

Financial markets survey

17 July 2017

Stock indices are rising, the dollar is falling

WEEKLY ISSUE

GLOBAL MARKET

Last week, the American stock market made a new breakthrough: on Friday, 14 July, indices reached new historical record-highs. The Standard & Poor's 500 Index grew 1.4% over the previous week. Since the beginning of the current year, this index rose almost 10%.

The US stock market got the main impetus on Wednesday, 12 July, thanks to statements of Chair of the US Federal Reserve System (FRS) Janet Yellen. The US FRS Chair said that the American regulator intended to continue the policy of gradually raising the base interest rates in the course of the next several years. However, she said, rates would not be raised to the levels registered in the previous business cycles.

On the last business day of the previous week, indices set new historical record-highs after quotations of shares of hi-tech companies and healthcare sector companies had gone up. In addition, the US registered an increase in the stock value of energy companies and real estate companies, where the bond-yields have gone down in expectation of big share dividends disbursements.

By the end of the previous week, the British FTSE 100 Index demonstrated weak growth and kept a negative dynamics in monthly terms. The Brexit-related news are multidirectional. The European Parliament is threatening to veto the negotiations on the UK's withdrawal from the European Union (Brexit) in case London does not agree to improve the conditions for the EU nationals to stay in the United Kingdom. In particular, the EU is concerned with the intention of the country's top officials to oblige the EU nationals residing in the UK to submit an application for the residence permit after the Brexit. At the same time, the UK recognized for the first time that it has financial obligations to the European Union in connection with the country's withdrawal from the EU. This step made by the UK may prevent a large-scale conflict at the Brexit negotiations that are beginning in Brussels this week.

Attempts to appreciate the US dollar against the common European currency turned out to be unsuccessful over the previous week. The exchange rate was staying practically flat in the course of the previous week. On Friday, 14 July, the US dollar depreciated record-low for the last ten months, since market players were dissatisfied with statistical data on consumer inflation and retail sales, which did not coincide with the forecasts. On Friday, 14 July, trading in the "USD/EUR" pair closed at USD 1.1470/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,459.3	1.4%	0.9%	9.8%
FTSE 100 (UK)	7,378.4	0.4%	-1.3%	3.3%
MXME (East. Eur.)	146.5	4.3%	2.8%	-0.1%
UX (Ukraine)	1,040.4	0.2%	0.3%	30.7%
RTS (Russia)	1,044.3	4.9%	3.0%	-9.4%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	178.5	2.3%	-0.9%	0.9%
Steel, USD/ton	497.0	0.0%	0.0%	26.5%
Oil, USD/barrel	48.9	4.7%	3.4%	-16.9%
Gold, USD/ounce	1,230.3	1.2%	-3.5%	7.4%

Source: Bloomberg

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MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine shrank 2.1% year-on-year over January-June 2017. Over this period, plant-growing output dropped 8.5%, while livestock breeding output slipped a mere 0.9%. Low indicators in plant-growing are mainly connected with abnormally cold weather over May-June. Output at agricultural enterprises fell more seriously (-3.9%) than output at private farms (-0.7%).

Over January-June 2017, agricultural output grew in eight oblasts. Agricultural output in Volyn, Rivne and Khmelnytskyi oblasts grew both at agricultural enterprises and at private farms.

BOND MARKET

At a tender to place internal government bonds, which took place on 11 July, the Ministry of Finance of Ukraine offered only one type of bonds maturing in three years. The Ministry of Finance satisfied all three bids of market participants under the announced interest rate of 14.54% per annum. As a result of placing internal government bonds at this tender, the Ministry of Finance of Ukraine managed to raise UAH 429 million to the State Budget of Ukraine against UAH 241 million raised a week earlier.

According to preliminary information, the Ministry of Finance plans to hold the next tender to place internal government bonds on 18 July. The Ministry of Finance will offer bonds maturing in six, twelve, twenty-four, and thirty-six months.

NBU OPERATIONS

The total sum of NBU deposit certificates placed during the previous week, 10-14 July, reached UAH 32.7 billion against UAH 79.3 billion placed a week earlier, including overnight certificates of deposit totaling UAH 14.6 billion. The interest rate for overnight certificates of deposit stood at 10.50% per annum. The earning rate for deposit certificates maturing in fourteen days totaled 12.50% per annum.

