

Financial markets survey

04 December 2017

Michael Flynn's admission

WEEKLY ISSUE

GLOBAL MARKET

Growth of the stock market that was registered in the course of the previous week and that was caused by optimistic information about the progress of tax reform in the US was followed by a drop in key American stock exchange indices by the end of Friday, 1 December, which exceeded 1%. The reason behind this drop was reports that US President Donald Trump's Ex National Security Adviser Michael Flynn was indicted. On Friday, it became known that Michael Flynn was accused of giving false evidence to the FBI about contacts he had with the Russian government during Trump's presidential transition. Michael Flynn pleaded guilty of lying to the FBI in the federal court of Washington and stated that he was accepting full responsibility for his wrongful actions regarding the "Russian case". Regardless of this fact, weekly growth of the American Standard&Poor's 500 Index reached 1.5%. On Thursday, 30 November, the S&P 500 Index set a new historical record-high.

Despite strong statistical data, stock indices of Western Europe collapsed by the end of trading time on Friday, 1 December, since investors reacted to the euro's appreciation against the US dollar, which is a negative factor for European exporters.

The rate of unemployment in the 19 euro-area countries dropped to 8.8% in October 2017, which is a record-low since January 2009, according to statistical data of the European Union Statistical Office (Eurostat). In September 2017, this indicator stood at 8.9%. According to preliminary data of the European Union Statistical Office, consumer prices in the euro-area rose 1.5% in November 2017 in annual terms. Analysts expected consumer prices to grow 1.6% on the average.

Key attention of traders was aimed at news related to the progress of tax reform in the US. Despite a difficult week, the US dollar appreciated against the euro on the last trading day of the previous week. On Friday, 1 December, trading in the "EUR/USD" pair closed at USD 1.1896/EUR compared to USD 1.1904/EUR registered at the closing time of the previous trading session.

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2,642.2	1.5	2.4	18.0
FTSE 100 (UK)	7,300.5	-1.5	-2.5	2.2
MXME (East. Eur.)	160.4	-3.4	0.5	9.3
UX (Ukraine)	1,282.6	0.3	1.4	61.2
RTS (Russia)	1,133.3	-2.8	0.6	-1.6

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	180.0	0.0	-0.3	4.0
Steel, USD/ton	465.0	0.0	-4.6	10.7
Oil, USD/barrel	63.7	0.4	5.8	8.7
Gold, USD/ounce	1,275.5	-1.2	-0.1	11.3

Source: Bloomberg

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MACROECONOMICS

Balance of payments

In October 2017, deficit of Ukraine's current account balance went down and totaled USD 408.0 million against a deficit of USD 180.0 million registered in October of the previous year. Over January-October 2017, deficit of the country's current account balance stood at USD 3.3 billion against a deficit of USD 2.9 billion registered over the same period in 2016.

Over January-October 2017, exports of goods grew 20.3%, while imports went up 22.0%. In October, exports of goods rose 16.7% year-on-year. Exports of goods grew thanks to expanding deliveries of mineral products, including ores, and chemical products. At the same time, exports of machine-building products shrank 12.7%.

In October 2017, imports of goods grew thanks to both energy and non-energy imports. In particular, energy imports soared 28.8%, while non-energy imports rose 20.5%. Imports of machine-building products grew 33.0% year-on-year thanks to rising imports of agricultural machinery and equipment and passenger cars.

Net investments provided from abroad (the total balance of the current account and the capital account) reached USD 3.3 billion over January-October 2017, while the same indicator registered over January-October 2016 totaled USD 2.8 billion.

Net inflows under the financial account reached USD 5.3 billion over January-October 2017 against USD 3.9 billion registered over the same period last year. In October, net inflows under the financial account landed at USD 563 million and were provided through private sector transactions.

Surplus of Ukraine's consolidated balance of payments went down and reached USD 155.0 million in October 2017. As of 1 November 2017, Ukraine's total stocks of international reserves landed at USD 18.7 billion.

Wages

In October 2017, wages in Ukraine grew 19.9% year-on-year in real terms. Despite a high rate of inflation, real wages continued rising at a more rapid pace in 2017 compared to 2016.

The average monthly nominal wage of full-time employees totaled UAH 7,377.00 in October 2017, which constitutes 230.0% of the minimum wage (UAH 3,200.00). In October, the highest wages were observed, as usual, in the city of Kyiv and Donetsk oblast. As before, the lowest wages were registered in Chernivtsi and Ternopil oblasts.

BOND MARKET

At a tender to place internal government bonds held on 28 November, the Ministry of Finance of Ukraine offered bonds denominated in US dollars and in hryvnias. Market participants submitted only one bid to purchase internal government bonds denominated in hryvnias; however, the Ministry of Finance did not satisfy it. Apparently, the organizer of this tender perceived that the requested earning rate announced by market participants was too high.

