



Financial markets survey

11 December 2017

“Yes” to tax reform in the US

WEEKLY ISSUE

GLOBAL MARKET

The previous week was influenced by political issues, which were supplemented with the issue of recognizing Jerusalem the capital of Israel and moving the US embassy from Tel-Aviv to Jerusalem. Also, moods of investors were influenced by issues of the US tax reform, upgrade of the US national debt ceiling and financing for the US Government operations after 8 December. In the end, US President Donald Trump signed the Budget Law, drawing down the curtain as regards speculations on the possible Government shutdown.

Having spent the first half of the previous week in a decline, global markets returned to an upward trajectory on Friday. After the publication of statistical data on 8 December, key stock market indicators in the US demonstrated a positive dynamics with the S&P 500 Index and the Dow Jones Index setting new historical record-highs again. The market took the November Labor Review optimistically. The number of new jobs in non-agricultural sector reached 228,000, while experts forecast 200,000. The rate of unemployment remained unchanged at 4.1%. However, investors were somewhat disappointed with slow growth of wages – a mere 0.2% in monthly terms against 0.3% as expected by analysts.

By the end of the previous week, Europe’s key stock indices also demonstrated growth thanks to statistical data and also agreement on the key conditions for the UK’s withdrawal from the European Union. The parties reached sufficient progress to move to the next phase of negotiations. According to European Chief Negotiator for Brexit Michel Barnier, sufficient progress has been achieved in each of the three priority areas: citizens’ rights, the dialogue on Ireland and Northern Ireland, and the financial settlement. At the same time, insiders stated that the UK would pay the European Union GBP 35-39 billion (EUR 40-45 billion) by way of the financial settlement.

During the previous week, trading in the “EUR/USD” pair ranged within the limits of USD 1.1728-1.1888/EUR and closed at USD 1.1742/EUR on Friday, 8 December.

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD, %
S&P 500 (US)	2651.5	0.4	2.2	18.4
FTSE 100 (UK)	7394.0	1.3	-1.8	3.5
MXME (East. Eur.)	159.3	-0.7	-1.9	8.6
UX (Ukraine)	1277.7	-0.4	1.4	60.5
RTS (Russia)	1119.5	-1.2	-2.7	-2.8

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	179.5	0.0	-0.6	3.8
Oil, USD/barrel	63.4	-0.5	0.2	8.2
Gold, USD/ounce	1250.7	-1.9	-2.6	9.1

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer inflation slowed down to 13.6% in annual terms in November 2017. Consumer prices grew 0.9% in November 2017 compared to the previous month. Since the beginning of the current year, consumer prices grew 12.5%.

On the consumer market, prices for food products and non-alcoholic beverages rose 0.9% in November. Same as a month earlier, prices for eggs (+11.2%), milk (+5.3%) and butter (+3.0%) grew the most. At the same time, the country registered shrinking prices for sugar (-5.9%), fruits (-2.3%) and vegetables (-0.5%), meat and meat products (-0.3%). Prices for clothes and footwear slipped 0.7% over the previous month. Transport prices went up 2.0% over the previous month in connection with higher fuel prices and higher transportation rates.

In November 2017, producer prices rose 1.8% compared to the previous month. In annual terms, inflation of producer prices landed at 18.4%. Since the beginning of the current year, producer prices grew 14.6%. Inflation of producer prices was caused by growing prices in mining industry (+8.9%) and processing industry (+1.0%). In particular, prices rose 14.1% in iron ores production, 8.7% in black coal production, 1.9% in coke production and oil refining, and 0.6% in steel industry.

BOND MARKET

After practically a twelve-month break, the Ministry of Finance offered internal government bonds denominated in Euros. As a result, the Ministry of Finance of Ukraine managed to raise EUR 90.0 million to the State Budget of Ukraine. The weighted average interest rate for the above-mentioned bonds stood at 3.95% per annum. On the whole, the entire tender was rather successful. All bonds offered at this tender denominated either in US dollars or in hryvnias also found their buyers. As a result of this tender, the Ministry of Finance of Ukraine managed to raise UAH 4.1 billion (in equivalent) to the State Budget of Ukraine.

During the current week, the Ministry of Finance plans to hold a scheduled tender to place internal government bonds on 12 December. The Ministry of Finance will offer bonds denominated in hryvnias and maturing in three months to five years, as well as bonds denominated in foreign currency: in US dollars maturing in twelve months and in Euros maturing in eighteen months.

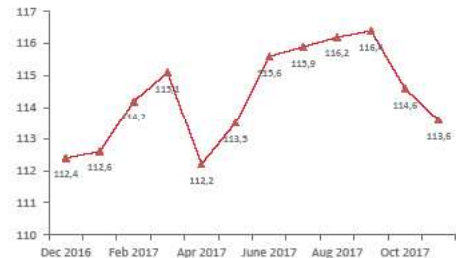
NBU OPERATIONS

The previous week on the market of NBU deposit certificates did not differ much from the one preceding it. Market participants purchased deposit certificates for the total of UAH 58.8 billion, including overnight certificates of deposit for the total of UAH 52.3 billion. A week earlier, market players purchased certificates of deposit for the total of UAH 63.8 billion.

