

Financial markets survey

14 August 2017

North Korea's threat

WEEKLY ISSUE

GLOBAL MARKET

In the course of the previous week, the US stock market suffered the greatest fall since May of the current year. The Standard & Poor's 500 Index lost 1.4% over the previous week, leveling out any growth in monthly terms. Losses of the British FTSE 100 Index turned out to be more even more significant – 2.7% over the previous week.

Stock markets were disturbed by the news that North Korea is considering the possibility of delivering a missile blow the US military bases located on the Guam Island. In his turn, US President Donald Trump warned Pyongyang that it can face "fire and fury" on the part of the US. In addition, top authorities of South Korea and Japan have already promised to take decisive measures in the instance North Korea fulfills its threats.

The fall on stock markets caused a heightened interest among investors in protective assets: foreign exchange and gold. In particular, gold prices grew 2.3% over the previous week.

On the last trading day of the previous week – Friday, 11 August, – agitation on markets subsided. The American market was influenced by the news that the rate of inflation in the US grew less than expected in July. On the whole, the rate of inflation in the US has been lower than forecast for five consecutive months – this is the weakest result since 2010. Stock market players took this news positively, since it means that the American central bank will not be hurrying up in toughening its monetary policy in the course of the nearest months.

Last week, the US dollar stopped depreciating against the common European currency. There was a growing interest in the American currency as a protective asset in connection with the escalating tension on the Korean Peninsula. Nevertheless, this factor did not turn out to be strong enough in order to set up a new appreciating trend for the American currency. On Friday, 11 August, trading in the "EUR/USD" pair closed at USD 1.1821/EUR.

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,441.3	-1.4	-0.1	9.0
FTSE 100 (UK)	7,310.0	-2.7	-1.4	2.3
MXME (East. Eur.)	146.4	-0.7	1.4	-0.3
UX (Ukraine)	1,128.4	-1.0	7.0	41.8
RTS (Russia)	1,022.4	-0.4	-0.3	-11.3

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	169.5	0.0	-2.9	-2.0
Steel, USD/ton	427.5	1.2	7.5	1.8
Oil, USD/barrel	52.1	-0.6	8.5	-11.4
Gold, USD/ounce	1,286.1	2.3	5.5	12.2

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices went up 0.2% in July 2017 compared to the previous month. In annual terms, consumer inflation accelerated to 15.9%. Since the beginning of the current year, consumer prices grew 8.2%.

July 2017 did not register the traditional cheapening of food products: prices for food products grew 0.3% in monthly terms and 12.6% since the beginning of the current year. In July 2017, shrinking prices for eggs, fruits and vegetables overcame growing prices for bread, butter and meat. In addition, prices for housing and residential and utility services rose 0.6% mainly because of growing prices for maintenance of houses and adjoining territories, water supply and sewerage.

In July 2017, producer prices rose 1.8% compared to the previous month. In annual terms, inflation of producer prices slowed down to 23.3%. Since the beginning of the current year, producer prices grew 8.0%. Prices in mining industry slipped 0.2% thanks to lower costs of mining iron ores (-1.3%). Prices in processing industry inched up 0.2% compared to June 2017. Prices in the production of meat and meat products and coke production and oil refining grew the most – 3.7% and 3.6% respectively. In July 2017, growing producer prices were most affected by prices in the delivery of electricity, gas and vapor rising 7.0% in monthly terms, which was the result of electricity rates getting 7.7% higher.

BOND MARKET

At a tender to place internal government bonds held on 8 August, the Ministry of Finance of Ukraine offered one type of bonds. The Ministry of Finance satisfied all bids of market participants to purchase internal government bonds maturing in three years. At that, the weighted average interest rate for the above-mentioned bonds remained unchanged as compared to the previous tender and stood at 14.54% per annum. As a result of placing internal government bonds, the Ministry of Finance managed to raise UAH 256.0 million to the State Budget of Ukraine.

During the current week, the Ministry of Finance plans to hold the next tender to sell internal government bonds on 15 August. The Ministry of Finance will offer bonds denominated in hryvnia and maturing in six, twelve and thirty-six months. Also, the Ministry of Finance will offer internal government bonds denominated in US dollars and maturing in two years.

NBU OPERATIONS

From 1 September 2017, the National Bank is introducing changes to the mechanism for placing deposit certificates specified in the recommendations of the European Central Bank. The maximum maturity period for deposit certificates will be increased from 90 to 100 days. Also, these changes added a new method for satisfying bids of banks when all bids subject to satisfaction will be satisfied at one marginal rate established by the National Bank. The remaining bids of banks which exceeded the marginal rate will not be satisfied.

On 7 August, the National Bank satisfied one bid for a refinancing overnight loan totaling UAH 1.1 million. The interest rate for this loan stood at 14.5% per annum.

