

Financial markets survey

11 September 2017

Fundamental changes

WEEKLY ISSUE

GLOBAL MARKET

The American stock market finished the previous week in the red. The news about nuclear weapons tests in Northern Korea influenced the previous week at the beginning. Later, fundamental factors exerted negative influence on the market.

It has been a long time since the US stock market investors had to face a stream of macroeconomic indicators that would make so many unpleasant surprises in the course of one week. The US industrial orders fell 3.3% in July 2017 compared to the previous month. This indicator was shrinking at a pace that coincided with the average forecast of analysts and turned out to be record-high since August 2014. The US ISM Non-Manufacturing Index rose to 55.3 points in August 2017 compared to 53.9 points registered over the previous month. However, analysts expected this indicator to grow even more. Finally, the number of Americans applying for unemployment benefit for the first time during the week that was over on 1 September, grew record-high since November 2012 due to the rush of applications from those who lost their jobs because of Hurricane Harvey.

It seems that the European market stopped ignoring the news about stagnation in the negotiations between the EU and the UK regarding the regulation of Brexit-related issues. During the previous week, there was a conference of the European Parliament political factions' leaders. By the end of this conference, it was stated that it would be difficult to reach a sufficient progress in separation issues by October 2017. By the end of the previous week, the British FTSE 100 Index lost 0.8%.

The US dollar depreciated against the common European currency once again. During the previous week, the exchange rate went above USD 1.20/EUR again and set a new record-high since the beginning of the current year. The continuing natural cataclysms in the US strengthened the opinion that the US Federal Reserve System will not hurry with another raise of the federal funds rate. In addition, foreign exchange market participants reacted to the results of the European Central Bank meeting and comments of ECB President Mario Draghi who informed about a significant improvement in the forecast for the euro-area GDP for the current year (2.2% against 1.9%). On Friday, 8 September, trading in the "EUR/USD" pair closed at USD 1.2036/EUR.

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,461.4	-0.6	-0.5	9.9
FTSE 100 (UK)	7,377.6	-0.8	-1.6	3.3
MXME (East. Eur.)	158.6	0.9	6.7	8.1
UX (Ukraine)	1,136.5	0.0	0.3	42.8
RTS (Russia)	1,119.6	1.7	8.2	-2.8

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	162.5	0.0	-4.1	-6.1
Steel, USD/ton	495.0	6.5	15.8	17.9
Oil, USD/barrel	53.8	2.0	2.1	-8.5
Gold, USD/ounce	1,346.3	2.0	5.9	17.5

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices inched down 0.1% in August 2017 compared to the previous month. In annual terms, consumer inflation accelerated to 16.2%. Since the beginning of the current year, consumer prices grew 8.1%.

Prices for food products and non-alcoholic beverages shrank 0.6% mainly thanks to lower prices for vegetables and fish. Prices for housing and residential and utility services rose 0.3% mainly because of growing prices for water supply and sewerage – 1.7% and 1.6% respectively. Prices for transport services rose 0.8% in connection with higher prices for motor transport services (1.6%).

In August 2017, producer prices rose 0.4% compared to the previous month. In annual terms, inflation of producer prices accelerated to 23.6%. Since the beginning of the current year, producer prices grew 8.4%. Inflation of producer prices was caused by growing prices in mining industry (4.7%) and processing industry (1.2%). In particular, prices in black coal and iron ores production jumped 6.0%. Prices grew 2.9% in coke production and oil refining and 2.5% in steel industry.

BOND MARKET

At a tender to place internal government bonds held on 5 September, the Ministry of Finance of Ukraine managed to raise UAH 1.2 billion to the State Budget of Ukraine. Market players were moderately active. The weighted average interest rates went down and landed at 14.40% per annum and 14.50% per annum for internal government bonds maturing in two and three years respectively. At the previous tender, the weighted average interest rate for similar bonds stood at 14.46% per annum and 14.54% per annum respectively.

During the current week, the Ministry of Finance plans to hold the next tender to sell internal government bonds on 12 September. The Ministry of Finance will offer internal government bonds maturing in three months to three years.

