

Financial markets survey

16 January 2017

Trump and uncertainty

WEEKLY ISSUE

GLOBAL MARKET

Growth of the American market stopped during the previous week. Investors did not have sufficient reasons to continue speculating for the rise confidently.

At a press-conference, newly elected President Donald Trump did not add any details to plans for a reform and growing infrastructure expenditures, although these particular promises of President Trump became the main reasons for an upturn on the US stock markets after the presidential election. There are stronger and stronger opinions that political changes planned by the new Administration will, most likely, bring results not during the current year, but next year.

In addition, members of the US Federal Reserve System currently do not have a single opinion on monetary policy for 2017. While some top officials are expecting that inflation in the US will reach 2.0%, which will make it possible to raise the base interest rate three times in the course of the current year, others are more inclined to stick to a softer approach, forecasting that the base interest rate will be raised only once.

With growing uncertainty in the US in the background, the British FTSE 100 Index continues to feel confident, setting a new historical record-high. Over the previous week, FTSE 100 Index grew 1.8%. In monthly terms, this index grew more than 5%.

As usual in periods of uncertainty, demand for protection assets went up. Gold prices grew 2.1% over the previous week and 4.0% since the beginning of the current year.

Growing uncertainty regarding economic policies of the newly elected US President resulted in depreciation of the US dollar against the common European currency. On Friday, 13 January, trading in the "euro/US dollar" pair closed at USD 1.0641/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,274.6	-0.1%	0.9%	1.6%
FTSE 100 (UK)	7,337.8	1.8%	5.6%	2.7%
MXME (East. Eur.)	148.5	-0.7%	1.9%	1.2%
UX (Ukraine)	825.5	4,0%	6,1%	3,7%
RTS (Russia)	1,158.2	-1.2%	0.8%	0.5%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	173.0	0.0%	-0.6%	0.0%
Steel, USD/ton	395.0	1.8%	1.8%	1.8%
Oil, USD/barrel	595.5	-2.9%	2.7%	-2.4%
Gold, USD/ounce	1,197.3	2.1%	4.6%	4.0%

Source: Thomson Reuters

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MACROECONOMICS

Livestock breeding

By the end of 2016, headcounts of all types of cattle and poultry shrank. In particular, cattle headcounts dropped 2.0%, including cow headcounts – 2.7%, pig headcounts – 2.7%, sheep and goats – 1%, and poultry – 0.8%. Our experts connect shrinking headcounts with a low level of investment in this sector, as well as growing costs of keeping livestock due to higher prices for fodder materials.

In 2016, meat output (live weight) rose 0.7%. At the same time, milk output dropped 2.1%, and egg output fell 9.9%. In our opinion, growing meat output along with shrinking headcounts is connected with growing slaughtering of cattle (in particular, pigs).

BOND MARKET

Last week, the Ministry of Finance of Ukraine managed to raise UAH 129.6 million to the State Budget of Ukraine by way of selling internal government bonds. At a tender held on 10 January, participants purchased bonds maturing in twelve months and two years. The weighted average interest rate for the above-mentioned bonds landed at 15.30% and 15.50% per annum respectively.

During the current week, the Ministry of Finance plants to hold a tender on Tuesday, 17 January. The Ministry of Finance will offer four types of internal government bonds denominated in hryvnias and maturing in three months to one year.

NBU OPERATIONS

On 11 January, the National Bank satisfied two bids of banks for refinancing loans for the total of UAH 498.5 million for the period of fourteen days. A week earlier, the total sum of loans issued for the same period stood at UAH 656.5 million. The interest rate for refinancing loans of the NBU remained unchanged and stood at 16.00% per annum.

The total sum of NBU deposit certificates placed during the previous week reached UAH 53.3 billion against UAH 85.6 billion placed a week earlier, including overnight certificates of deposit totaling UAH 31.1 billion. The interest rate for overnight certificates of deposit stood at 12.00% per annum and for deposit certificates maturing in fourteen days – at 14.00% 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 balance on correspondent accounts and in the volume of deposit certificates in circulation.

STOCK MARKET

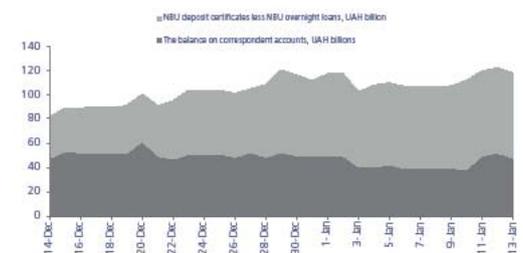
During the previous week, the Ukrainian stock market resumed growing. The Ukrainian Exchange (UX) Index rose 3.8% over the previous week and closed at 825.45 points on Friday, 13 January. In monthly terms, the UX Index grew 6.0%.

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
10 January	364 days	15.30%	1/1	69.4
10 January	721 days	15.50%	3/1	60.2

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 Ukrainian national currency depreciated sharply, sinking UAH 0.5 against the US dollar. On Friday, 13 January, the exchange rate landed at UAH 27.67/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 27.00-27.30/USD on Tuesday, 10 January, UAH 27.00-27.30/USD on Wednesday, 11 January, UAH 27.15-27.40/USD on Thursday, 12 January, and UAH 27.50-27.80/USD on Friday, 13 January.

The maximum foreign exchange sales volumes were registered on Friday, 13 January: USD 0.279 billion (all currencies), including sales of the American currency alone for the total of USD 0.203 billion.

During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 0.771 billion against USD 0.454 billion registered a week earlier.

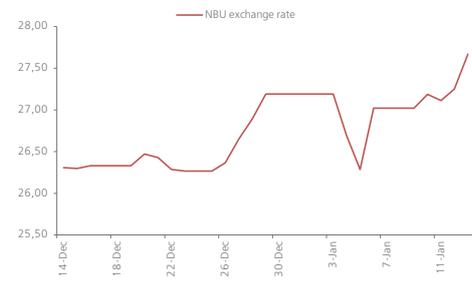
Last week, the National Bank held two tenders to sell foreign exchange. On 10 January, market participants purchased USD 51 million. On 13 January, market players purchased USD 55.5 million. The weighted average exchange rate for these sales totaled UAH 27.14/USD and UAH 27.65/USD respectively.

INTERBANK LENDING MARKET

Last week, the cost of interbank loans remained unchanged compared to the situation registered a week earlier. Rates for overnight loans remained at 11.00-13.00% per annum. Rates for weekly resources stood at 12.00-14.00% per annum, while the cost of monthly loans landed at 12.50-15.50% per annum.

The dynamics of the balance on correspondent accounts was not uniform in the course of the previous week. As of Thursday morning, 12 January, the balance on correspondent accounts stood at UAH 51.9 billion. However, on Friday morning, 13 January, the balance on correspondent accounts went down to UAH 47.8 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-6.8	-9.9	2.0 (third quarter)
Industrial output, %	-10.1	-13.4	3.7 (November)
Consumer price growth, % year-on-year	24.9	43.3	12.4 (December)
Producer price growth, % year-on-year	31.8	25.4	35.7 (December)
Balance of trade, USD billions	-4.6	-1.7	-5.0 (January-November)
Official exchange rate, annual average, UAH/USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.54 (January-December)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	27.19 (end of December)
Banking system assets, % of growth	3.0	-4.7	0.7 (January-November)

Source: the State Statistics Service, NBU



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