

# Financial markets survey

02 October 2017

## A week of global optimism

WEEKLY ISSUE

### GLOBAL MARKET

Last week turned out to be rather successful for investors on the leading markets across the world. From Wednesday through Friday, the American Standard & Poor's 500 Index was setting new historical record-highs on a daily basis, registering growth of 12.5% since the beginning of the current year.

On Tuesday, 26 September, US Federal Reserve System (FRS) Chair Janet Yellen made a speech in Cleveland as part of the annual meeting of the National Association for Business Economics (NABE). She stated that it made sense to further toughen monetary policy instead of waiting when inflation would come up to the targeted 2%. This reinforced market expectations as concerns raising the base interest rate of the central bank at its December meeting.

The British FTSE 100 Index grew 0.8% over the previous week and finally won back the losses in monthly terms. The UK's GDP rose 0.3% in the second quarter of 2017 compared to the previous three months. In September 2017, the Consumer Confidence Index in the United Kingdom continued growing for the second consecutive month. The British are persisting in active shopping, including making large purchases, despite growing prices and gloomy forecasts of experts for the consumer sector.

In the course of the first three days of the previous week, the common European currency was rapidly depreciating against the US dollar. The German ruling bloc of CDU/CSU – the Christian Democratic Union of Germany and the Christian Social Union in Bavaria – won the parliamentary elections in the country; however, its weak outcome will complicate the tasks of forming a new coalition and the Government. For the first time, the Bundestag – the Federal Parliament of Germany – will see representatives of Alternative for Germany, an ultra-right party which opposes integration into the European Union and states that the growing number of Muslims in the country is dangerous. On Wednesday, 27 September, the exchange rate fell record-low for the last six weeks – USD 1.1752/EUR. However, on Thursday, 28 September, the market demonstrated a negative reaction to the news that US President Donald Trump and the Republicans from the Congress published details of a large-scale tax reform that provides for a lower corporate profit tax and simplified taxation of personal incomes. Such changes may lead to a growing budget deficit and other economic problems. By the end of the previous week, the US dollar appreciated against the euro. On Friday, 29 September, trading in the "EUR/USD" pair closed at USD 1.1814/EUR.

### STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,519.4	0.7	2.5	12.5
FTSE 100 (UK)	7,372.8	0.8	0.1	3.2
MXME (East. Eur.)	158.9	0.0	2.1	8.3
UX (Ukraine)	1,185.3	4.8	5.9	48.9
RTS (Russia)	1,136.8	1.2	4.8	-1.4

### COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	179.0	1.7	9.5	3.5
Steel, USD/ton	505.0	-4.7	8.6	20.2
Oil, USD/barrel	56.8	0.7	11.8	-3.3
Gold, USD/ounce	1,283.1	-0.9	-1.9	12.0

Source: Bloomberg

[www.pumb.ua](http://www.pumb.ua)

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## MACROECONOMICS

### Balance of payments

In August 2017, deficit of Ukraine's current account balance totaled USD 226.0 million against a deficit of USD 490.0 million registered in August of the previous year. Over January-August 2017, deficit of the country's current account balance stood at USD 2.1 billion (3.1% of GDP) against a deficit of USD 1.8 billion registered over the same period in 2016.

Over January-August 2017, exports of goods grew 21.0%, while imports went up 22.1%. In August, exports of goods rose 12.8% year-on-year. Exports of goods grew in all key commodity groups (mineral products, chemical products, food products, and ferrous and non-ferrous metals). Exports of grain crops shrank 7.6%.

Imports of goods grew at a more sluggish pace in August 2017 and reached 10.4% year-on-year. In particular, energy imports soared 30.1%, while non-energy imports rose 5.4%.

Net investments provided from abroad (the total balance of the current account and the capital account) reached USD 2.1 billion over January-August 2017, whereas the same indicator registered over January-August 2016 totaled USD 1.7 billion. Net inflows under the financial account reached USD 3.4 billion over January-August 2017 against USD 2.2 billion registered over the same period last year. In August, net inflows under the financial account landed at USD 743.0 million and were provided through private sector transactions.

Surplus of Ukraine's consolidated balance of payments reached USD 518.0 million in August 2017 against a deficit of USD 285.0 million registered in July 2017. As of 1 September 2017, Ukraine's total stocks of international reserves landed at USD 18.0 billion.

### Wages

In August 2017, wages in Ukraine grew 17.2% year-on-year in real terms. Despite accelerating inflation, real wages continued growing at a more rapid pace in 2017 compared to 2016.

The average monthly nominal wage of full-time employees totaled UAH 7,114.00 in August 2017, which constitutes 220.0% of the minimum wage (UAH 3200.00). In August, the highest wages were observed in the city of Kyiv, Donetsk and Kyiv oblasts. The lowest wages were registered in Ternopil and Chernivtsi oblasts.