The Ministry of Finance offered record-high seven series of bonds denominated in US dollars. A special feature of these bonds is that it is possible to pay them off pre-term. Also, yields for all these securities will be accrued and paid semiannually. As a result of this tender to place internal

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in October 2017, USD millions	-408.0
Change in real wages in October 2017, % year-on-year	19.9

Source: the State Statistics Service, the National Bank of Ukraine

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, USD millions
28 Nov.	490 days denom. in USD	3.85%	4/4	135.81
28 Nov.	497 days denom. in USD	3.85%	1/1	73.38
28 Nov.	504 days denom. in USD	3.85%	1/1	73.33
28 Nov.	511 days denom. in USD	3.85%	1/1	73.38
28 Nov.	518 days denom. in USD	3.85%	1/1	73.22
28 Nov.	539 days denom. in USD	3.85%	1/1	73.06
28 Nov.	546 days denom. in USD	3.85%	1/1	73.01

Source: the Ministry of Finance of Ukraine

government bonds denominated in US dollars, the Ministry of Finance of Ukraine managed to raise USD 575.09 million to the State Budget of Ukraine. The fixed interest rate for the above-mentioned bonds stood at 3.85% per annum.

The last time when the Ministry of Finance placed internal government bonds denominated in US dollars was on 21 November. That time, market players purchased securities for the total of USD 88.87 million. The weighted average interest rate for those bonds landed at 5.40% per annum.

NBU OPERATIONS

In the course of the previous week, market participants purchased deposit certificates for the total of UAH 63.8 billion, including overnight certificates of deposit for the total of UAH 52.5 billion. A week earlier, market players purchased certificates of deposit for the total of UAH 30.7 billion. The interest rate 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, 29 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 15.00% per annum. The regulator satisfied twelve out of fifteen bids submitted by market players. A week earlier, the interest rate for deposit certificates maturing in three months stood at 15.10% per annum.

During the previous week, the overall level of the banking system liquidity went up because of an increase in the volume of deposit certificates in circulation.

STOCK MARKET

The upward trend of the Ukrainian stock market continued into the previous week. The Ukrainian Exchange (UX) Index grew 0.3% over the previous week. On Friday, 1 December, the UX Index closed at 1,282.64 points.

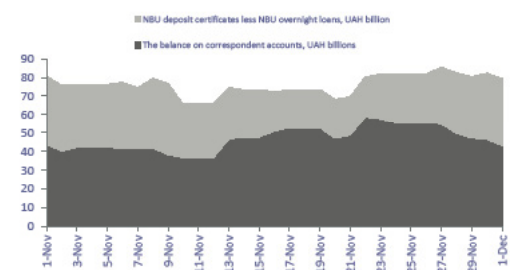
The UX Index grew 1.4% in monthly terms and 61.2% since the beginning of the current year.

FOREIGN EXCHANGE MARKET

The Ukrainian national currency continued depreciating during the previous week. Only on Friday, 1 December, the exchange rate appreciated a little compared to the previous day. The weighted average interbank exchange rate landed at UAH 27.0543/USD on the last trading day of the previous week.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.80-26.87/USD on Monday, 27 November, UAH 26.84-26.93/USD on Tuesday, 28 November, UAH 26.98-27.08/USD on Wednesday, 29 November, UAH 27.10-27.20/USD on Thursday, 30 November, and UAH 27.00-27.15/USD on Friday, 1 December. The maximum foreign exchange sales

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Ukrainian Exchange

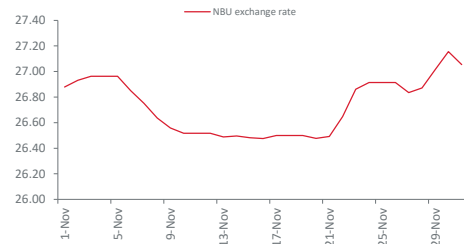


volumes were registered on Thursday, 30 November: USD 303 million (all currencies), including sales of the American currency alone for the total of USD 243 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.21 billion, which practically coincided with the sales volumes registered a week earlier.

On 30 November, the National Bank held a tender to sell foreign exchange. All in all, the regulator satisfied bids for the total of USD 29.1 million out of USD 37.7 million offered by market players. The weighted average exchange rate at this tender landed at UAH 27.1313/USD.

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.

The balance on correspondent accounts went noticeably down over the previous week. As of Friday morning, 1 December, the balance on correspondent accounts was registered at UAH 43.2 billion.

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.9	2.3	2.3 (second quarter)
Industrial output, %	-13.4	2.4	-0.5 (October)
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	-5.8	-5.0 (January-October)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.71 (January-November)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	27.01 (November)
Banking system assets, % of growth	-4.7	0.2	1.6 (January-October)

Source: the State Statistics Service, NBU

PRICES FOR PRIMARY COMMODITIES, USD/T

Commodity	By the end of the period											
	Last value	Nov 2017	Oct 2017	Sept 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017
Steel, slab, CIS Export Black Sea	465.0	465.0	487.5	505.0	465.0	422.5	382.5	407.5	415.0	425.0	422.5	405.0
Steel, hot-rolled coil, CIS Export Black Sea/Baltic Sea	527.5	530.0	547.5	592.5	560.0	497.5	440.0	435.0	445.0	487.5	485.0	485.0
Wheat, Ukraine, FOB Black Sea	180.0	180.0	180.5	179.0	163.5	171.0	168.5	176.0	176.0	180.0	179.0	175.0

Source: Bloomberg



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