

Financial markets survey

25 September 2017

Inflationary riddle

GLOBAL MARKET

During the first half of the previous week, the American market continued growing at a moderate pace. From Monday through Wednesday, the Standard & Poor's 500 Index was setting new historical record-highs day after day. However, on Thursday, 21 September, the market made a U-turn, and the S&P 500 Index did not register any statistically important changes by the end of the previous week.

The central event of the previous week was a meeting of the US Federal Reserve System (FRS) that took place over 19-20 September. Based on the results of this meeting, the central bank abstained from raising the federal funds rate, which coincided with market expectations. FRS Chair Janet Yellen admitted that the persistent weakness in inflation in the US was a riddle for the Federal Reserve. At the same time, Janet Yellen made it clear that the US economy was strong enough to survive both – a further increase of the base interest rate and shrinking assets on the books. The central bank upgraded its forecast for the US GDP growth for 2017 to 2.4% from 2.2% expected in June 2017.

As before, the FRS top officials are expecting one more, third increase of the base interest rate in the US in 2017, which corresponds to previous forecasts.

During the previous week, the British FTSE 100 Index largely won back the losses sustained a week earlier. The stock market grew in contrast to the pound sterling, which was weakening in connection with a statement made by Britain's Prime Minister Theresa May saying that the country would withdraw from the EU's common market and the customs union.

In the course of the previous week, the US dollar exchange rate was volatile, but it remained practically flat on the whole. On Wednesday, 20 September, the exchange rate jumped above USD 1.20/EUR in expectation of the US FRS meeting. However, next day, the US dollar appreciated rapidly after it became known that the Federal Reserve System left the federal funds rate unchanged and downgraded its forecast for inflation. On Friday, 22 September, trading in the "EUR/USD" pair closed at USD 1.1951/EUR.

WEEKLY ISSUE

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,502.2	0.1	2.4	11.8
FTSE 100 (UK)	7,310.6	1.3	-1.0	2.3
MXME (East. Eur.)	158.8	0.1	6.1	8.3
UX (Ukraine)	1,131.4	0.6	0.1	42.2
RTS (Russia)	1,123.2	0.0	7.5	-2.5

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	176.0	3.8	7.6	1.7
Steel, USD/ton	530.0	8.2	19.8	26.2
Oil, USD/barrel	56.9	2.2	8.8	-3.2
Gold, USD/ounce	1294.8	-2.1	0.6	13.0

Source: Bloomberg

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output grew 1.7% in August 2017 compared to August 2016 (with due consideration for an adjustment to the calendar days effect).

Compared to July 2017, industrial output rose 2.2%. Over January-August 2017, industrial output shrank 0.4% year-on-year.

Output in mining industry fell 6.8% year-on-year in August 2017. In particular, coal production dropped 24.8%.

In August 2017, output in processing industry grew 5.6% year-on-year. In particular, output rose 10.4% in machine-building, 6.0% in food industry and 1.0% in steel industry.

In August 2017, the country registered growing output in all groups of goods, except for energy. Output of investment goods and durable consumer goods grew the most.

BOND MARKET

As a result of a tender to place internal government bonds held on 19 September, the Ministry of Finance of Ukraine managed to raise UAH 0.6 billion to the State Budget of Ukraine. Market players were moderately active. The Ministry of Finance satisfied all bids submitted for this tender. The weighted average interest rate for bonds maturing in twelve months remained unchanged and landed at 14.35% per annum. The weighted average interest rate for bonds maturing in three years inched down compared to the previous tender and landed at 14.50% per annum. At a tender held on 12 September, the weighted average interest rate for internal government bonds maturing in three years was registered at 14.53% per annum.

NBU OPERATIONS

On 20 September, the National Bank held a tender to place deposit certificates maturing in three months. The regulator satisfied four bids for the total of UAH 500.0 million. The weighted average interest rate stood at 12.70% per annum, while the weighted average interest rate for a similar placement a week earlier totaled 12.89% per annum. The next tender to place deposit certificates maturing in three months will be held on 27 September.

