



# Financial markets survey

17 October 2017

## Low inflation is worrying, but not hindering

WEEKLY ISSUE

### GLOBAL MARKET

During the previous week, the dynamics of the leading stock indices was not uniform. The American Standard & Poor's 500 Index set a new historical record-high on Wednesday, 11 October. However, by the end of the previous week, the index remained practically unchanged compared to one week earlier, registering a 0.2% growth. The British FTSE 100 Index demonstrated the same weekly growth.

The problem of low inflation continues to be the central issue for central banks both in the US and in the EU. In the course of their September meeting, top officials of the US Federal Reserve System (FRS) discussed factors contributing to persistent low inflation in the US, as well as how provisional or sustainable these factors can turn out. FRS top officials agreed on the opinion that it was necessary to be attentive in following incoming statistical data before making any further decision regarding the adjustment of the base interest rate. The PCE Core Index (Personal Consumption Expenditures, Excluding Food & Energy) reached 1.3% in annual terms in August 2017, whereas the targeted indicator of the FRS stands at 2.0%.

Chief Economist of the European Central Bank (ECB) Peter Praet stated that, so far, the ECB did not manage to reach sufficient progress in moving to the targeted inflation indicator. Economic recovery in the euro area is growing stronger, but, at the same time, all inflationary indicators continue to stay discreet. Such statements can be a signal that the ECB may demonstrate caution in October at the time of revising parameters of the quantitative easing (QE) program.

Participants in the foreign exchange market reacted to the FRS's concern about insufficiently high inflation in the US. During the previous week, the US dollar depreciated against the common European currency. On Friday, 13 October, trading in the "EUR/USD" pair closed at USD 1.1820/EUR.

### STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,553.2	0.2	2.2	14.0
FTSE 100 (UK)	7,535.4	0.2	2.1	5.5
MXME (East. Eur.)	163.2	2.6	3.1	11.2
UX (Ukraine)	1,218.8	0.0	7.3	53.1
RTS (Russia)	1,156.6	2.0	3.4	0.4

### COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	181.5	0.6	9.7	4.9
Steel, USD/ton	500.0	-1.0	2.0	19.0
Oil, USD/barrel	57.2	2.8	4.2	-2.7
Gold, USD/ounce	1,299.6	3.0	-2.1	13.4

Source: Bloomberg

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

Department of Investment Business  
Andriivska St., 4, Kiev, Ukraine 04070  
tel. +38 044 231 7380

## MACROECONOMICS

### Inflation

According to information of the State Statistics Service, consumer inflation accelerated to 16.4% in September 2017 in annual terms. Consumer prices grew 2.0% in September 2017 compared to the previous month. Since the beginning of the current year, consumer prices grew 10.2%.

Prices for food products and non-alcoholic beverages rose 2.0% in September. Prices for eggs (31.0%), meat and meat products (3.4%) grew the most. At the same time, the country registered shrinking prices for vegetables and sugar. Prices for clothes and footwear jumped 8.9% over the previous month. Rapidly growing prices for clothes and footwear were the result of changing collections for autumn and winter clothes and footwear and higher demand in connection with the new school year.

In September 2017, producer prices rose 1.6% compared to the previous month. In annual terms, inflation of producer prices landed at 22.4%. Since the beginning of the current year, producer prices grew 10.1%. Inflation of producer prices was caused by growing prices in mining industry (4.8%) and processing industry (2.0%). In particular, prices rose 4.3% in black coal production and 7.1% in iron ores production. Prices grew 2.1% in coke production and oil refining and 3.1% in steel industry.

### BOND MARKET

Over the previous week, the Ministry of Finance did not hold any tenders to place internal government bonds.

During the current week, the Ministry of Finance plans to hold a tender on 17 October. The Ministry of Finance will offer internal government bonds maturing in one and five years.

### NBU OPERATIONS

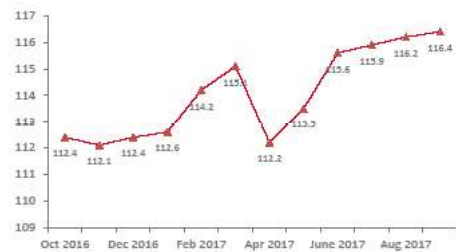
On 9 October, the National Bank provided an overnight refinancing loan for the total of UAH 0.3 billion. Same day, the regulator made an overnight swap deal for the total of UAH 364.4 million. The interest rate for the above-mentioned transactions stood at 14.50% per annum.