During the previous week, the overall level of the banking system liquidity went down because of shrinking volumes of deposit certificates in circulation.

STOCK MARKET

During Monday-Tuesday of the previous week, the Ukrainian Exchange (UX) Index grew 1.8%. However, the dynamics changed on Wednesday, 12 July, and the UX Index began to drop. On Friday, 14 July, the UX Index closed at 1,040.36 points. By the end of the previous week, the UX Index rose 0.2%.

The UX Index grew 0.3% in monthly terms and 30.7% since the beginning of the current year.

FOREIGN EXCHANGE MARKET

During the first half of the previous week, the Ukrainian national currency moved towards appreciation, and the direction was set a week earlier. On

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-June 2017, % year-on-year	-2.1

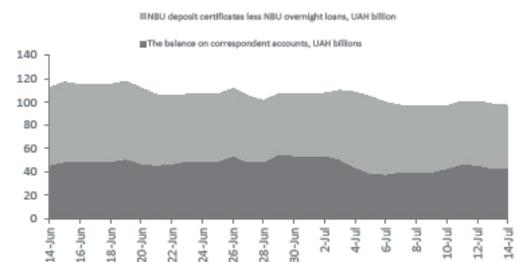
Source: the State Statistics Service

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
11 July	1,064 days	14.54%	3/3	428.60

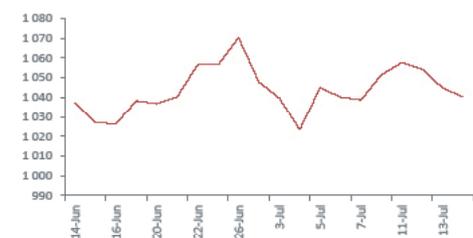
Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Ukrainian Exchange

Tuesday, 11 July, the exchange rate dropped below UAH 26.00/USD, and consolidated at UAH 25.91/USD on Wednesday, 12 July, which is a record-low value since the beginning of the current year. However, over subsequent days, the market dynamics changed, and the exchange rate returned to UAH 26.02/USD by the end of the previous week, totally evening out the appreciation, which was registered during the first three days of the previous week.

During the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.00-26.05/USD on Monday, 10 July, UAH 25.95-26.00/USD on Tuesday, 11 July, UAH 25.90-25.95/USD on Wednesday, 12 July, UAH 25.95-26.00/USD on Thursday, 13 July, and UAH 26.00-26.05/USD on Friday, 14 July. The maximum foreign exchange sales volumes were registered on Thursday, 13 July: USD 0.206 billion (all currencies), including sales of the American currency alone for the total of USD 0.149 billion.

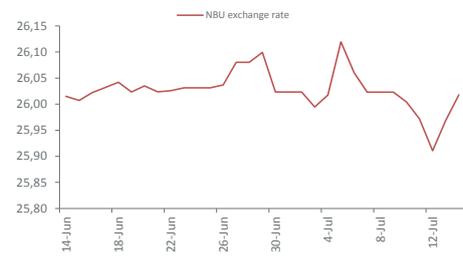
During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 0.764 billion against USD 0.782 billion registered a week earlier. Over the previous week, the National Bank did not hold any tenders to purchase or sell foreign exchange with banks.

INTERBANK LENDING MARKET

In the course of the previous week, the cost of interbank weekly and monthly loans remained unchanged and was registered at 10.00-13.00% per annum and 11.00-13.50% per annum respectively. Rates for overnight resources also remained unchanged and landed at 9.50-12.50% per annum.

The balance on correspondent accounts fluctuated within the limits of UAH 43.0-47.0 billion in the course of the previous week. As of Friday morning, 14 July, the balance on correspondent accounts landed at UAH 43.0 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-9.9	2.3	2.5 (first quarter)
Industrial output, %	-13.4	2.4	1.2 (May)
Consumer price growth, % year-on-year	43.3	12.4	15.6 (June)
Producer price growth, % year-on-year	25.4	35.7	26.3 (June)
Balance of trade, USD billions	-1.7	-5.4	-1.6 (January-April)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.11 (January-June)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	26.02 (June)
Banking system assets, % of growth	-4.7	0.2	-0.5 (January-May)

Source: the State Statistics Service, NBU



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