

Financial markets survey

26 December 2017

A breakthrough to new record-highs

WEEKLY ISSUE

GLOBAL MARKET

The next to last week of the current year was marked by one more breakthrough to new record-highs of key stock indices on the American market. On Monday, 18 December, both key indices set new historical record-highs: the Standard & Poor's 500 Index was registered at 2,690.16 points, while the Dow Jones Index reached 24,792.20 points. Afterwards, trading was more moderate, demonstrating moves in different directions in expectation of voting on the tax reform bill.

Statistical data related to activities and moods of American consumers that came out on Friday, 22 December, turned out to be weaker than forecasts. However, this fact did not seriously disappoint investors, since similar statistical data is supporting the expectations that the FRS's monetary policy is toughening at a slower pace. Growth of the US household expenditures accelerated to 0.6% in November compared to the previous month (0.2% in October 2017) and surpassed forecasts (0.5% on the average). Meanwhile, household incomes in the US grew 0.3% in November after rising 0.4% one month earlier. The consensus forecast of analysts expected this indicator to grow 0.4%. At the same time, orders for durable goods rose a mere 1.3% in November, while analysts expected this indicator to grow 2.0%.

In addition, on Friday, 22 December, US President Donald Trump finally signed the long-awaited law on the largest-scale tax reform for the last 30 years. The reform is based on lowering corporate profit tax from 35% to 21%, which is expected to provide incentives for the American economy as early as next year. Also, the above-mentioned reform provides for lower taxes for ordinary Americans. The fact of signing this law was rather a purely technical and expected event, but it served as a certain positive symbolical signal.

Before closing for an extended Christmas weekend, European indices demonstrated a moderate decline, while the background was the outcomes of early elections in Catalonia where advocates of the region's independence scored a victory.

The euro's exchange rate against the US dollar also depreciated on Friday, 22 December, thanks to the information about the victory of the parties supporting Catalonia's independence. During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1736-1.1901/EUR and closed at USD 1.1853/EUR on Friday, 22 December.

STOCK MARKETS

Index	last	week ch., %	mon. ch., %	YTD. %
S&P 500 (US)	2,683.3	0.3	3.3	19.9
FTSE 100 (UK)	7,592.7	1.4	2.3	6.3
MXME (East. Eur.)	162.5	0.0	-1.5	10.7
UX (Ukraine)	1,337.5	3.0	5.2	68.1
RTS (Russia)	1,135.7	-1.1	-2.0	-1.4

COMMODITIES

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	179.5	0.0	-0.3	3.8
Oil, USD/barrel	65.3	3.2	3.6	11.3
Gold, USD/ounce	1,264.6	0.8	-1.7	10.4

Source: Bloomberg

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output inched up 0.1% in November 2017 compared to November 2016 (with due consideration for an adjustment to the calendar days effect). Over January-November 2017, industrial output inched down 0.1% year-on-year.

Output in mining industry dropped 2.8% year-on-year in November 2017. In particular, coal production fell 13.0%.

In November 2017, output in processing industry grew 3.0% year-on-year. In particular, output jumped 46.1% year-on-year in chemicals and chemical products, 2.7% in steel industry and 3.6% in machine-building. Output in coke production and oil refining declined 7.6% year-on-year.

The country registered growing output in all groups of goods, except for energy (-6.6%), in November 2017. Output of durable consumer goods grew the most (18.9%).

BOND MARKET

At a tender held on 19 December, the Ministry of Finance of Ukraine offered internal government bonds denominated in hryvnias and in foreign currency.

Demand for bonds denominated in hryvnias and maturing in three months consisted of nine bids for the total of UAH 665.0 million. However, the Ministry of Finance satisfied only six of them for the total of UAH 341.4 million. The established interest rate stood at 16.00% per annum. At that, the highest interest rate requested by bids that were rejected reached 17.00% per annum.

Out of six bids submitted for purchasing internal government bonds denominated in hryvnias and maturing in five months for the total of UAH 396.1 million only four were satisfied. The weighted average interest rate for the above-mentioned bonds landed at 15.95% per annum, with the established earning rate at 16.00% per annum.

Bonds denominated in foreign currency also enjoyed demand. Market players preferred purchasing internal government bonds denominated in US dollars and maturing in six months with a fixed interest rate of 5.00% per annum. The Ministry of Finance satisfied all bids submitted by market participants. Also, the Ministry of Finance satisfied all bids submitted by banks for purchasing internal government bonds denominated in US dollars and maturing in two years. The earning rate for these bonds was established at 5.40% per annum.

As a result of the above-mentioned tender, the Ministry of Finance managed to raise UAH 11.7 billion to the State Budget of Ukraine according to the exchange rate established by the National Bank.

