

# Financial markets survey

13 November 2017

## Brexit and markets

WEEKLY ISSUE

### GLOBAL MARKET

The leading stock markets across the world stopped setting new historical record-highs during the previous week. The American stock market remained practically flat by the end of the previous week, whereas the British FTSE 100 Index plummeted headlong down, losing 1.7% over the previous week and 1.3% in monthly terms.

In the course of the previous week, there were several important news items related to the UK's withdrawal from the European Union (Brexit) which had a negative impact on the moods of European investors. Firstly, Chair of the Supervisory Board at the European Central Bank (ECB) Dani le Nouy informed that approximately 50 non-British banks located in the UK discussed with the ECB top officials the possibility of moving to other European Union countries in connection with the UK's upcoming withdrawal from the EU. Secondly, European Chief Negotiator for Brexit Michel Barnier stated on Friday, 10 November, that, despite a very slow progress in the negotiations, both parties counted on reaching an agreement for Brexit by December 2017. Finally, according to a study carried out by the European Parliament, Brexit will result in growing national contributions of the 27 EU Member States to the general budget. Germany's additional expenditures may reach as high as EUR 3.8 billion per year. After the Brexit procedure is completed, financial receipts to the European Union budget will shrink EUR 10.2 billion.

Business activity in the UK slowed down compared to the previous year, whereas the country was registering growth at a fairly rapid pace after the decision to withdraw from the EU had been made. In addition, accelerating inflation that has been witnessed in the country recently can raise expenditures to service the national debt by eleven-figure sums in pounds, since more than 30% of the UK's government bonds are pegged to the Retail Price Index.

The US dollar continued to appreciate against the common European currency at the beginning of the previous week. However, the market offered resistance to the exchange rate inching down below USD 1.16/EUR. During the second half of the previous week, the US dollar exchange rate against the euro followed a weak upward trend. On Friday, 10 November, trading in the "EUR/USD" pair closed at USD 1.1665/EUR.

### STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,582.3	-0.2	1.1	15.3
FTSE 100 (UK)	7,433.0	-1.7	-1.3	4.1
MXME (East. Eur.)	162.5	3.4	0.2	10.8
UX (Ukraine)	1,269.8	1.2	4.7	59.6
RTS (Russia)	1,156.7	4.3	1.2	0.4

### COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	180.5	0.0	0.0	4.3
Steel, USD/ton	487.5	0.0	-2.5	16.1
Oil, USD/barrel	63.5	2.3	12.0	8.3
Gold, USD/ounce	1,284.3	1.3	-0.4	12.1

Source: Bloomberg

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

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## MACROECONOMICS

### Inflation

According to information of the State Statistics Service, consumer inflation slowed down to 14.6% in October 2017 in annual terms. Consumer prices grew 1.2% in October 2017 compared to the previous month. Since the beginning of the current year, consumer prices grew 11.5%.

Prices for food products and non-alcoholic beverages rose 1.1% in October. Prices for eggs (15.0%), milk (6.0%) and butter (4.0%) grew the most. At the same time, the country registered shrinking prices for sugar and fruits. Prices for clothes and footwear went on growing seasonally, rising 2.4% over the previous month. Transport prices went up 2.4% over the previous month in connection with higher fuel prices.

In October 2017, producer prices rose 2.3% compared to the previous month. In annual terms, inflation of producer prices landed at 18.8%. Since the beginning of the current year, producer prices grew 12.6%. Inflation of producer prices was caused by growing prices in mining industry (2.8%) and processing industry (3.1%). In particular, prices rose 5.7% in iron ores production, 16.5% in coke production and oil refining, and 6.5% in steel industry.

### BOND MARKET

At a tender held on Tuesday, 7 November, the Ministry of Finance of Ukraine offered internal government bonds maturing in three years. Market players submitted three bids to purchase these bonds. However, the Ministry of Finance did not satisfy any of them. Evidently, the Ministry of Finance considered the earning rates requested by market players to be too high.

### NBU OPERATIONS

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 52.7 billion, including overnight certificates of deposit for the total of UAH 42.6 billion. A week earlier, market players purchased certificates of deposit for the total of UAH 61.5 billion. The interest rates for overnight certificates of deposit stood at 11.50% per annum. The earning rate for deposit certificates maturing in fourteen days totaled 13.50% per annum.

On Wednesday, 8 November, the National Bank held a scheduled tender to place deposit certificates maturing in three months for the total of UAH 300.0 million. The NBU set a single marginal rate at 15.25% per annum. The regulator satisfied six out of thirteen bids submitted by market players. A week earlier, the National Bank placed deposit certificates maturing in three months for the total of UAH 274.0 million, and the interest rate totaled 15.00% per annum.