On Wednesday, 11 October, the National Bank held a scheduled tender to place deposit certificates maturing in three months for the total of UAH 295.0 million. The NBU set a single marginal rate at 14.00% per annum. The regulator satisfied six out of eleven bids submitted by market players. A week earlier, the weighted average interest rate for a similar placement totaled 13.50% per annum. The next tender to place deposit certificates maturing in three months will be held on 18 October.

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 30.0 billion, including overnight certificates of deposit for the total of UAH 21.0 billion. A week earlier, deposit certificates were purchased for the total of UAH 50.3 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.

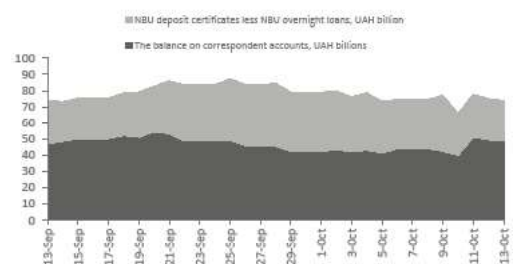
During the previous week, the overall level of the banking system liquidity went down because of a drop in the volume of deposit certificates in circulation.

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



Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

## STOCK MARKET

Rapid growth of the Ukrainian stock market that had started at the end of September stopped during the previous week. By the end of the previous week, the Ukrainian Exchange (UX) Index did not register any statistically important changes. The UX Index closed at 1,218.78 points on Friday, 13 October.

The UX Index grew 7.3% in monthly terms and 53.1% since the beginning of the current year.

## FOREIGN EXCHANGE MARKET

During the previous week, the exchange rate of the Ukrainian national currency remained practically flat. By the end of the previous week, the exchange rate did not register any serious changes.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.50-26.65/USD on Monday, 9 October, UAH 26.55-26.63/USD on Tuesday, 10 October, UAH 26.50-26.57/USD on Wednesday, 11 October, UAH 26.60-26.67/USD on Thursday, 12 October, and UAH 26.50-26.57/USD on Friday, 13 October. The maximum foreign exchange sales volumes were registered on Thursday, 12 October: USD 218 million (all currencies), including sales of the American currency alone for the total of USD 181 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 0.9 billion against USD 1.2 billion registered a week earlier.

During the previous week, the National Bank did not hold any tenders to purchase or sell foreign exchange with banks.

## 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.

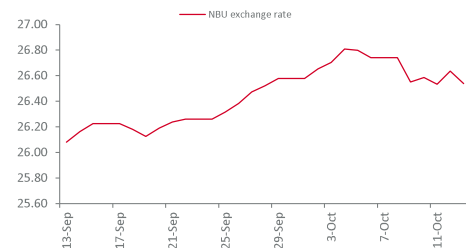
By the end of the previous week, the balance on correspondent accounts went up. As of Friday morning, 13 October, the balance on correspondent accounts stood at UAH 48.6 billion.

## THE UX INDEX



Source: Ukrainian Exchange

## EXCHANGE RATE (UAH/USD)



Source: NBU

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	16.4 (September)
Producer price growth, % year-on-year	25.4	35.7	22.4 (September)
Balance of trade, USD billions	-1.7	-5.8	-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	Sept 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017	Dec 2016	Nov 2016
Steel, slab, CIS Export Black Sea	587.5	505.0	465.0	422.5	382.5	407.5	415.0	425.0	422.5	405.0	420.0	395.0
Steel, hot-rolled coil, CIS Export Black Sea/Baltic Sea	557.5	560.0	560.0	497.5	440.0	435.0	445.0	487.5	485.0	485.0	495.0	482.5
Wheat, Ukraine, FOB Black Sea	181.5	179.0	163.5	171.0	168.5	176.0	176.0	180.0	179.0	175.0	173.0	171.5

Source: Bloomberg



**DEPARTMENT OF INVESTMENT BUSINESS**

Anton Stadnik  
Head of department  
+38 044 231 7046  
anton.stadnik@fuib.com

Marina Timbay  
Trading and brokerage  
+38 044 231 7053  
marina.timbay@fuib.com

Yevhenia Akhtyrko  
Research  
+38 044 231 7380  
evgeniya.ahtirko@fuib.com

**INTERNATIONAL FINANCING  
AND TRANSACTION STRUCTURING**

Serhiy Zubro  
+38 044 231 7055  
serhiy.zubro@fuib.com

**PUBLIC RELATIONS**

Anna Kokoba  
+38 044 231 7252  
anna.kokoba@fuib.com

---

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.