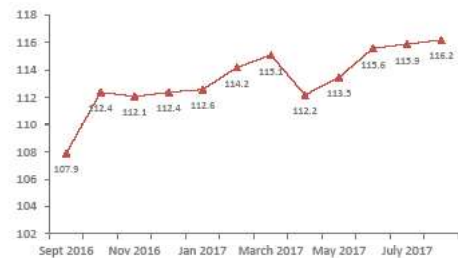
NBU OPERATIONS

On 5 September, the National Bank made a swap deal, placing UAH 2.4 billion for six days under 14.50% per annum. The last time the regulator resorted to this tool was on 30 June to mitigate the aftereffects of the virus Petya cyber attack.

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 29.0 billion, including overnight certificates of deposit for the total of UAH 17.9 billion. A week earlier, deposit certificates were purchased for the total of UAH 39.5 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 remained practically unchanged.

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



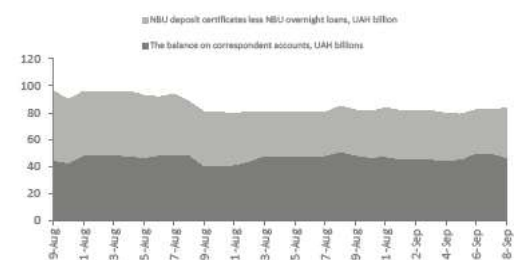
Source: the State Statistics Service

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
5 Sept	693 days	14.40%	3/3	673.79
5 Sept	1078 days	14.50%	2/2	540.48

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

During the previous week, the dynamics of the Ukrainian stock market was not uniform. However, by the end of the previous week, the Ukrainian Exchange (UX) Index did not register any statistically important changes. On Friday, 8 September, the UX Index closed at 1,136.47 points. The UX Index grew 0.3% in monthly terms and 42.8% since the beginning of the current year.

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued to depreciate, following the trend launched at the end of August. Over the previous week, the exchange rate grew from UAH 25.75/USD to UAH 26.07/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.85-26.00/USD on Monday, 4 September, UAH 25.90-26.00/USD on Tuesday, 5 September, UAH 25.94-26.00/USD on Wednesday, 6 September, UAH 25.96-26.08/USD on Thursday, 7 September, and UAH 26.02-26.12/USD on Friday, 8 September.

The maximum foreign exchange sales volumes were registered on Tuesday, 5 September: USD 0.242 billion (all currencies), including sales of the American currency alone for the total of USD 0.220 billion. The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.0 billion.

On Tuesday, 5 September, the National Bank held a tender to sell foreign exchange on the interbank foreign exchange market. The total sum of this sale reached USD 20.0 million, which constituted 50% of the volume of all bids submitted by market participants. The weighted average exchange rate at this tender landed at UAH 25.94/USD.

INTERBANK LENDING MARKET

Over the previous week, rates for interbank resources went up, which was connected with the growing cost of foreign exchange. Rates for overnight loans ranged within the limits of 11.00-13.50% per annum. The cost of weekly and monthly resources became equal and was registered at 11.00-14.00% per annum.

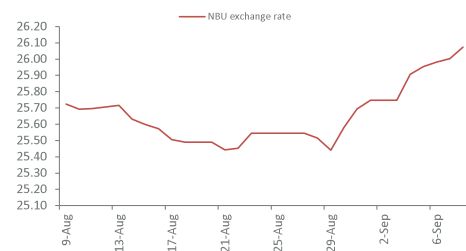
During the previous week, the balance on correspondent accounts remained practically unchanged. As of Friday morning, 8 September, the balance on correspondent accounts totaled UAH 46.5 billion.

THE UX INDEX



Source: Ukrainian Exchange

EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.9	2.3	2.5 (first quarter)
Industrial output, %	-13.4	2.4	-2.2 (July)
Consumer price growth, % year-on-year	43.3	12.4	16.2 (August)
Producer price growth, % year-on-year	25.4	35.7	23.6 (August)
Balance of trade, USD billions	-1.7	-5.4	-3.2 (January-July)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.52 (January-August)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	25.69 (August)
Banking system assets, % of growth	-4.7	0.2	0.6 (January-July)

Source: the State Statistics Service, NBU



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