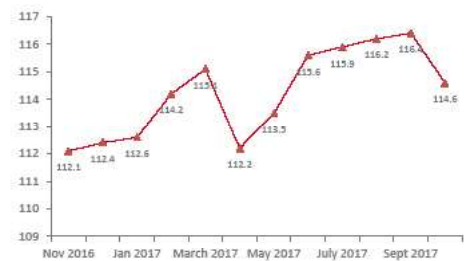
During the previous week, the overall level of the banking system liquidity went down because of a drop in the balance on correspondent accounts.

### STOCK MARKET

Over the previous week, the Ukrainian stock market resumed its growth. By the end of the previous week, the he Ukrainian Exchange (UX) Index grew 1.2% and closed at 1,269.82 points on Friday, 10 November.

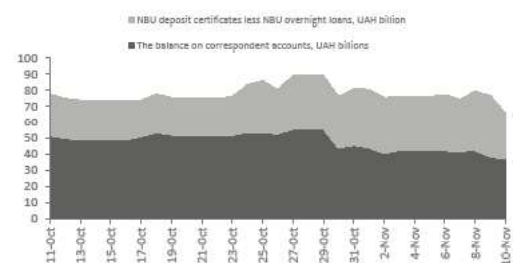
The UX Index grew 4.7% in monthly terms and 59.6% since the beginning of the current year.

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



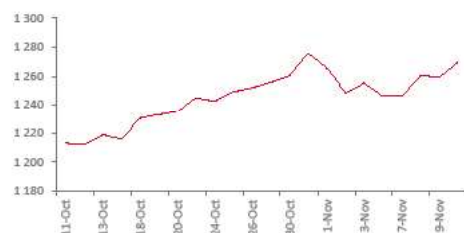
Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

### THE UX INDEX



Source: Ukrainian Exchange

**FOREIGN EXCHANGE MARKET**

The Ukrainian national currency appreciated swiftly in the course of the previous week. On Friday, 10 November, the weighted average interbank exchange rate went down to UAH 26.5167/USD, having returned to the values registered three weeks earlier.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.80-26.90/USD on Monday, 6 November, UAH 26.70-26.80/USD on Tuesday, 7 November, UAH 26.60-26.67/USD on Wednesday, 8 November, UAH 26.52-26.58/USD on Thursday, 9 November, and UAH 26.49-26.55/USD on Friday, 10 November. The maximum foreign exchange sales volumes were registered on Monday, 6 November: USD 309 million (all currencies), including sales of the American currency alone for the total of USD 239 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.2 billion against USD 1.0 billion registered a week earlier.

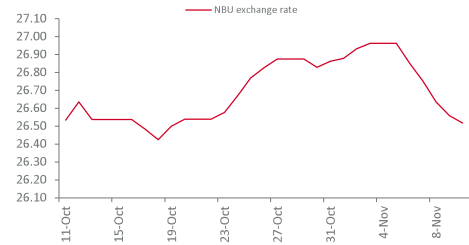
During the previous week, the National Bank did not hold any tenders to purchase or sell foreign exchange with banks.

**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.

The balance on correspondent accounts continued shrinking during the previous week. As of Friday morning, 10 November, the balance on correspondent accounts was registered at UAH 36.8 billion. The last time a similar value was registered was in March of the current year.

**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, % year-on-year	-13.4	2.4	-0.1 (September)
Consumer price growth, % year-on-year	43.3	12.4	14.6 (October)
Producer price growth, % year-on-year	25.4	35.7	18.8 (October)
Balance of trade, USD billions	-1.7	-5.4	-4.3 (January-September)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.66 (January-October)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	26.86 (October)
Banking system assets, % of growth	-4.7	0.2	1.9 (January-September)

Source: the State Statistics Service, NBU

PRICES FOR PRIMARY COMMODITIES, USD/T

Commodity	By the end of the period											
	Last value	Oct 2017	Sept 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 20 17	Dec 2016
Steel, slab, CIS Export Black Sea	487.5	487.5	505.0	465.0	422.5	382.5	407.5	415.0	425.0	422.5	405.0	420.0
Steel, hot-rolled coil, CIS Export Black Sea/Baltic Sea	540.0	547.5	592.5	560.0	497.5	440.0	435.0	445.0	487.5	485.0	485.0	495.0
Wheat, Ukraine, FOB Black Sea	180.5	180.5	179.0	163.5	171.0	168.5	176.0	176.0	180.0	179.0	175.0	173.0

Source: Bloomberg



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