On Wednesday, 6 December, 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 14.89% per annum. All in all, market player submitted eleven bids, while the National Bank satisfied only six of them. A week earlier, the interest rate for deposit certificates maturing in three months stood at 15.00% per annum.

The interest rates for overnight certificates of deposit and for deposit

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



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
05 Dec	84 days	15.95%	3/3	289.38
05 Dec	322 days	15.30%	1/1	201.52
05 Dec	546 days denom. in euro	3.95%	4/3	90.01*
05 Dec	539 days denom. in USD	3.85%	1/1	26.02**

* EUR millions ** USD millions

Source: the Ministry of Finance of Ukraine

certificates maturing in fourteen days remained unchanged and stood at 11.50% per annum and 13.50% per annum respectively.

No bids were submitted for a tender to support liquidity of banks for the period of fourteen days, which was announced by the National Bank on 6 December.

During the previous week, the overall level of the banking system liquidity went slightly down; however, it did not have a serious impact on the market.

The regulator changed its daily reserve requirements in order to optimize liquidity management for banks. Now, banks do not have to keep 40% of the mandatory reserve amount at the NBU correspondent account at the beginning of a banking day on a daily basis. However, banks shall meet the established mandatory reserve requirement only as an average for the relevant period. The above-mentioned changes will come into effect on 25 December.

STOCK MARKET

The Ukrainian stock market moved in different directions in the course of the previous week. After a rather sudden fall (-1.9%) on Tuesday, 5 December, the market adjusted. However, the Ukrainian Exchange (UX) Index did not manage to return to the level registered at the beginning of the previous week. The Ukrainian Exchange Index went down 0.4% by the end of the previous week and closed at 1,277.68 points on Friday, 8 December. The UX Index grew 1.4% in monthly terms and 60.5% since the beginning of the current year.

FOREIGN EXCHANGE MARKET

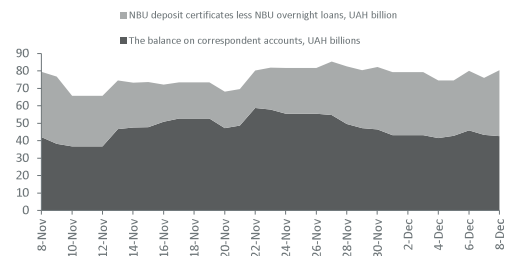
Appreciation of the Ukrainian national currency that was witnessed on the first day of winter did not prove to be long-lived. On Friday, 8 December, the weighted average interbank exchange rate landed at UAH 27.1093/USD. At the beginning of the previous week, pressure on the hryvnia eased up slightly thanks to a foreign exchange tender held by the National Bank on 4 December. As a result, NBU reserves shrank USD 29.4 million. The weighted average exchange rate at this tender stood at UAH 27.1808/USD. The information made public by the Ministry of Finance about the national debt and the debt guaranteed by the state rising 0.2% in October 2017 had a negative impact on the exchange rate of the national currency.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.15-27.30/USD on Monday, 4 December, UAH 27.10-27.22/USD on Tuesday, 5 December, UAH 27.08-27.17/USD on Wednesday, 6 December, UAH 27.08-27.15/USD on Thursday, 7 December, and UAH 27.08-27.15/USD on Friday, 8 December. The maximum foreign exchange sales volumes were registered on Tuesday, 5 December: USD 289 million (all currencies), including sales of the American currency alone for the total of USD 259 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market remained unchanged and totaled USD 1.2 billion.

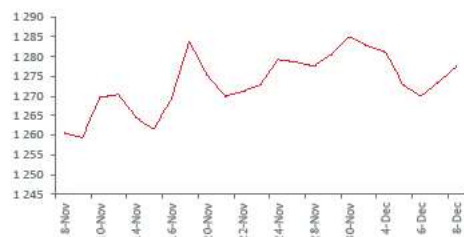
As a result of foreign exchange interventions in the form of the best exchange rate query, the National Bank purchased USD 45.0 million over the previous week.

BANKING SYSTEM LIQUIDITY



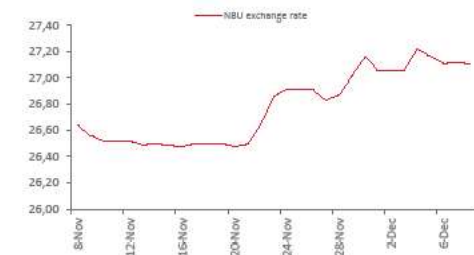
Source: NBU

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.

The balance on correspondent accounts remained practically unchanged over the previous week. As of Friday morning, 8 December, the balance on correspondent accounts was registered at UAH 42.6 billion against UAH 43.2 billion observed a week earlier.

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	13.6 (November)
Producer price growth, % year-on-year	25.4	35.7	18.4 (November)
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	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	-	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	179.5	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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