## BOND MARKET

Market players at the primary internal government bonds market became less active during the previous week. As a result of a tender to place internal government bonds held on 26 September, market participants submitted two bids to purchase internal government bonds maturing in twelve months. The Ministry of Finance satisfied both bids for the total of UAH 125.89 million. The weighted average interest rate for bonds maturing in twelve months remained unchanged compared to the previous tender and landed at 14.35% per annum.

During the current week, the Ministry of Finance plans to hold a tender on 3 October. The Ministry of Finance will offer internal government bonds maturing in six months to three years.

## LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in August 2017, USD millions	-226.0
Change in real wages in August 2017, % year-on-year	17.2

Source: the State Statistics Service, NBU

## 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
26 Sept	343 days	14.35%	2/2	125.89

Source: the Ministry of Finance of Ukraine

## NBU OPERATIONS

On Wednesday, 27 September, the National Bank held a scheduled tender to place deposit certificates maturing in three months for the total of UAH 500.0 million. The regulator satisfied eight bids. The weighted average interest rate stood at 12.89% per annum. A week earlier, the weighted average interest rate for a similar placement totaled 12.70% per annum. The next tender to place deposit certificates maturing in three months will be held on 3 October.

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 66.5 billion, including overnight certificates of deposit for the total of UAH 54.5 billion. A week earlier, deposit certificates were purchased for the total of UAH 43.9 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 up mainly because of an increase in the volume of deposit certificates in circulation.

## STOCK MARKET

During the previous week, the Ukrainian stock market was growing rapidly. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 4.8% and closed at 1,185.31 points on Friday, 29 September.

The UX Index grew 5.8% in monthly terms and 48.9% since the beginning of the current year.

## FOREIGN EXCHANGE MARKET

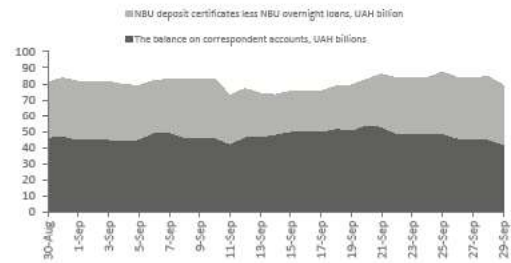
During the previous week, the Ukrainian national currency continued to depreciate. On Friday, 29 September, the exchange rate reached UAH 26.58/USD. Last time, such a value was registered at the end of April 2017.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.27-26.35/USD on Monday, 25 September, UAH 26.34-26.43/USD on Tuesday, 26 September, UAH 26.43-26.50/USD on Wednesday, 27 September, UAH 26.47-26.55/USD on Thursday, 28 September, and UAH 26.53-26.63/USD on Friday, 29 September. The maximum foreign exchange sales volumes were registered on Thursday, 28 September: USD 301 million (all currencies), including sales of the American currency alone for the total of USD 258 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.1 billion against USD 0.99 billion registered a week earlier.

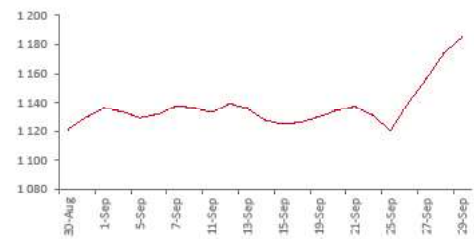
On Thursday, 28 September, the National Bank held a tender to sell foreign exchange to banks. As a result of this tender, the NBU sold USD 36.4 million. All in all, market participants submitted bids for purchasing foreign exchange for the total of USD 38.0 million. The weighted average exchange rate at this tender landed at UAH 26.51/USD.

## BANKING SYSTEM LIQUIDITY



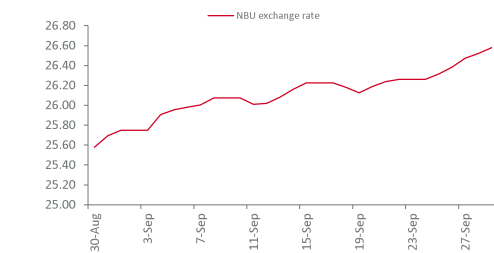
Source: NBU

## THE UX INDEX



Source: Ukrainian Exchange

## EXCHANGE RATE (UAH/USD)



Source: NBU



### 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 was shrinking. As of Friday morning, 29 September, the balance on correspondent accounts dropped to UAH 42.4 billion.

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.8	2.3	2.3 (second quarter)
Industrial output, %	-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	-3.6 (January-August)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.48 (January-September)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	26.58 (September)
Banking system assets, % of growth	-4.7	0.2	1.0 (January-August)

Source: the State Statistics Service, NBU

PRICES FOR PRIMARY COMMODITIES, USD/T

Commodity	By the end of the period											
	Last	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017	Dec 2016	Nov 2016	Oct 2016
Steel, slab, CIS Export Black Sea	505.0	465.0	422.5	382.5	407.5	415.0	425.0	422.5	405.0	420.0	395.0	355.0
Steel, hot-rolled coil, CIS Export 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
Wheat, Ukraine, FOB Black Sea	179.0	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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