The total sum of NBU deposit certificates placed during the previous week, 7-11 August, reached UAH 40.0 billion against UAH 43.8 billion registered

**CONSUMER PRICE INDEX
(month-on-month of the previous year)**



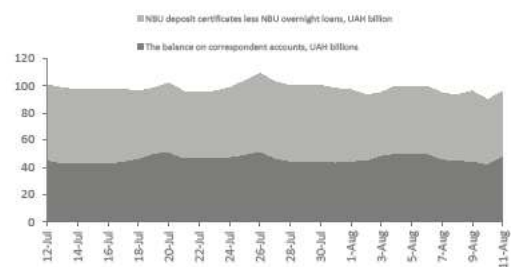
Source: the State Statistics Service

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
8 August	1036 days	14.54%	3/3	256.06

Source: the Ministry of Finance of Ukraine

**BANKING SYSTEM
LIQUIDITY**



Source: NBU

a week earlier, including overnight certificates of deposit totaling UAH 19.9 billion. The interest rate for overnight certificates of deposit continued to stay at 10.50% per annum. The earning rate for deposit certificates maturing in fourteen days totaled 12.50% per annum.

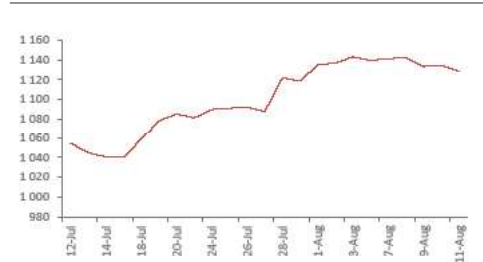
During the previous week, the overall level of the banking system liquidity went down mainly because of a drop in the balance on correspondent accounts.

STOCK MARKET

During the previous week, the Ukrainian stock market played in unison with international markets. By the end of the previous week, the Ukrainian Exchange (UX) Index lost 1.0% and closed at 1,128.35 points on Friday, 11 August.

The UX Index grew 7.0% in monthly terms and 41.8% since the beginning of the current year.

THE UX INDEX



Source: Ukrainian Exchange

FOREIGN EXCHANGE MARKET

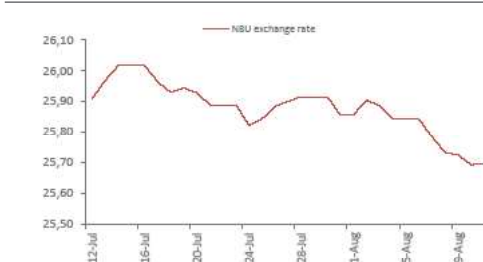
During the previous week, the exchange rate of the Ukrainian national currency continued appreciating. The exchange rate stopped appreciating only on Friday, 11 August, having consolidated at UAH 25.70/USD.

During the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.74-25.82/USD on Monday, 7 August, UAH 25.70-25.75/USD on Tuesday, 8 August, UAH 25.70-25.75/USD on Wednesday, 9 August, UAH 25.67-25.72/USD on Thursday, 10 August, and UAH 25.67-25.72/USD on Friday, 11 August.

The maximum foreign exchange sales volumes were registered on Monday, 7 August: USD 0.219 billion (all currencies), including sales of the American currency alone for the total of USD 0.169 billion.

Weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 0.984 billion against USD 1.077 billion registered a week earlier. On Monday, 7 August, a month after the last tender to sell foreign exchange, the National Bank held a foreign exchange tender. However, in this instance, the regulator offered to purchase US dollars from banks. The regulator purchased USD 50.0 million out of USD 74.6 million offered by banks. The weighted average exchange rate at this tender landed at UAH 25.79/USD.

EXCHANGE RATE (UAH/USD)



Source: NBU

INTERBANK LENDING MARKET

Over the previous week, the cost of interbank loans remained unchanged. Rates for overnight loans ranged within the limits of 10.50-12.50% per annum. The cost of weekly and monthly resources was registered at 10.00-13.00% per annum and 11.00-13.50% per annum respectively.

The balance on correspondent accounts fluctuated last week. As of Thursday's morning, it dropped to UAH 42.7 billion. However, on Friday morning, 11 August, the balance on correspondent accounts went up to UAH 48.7 billion.

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.9	2.3	2.5 (first quarter)
Industrial output, %	-13.4	2.4	3.3 (June)
Consumer price growth, % year-on-year	43.3	12.4	15.9 (July)
Producer price growth, % year-on-year	25.4	35.7	23.3 (July)
Balance of trade, USD billions	-1.7	-5.4	-2.3 (January-June)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.65 (January-July)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	25.85 (July)
Banking system assets, % of growth	-4.7	0.2	-0.9 (January-June)

Source: the State Statistics Service, NBU



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