highest demand. The Ministry of Finance satisfied seven out of eleven bids, setting up the earning rate at 4.00% per annum.

NBU OPERATIONS

On 27 October, the Board of the National Bank made a decision to lower the discount rate to 14.00% per annum starting from 28 October 2016. A further softening of the country's monetary policy is fostered by lower risks to price stability. In September 2016, the rate of inflation totaled 7.9%,

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in September 2016, % year-on-year	15.6
Current account balance in September 2016, USD millions	-875.0

Source: the State Statistics Service, the National Bank of Ukraine

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
25 October	238 days	15.30%	1/1	50.0
25 October	1,043 days	15.75%	6/6	259.7
25 October	728 days, denom. in Euros	4.00%	11/7	141.3*

* - EUR millions

Source: the Ministry of Finance of Ukraine

On 26 October, the National Bank allocated one overnight loan totaling UAH 24.1 million. A week earlier, the total sum of overnight loans reached UAH 440.0 million. 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 43.8 billion against UAH 38.2 billion placed a week earlier, including overnight certificates of deposit totaling UAH 23.8 billion. On 28 October, the interest rate for deposit certificates maturing in fourteen days went down from 15.00% to 14.00% per annum and for overnight certificates of deposit – from 13.00% to 12.00% 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

During the previous week, the dynamics of the Ukrainian stock market was not uniform. However, an upward trend prevailed in the second half of the previous week. The Ukrainian Exchange (UX) Index closed at 839.08 points on Friday, 28 October, having grown 1.2% over the previous week.

Since the beginning of the current year, the UX Index grew 22.3%.

FOREIGN EXCHANGE MARKET

In the course of the previous week, the exchange rate of the Ukrainian national currency was appreciating against the US dollar day after day. On Friday, 28 October, the exchange rate went below UAH 25.50/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 25.40-25.70/USD on Monday, 24 October, UAH 25.50-25.67/USD on Tuesday, 25 October, UAH 25.45-25.62/USD on Wednesday, 26 October, UAH 25.50-25.60/USD on Thursday, 27 October, and UAH 25.45-25.55/USD on Friday, 28 October. The maximum foreign exchange sales volumes were registered on Thursday, 27 October: USD 0.342 billion (all currencies), including sales of the American currency alone for the total of USD 0.243 billion.

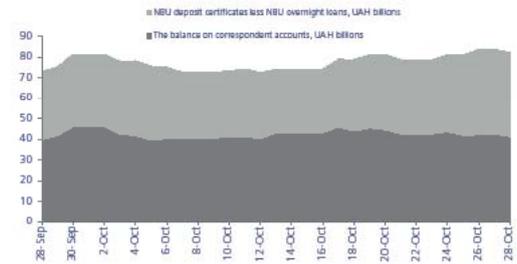
During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 1.6 billion against USD 1.5 billion a week earlier. At tenders held on a daily basis over 25-28 October, the National Bank purchased USD 105.8 million from market participants. In the course of the previous week, the weighted average exchange rate dropped from UAH 25.60/USD to UAH 25.50/USD. A week earlier, the NBU purchased USD 95.7 million from market participants.

INTERBANK LENDING MARKET

Last week, the cost of interbank loans went down in connection with a lower NBU discount rate. By the end of the previous week, the cost of overnight loans stood at 13.00-14.50% per annum, rates for weekly resources landed at 14.00-15.00% per annum and monthly resources cost 15.00-16.50% per annum.

During the previous week, the balance on correspondent accounts remained at a relatively high level and stood above UAH 41 billion. As of Friday morning, 28 October, the balance on correspondent accounts landed at UAH 41.3 billion.

BANKING SYSTEM LIQUIDITY



Source: NBU

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	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	-3.6 (January-September)
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	1.7 (January-September)

Source: the State Statistics Service, NBU



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