

Financial markets survey

26 December 2016

A quiet finish

WEEKLY ISSUE

GLOBAL MARKET

Global financial markets are entering the final straight, summing up the results of the year 2016. The next to last trading week of the year was quiet. Regardless of the fact that geopolitical risks of the current year remained high, the majority of investors should be satisfied with their results, since the majority of market will demonstrate very good growth indicators by the end of the year.

Last week, petroleum prices stopped growing, staying record-high for the last eighteen months. The new rules of play on the petroleum market set at the end of 2016 so far do not look as a sufficiently reliable lever capable to suppressing sharp price fluctuations on the market. Therefore, the impact of the petroleum factor on securities markets will, most likely, persist into the next year.

The US is entering the new year with good indicators of both – the economy and the stock market. In the opinion of top officials of the US Federal Reserve System, the US economy is so strong that interest rates can be raised three times in the course of the next year.

The Consumer Confidence Index in the US jumped to 98.2 points in December 2016, which is a record-high since January 2004. According experts, such a high indicator is connected with expectations of new policies to be implemented by newly elected US President Donald Trump, who promised to lower taxes and to expand investment in the infrastructure. At the same time, such high expectations can provide incentives for economic growth even before the actual implementation of the above-mentioned measures.

Attempts to appreciate the US dollar further made at the beginning of the previous week failed to be successful, and, by the end of the previous week, the exchange rate of the US dollar against the euro remained unchanged. On Friday, 23 December, trading in the “euro/US dollar” pair closed at USD 1.0454/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,263.8	0.3%	2.8%	10.8%
FTSE 100 (UK)	7,068.2	0.8%	3.7%	13.2%
MXME (East. Eur.)	142.4	-1.3%	8.4%	29.0%
UX (Ukraine)	785.4	3.0%	-2.7%	14.5%
RTS (Russia)	1,117.9	-1.6%	9.9%	47.7%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	174.0	0.0%	2.7%	-4.1%
Steel. USD/ton	388.0	0.0%	0.0%	53.4%
Oil. USD/barrel	55.2	-0.1%	12.7%	48.0%
Gold. USD/ounce	1,133.1	-0.1%	-4.6%	6.8%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

In November 2016, industrial output grew at a much more rapid pace. Compared to November 2015, industrial output grew 3.7% in November 2016. Over January-November 2016, industrial output rose 2.1% year-on-year.

Output in mining industry grew 3.3% year-on-year in November 2016. Nevertheless, output in iron ores shrank 1.8% year-on-year. Over January-November 2016, output in mining industry inched down 0.4% year-on-year.

In November 2016, output in processing industry accelerated to 3.9% year-on-year. In particular, output in steel industry grew 4.9%, in machine-building – 6.9% and in food industry – 7.8% year-on-year in November 2016.

Over January-November 2016, the country registered growing output of all industrial groups of goods, except for durable consumer goods. Output of non-durable consumer goods grew the most (3.0%).

BOND MARKET

Last week, participants in the primary internal government bonds market grew less active. The Ministry of Finance of Ukraine managed to raise UAH 6.0 billion to the State Budget of Ukraine against UAH 8.9 billion raised a week earlier by way of selling internal government bonds at a tender held on 20 December.

Market players showed interest only in bonds denominated in US dollars. Bonds denominated in US dollars and maturing in two years enjoyed the highest demand. The weighted average interest rate for the above-mentioned bonds landed at 6.40% per annum.

NBU OPERATIONS

On 19 and 20 December, the NBU satisfied one bid of banks for an overnight loan totaling UAH 160 million each. In addition, on 21 December, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 246 million for the period of fourteen days. The interest rate for refinancing loans of the NBU stood at 16.00% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 76.7 billion against UAH 38.1 billion placed a week earlier, including overnight certificates of deposit totaling UAH 57.8 billion. The interest rate for deposit certificates maturing in fourteen days stood at 14.00% per annum and for overnight certificates of deposit – at 12.00% per annum.

By the end of the previous week, the overall level of the banking system liquidity went up thanks to an increase in the volume of deposit certificates in circulation.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in November 2016, % year-on-year	3.7

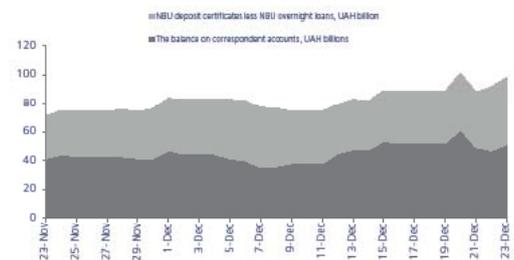
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, USD millions
20 Dec	665 days, denom. in USD	6.35%	4/4	109.6
20 Dec	721 days, denomin. in USD	6.40%	10/10	116.8

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

Last week, the Ukrainian stock market broke the trend, and an upward trend finally prevailed. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 3.0% and closed at 785.40 points on Friday, 23 December. Since the beginning of the current year, the UX Index grew 14.5%.

FOREIGN EXCHANGE MARKET

In the course of the previous week, the dynamics of the exchange rate of the Ukrainian national currency was not uniform. However, the appreciating trend turned out to be stronger, and, thus, the exchange rate of the Ukrainian national currency appreciated by the end of the previous week. On Friday, 23 December, the exchange rate landed at UAH 26.27/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 26.30-26.50/USD on Monday, 19 December, UAH 26.35-26.55/USD on Tuesday, 20 December, UAH 26.30-26.50/USD on Wednesday, 21 December, UAH 26.20-26.40/USD on Thursday, 22 December, and UAH 26.20-26.40/USD on Friday, 23 December. The maximum foreign exchange sales volumes were registered on Friday, 23 December: USD 0.204 billion (all currencies), including sales of the American currency alone for the total of USD 0.173 billion.

During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 0.780 billion against USD 0.930 billion a week earlier.

On 20 December, the National Bank held one tender to sell foreign exchange on the interbank foreign exchange market. On 22 December, the NBU held one tender to purchase foreign exchange. As a result of the tender held on 20 December, market participants purchased USD 28.4 million from the regulator. The weighted average exchange rate for this purchase totaled UAH 26.4559/USD. On 22 December, the regulator satisfied all bids of banks for sales of foreign exchange. Banks sold USD 28.4 million to the NBU. The weighted average exchange rate for this sale totaled UAH 26.2885/USD.

INTERBANK LENDING MARKET

Last week, the cost of monthly interbank loans remained unchanged and stood at 14.00-15.00% per annum. At the same time, the cost and overnight and weekly resources went down. The cost of overnight loans landed at 11.00-13.00% per annum. Rates for weekly resources stood at 13.00-14.50% per annum.

In the course of the previous week, the dynamics demonstrated by the balance on correspondent accounts was not uniform. As of Tuesday morning, 20 December, the country registered a record-high balance on correspondent accounts for the last year, equaling UAH 61.6 billion. However, next day, the balance on correspondent accounts dropped sharply to UAH 49.2 billion. As of Friday morning, 23 December, the balance on correspondent accounts stood at UAH 51.0 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	3.7 (November)
Consumer price growth, % year-on-year	24.9	43.3	12.1 (November)
Producer price growth, % year-on-year	31.8	25.4	32.0 (November)
Balance of trade, USD billions	-4.6	-1.7	-4.1 (January-October)
Official exchange rate, annual average, UAH/USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.53 (January-November)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	25.56 (end of November)
Banking system assets, % of growth	3.0	-4.7	0.7 (January-November)

Source: the State Statistics Service, NBU



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