On 20 December, the Ministry of Finance paid off bonds denominated in foreign currency for the total of USD 380.0 million. The above-mentioned bonds matured in 1,805 days with the face value of USD 380.0 million. These securities were issued under 7.50% per annum.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in November 2017, % year-on-year	0.1

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
19 Dec	91 days	16.00%	9/6	341.38
19 Dec	154 days	15.95%	6/4	118.15
19 Dec	175 days denom. in USD	5.00%	7/7	378.46*
19 Dec	784 days denom. in USD	5.40%	11/11	26.63*

* USD millions

Source: the Ministry of Finance of Ukraine

NBU OPERATIONS

Last week turned out to be rather active on the market of NBU deposit certificates. Over the previous week, market participants purchased deposit certificates for the total of UAH 81.1 billion, most of them were overnight certificates of deposit for the total of UAH 70.6 billion. A week earlier, market players purchased certificates of deposit for the total of UAH 39.9 billion.

On Tuesday and Thursday, 19 and 21 December, the National Bank placed deposit certificates maturing in fourteen days. The NBU placed the above-mentioned deposit certificates for the total of UAH 3.5 billion on 19 December and UAH 6.6 billion on 21 December. The earning rate remained unchanged for such a maturity period and stood at 14.50% per annum.

On Wednesday, 20 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 players submitted seventeen bids, and the National Bank satisfied only three of them.

The interest rate for overnight certificates of deposit remained unchanged and totaled 12.50% per annum.

While some banks were purchasing NBU deposit certificate, other banks attracted resources through an ongoing refinancing line (overnight loans). All in all, banks managed to raise UAH 11.9 billion at 16.50% per annum.

At a tender announced by the National Bank on 20 December in order to support liquidity of banks for the period of fourteen days, the NBU satisfied one bid of a bank for the total of UAH 1.5 billion at 16.50% per annum.

STOCK MARKET

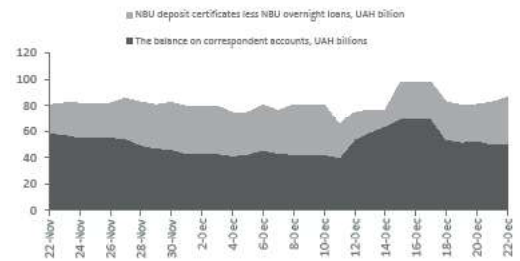
The Ukrainian stock market was moving in different directions in the course of the previous week. On Friday, 22 December, the market closed at 1,337.5 points, which is a record-high for 2017. The Ukrainian Exchange (UX) Index grew 3.0% over the previous week. The UX Index grew 5.2% in monthly terms and 68.1% since the beginning of the current year.

FOREIGN EXCHANGE MARKET

During the previous week, the country was witnessing a relative stability of the hryvnia quotations against the US dollar. Foreign exchange supply surpassed demand slightly. Also, shrinking liquidity of the banking system was keeping back the pressure on the national currency. On Friday, 22 December, the weighted average exchange rate on the interbank foreign exchange market stood at UAH 27.9509/USD at the moment when the official exchange rate was established.

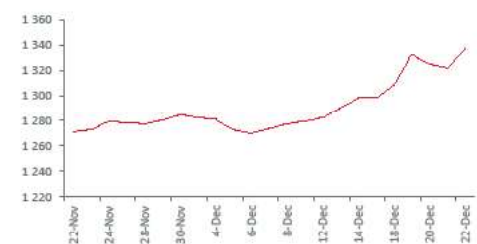
In the course of the previous week, quotations on the interbank foreign exchange market ranged within the following limits: UAH 27.80-27.95/USD on Monday, 18 December, UAH 27.85-27.95/USD on Tuesday, 19 December, UAH 27.80-27.90/USD on Wednesday, 20 December, UAH 27.80-27.90/USD on Thursday, 21 December, and UAH 27.90-28.03/USD on Friday, 22 December. The maximum foreign exchange sales volumes were registered on Monday, 18 December: USD 277 million (all

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Ukrainian Exchange

EXCHANGE RATE (UAH/USD)



Source: NBU



currencies), including sales of the American currency alone for the total of USD 253 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.3 billion against USD 1.1 billion registered a week earlier.

During the previous week, the National Bank held two tenders to purchase and sell foreign exchange with banks on the interbank foreign exchange market. On Monday, 18 December, the NBU sold USD 75.2 million to banks, and the weighted average exchange rate at this tender landed at UAH 27.8550/USD. On Friday, 22 December, the NBU sold USD 42.9 million to banks, with the weighted average exchange rate totaling UAH 27.9306/USD.

INTERBANK LENDING MARKET

Rates for interbank resources on the interbank lending market remained practically unchanged over the previous week. Rates for overnight loans stood at 12.50-13.50% per annum. The cost of weekly and fortnightly resources landed at 13.00-14.50% per annum, while the rates for monthly loans reached 13.50-15.50% per annum.

The balance on correspondent accounts went down a little and, as of Friday morning, 22 December, the balance on correspondent accounts was registered at UAH 50.0 billion. A week earlier, the balance on correspondent accounts stood at UAH 53.8 billion.

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.8	2.3	2.1 (third quarter)
Industrial output, %	-13.4	2.4	0.1 (November)
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	2.1 (January-November)

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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