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 43.9 billion, including overnight certificates of deposit for the total of UAH 30.3 billion. A week earlier, deposit certificates were purchased for the total of UAH 26.4 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 up mainly because of an increase in the volume of deposit certificates in circulation.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in August 2017, % year-on-year	1.7

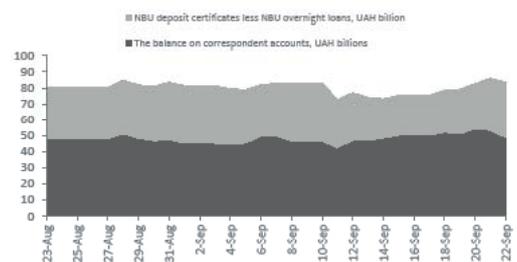
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
19 Sept	350 days	14.35%	2/2	200.89
19 Sept	1064 days	14.50%	1/1	444.77

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

For the most part of the previous week, the Ukrainian stock market followed an upward trend. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 0.6% and closed at 1,131.40 points on Friday, 22 September. Since the beginning of the current year, the UX Index grew 42.2%.

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued to depreciate. On Friday, 22 September, the exchange rate reached UAH 26.26/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.16-26.23/USD on Monday, 18 September, UAH 26.10-26.15/USD on Tuesday, 19 September, UAH 26.14-26.24/USD on Wednesday, 20 September, UAH 26.18-26.28/USD on Thursday, 21 September, and UAH 26.23-26.31/USD on Friday, 22 September. The maximum foreign exchange sales volumes were registered on Thursday, 21 September: USD 241 million (all currencies), including sales of the American currency alone for the total of USD 203 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 0.99 billion.

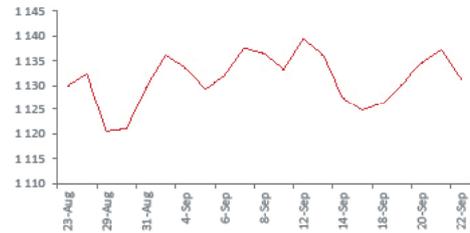
On Thursday, 21 September, the National Bank held a tender to sell foreign exchange to banks. As a result of this tender, the NBU sold USD 27.1 million. All in all, market participants submitted bids for purchasing foreign exchange for the total of USD 45.9 million. The weighted average exchange rate at this tender landed at UAH 26.22/USD.

INTERBANK LENDING MARKET

Over the previous week, the cost of interbank resources remained unchanged. Rates for overnight loans ranged within the limits of 11.00-13.50% per annum. The cost of weekly and monthly resources was registered at 11.00-14.00% per annum.

For the entire previous week, the balance on correspondent accounts stood above UAH 50 billion. However, it went down by the end of the previous week. As of Friday morning, 22 September, the balance on correspondent accounts reached UAH 48.9 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	2.3 (second quarter)
Industrial output, % year-on-year	-13.4	2.4	1.7 (August)
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	1.0 (January-August)

Source: the State Statistics Service, NBU

COMMODITIES, USD/ton

Commodity	end of period											
	last	Aug 2017	July 2017	June 2017	May 2017	April 2017	March 2017	Feb 2017	Jan 2017	Dec 2016	Nov 2016	Oct 2016
Steel CIS Export Slab, Black Sea	530.0	465.0	422.5	382.5	407.5	415.0	425.0	422.5	405.0	420.0	395.0	355.0
Steel CIS Export HR coil, Black Sea/Baltic Sea	592.5	560.0	497.5	440.0	435.0	445.0	487.5	485.0	485.0	495.0	482.5	425.0
Ukraine Feed Wheat, FOB Black Sea Ports	176.0	163.5	171.0	168.5	176.0	176.0	180.0	179.0	175.0	173.0	171.5	167.0

Source: Bloomberg



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