

Financial markets survey

15 January 2018

A week of positive signals

The market is in expectation of statistical data & corporate reports
Consumer prices: forecasts and facts
Seasonal adventure of the Hryvnia

GLOBAL MARKET

During the previous week, the American stock market moved in different directions in expectation of statistical data in the public sector and corporate reports. On Friday, 12 January, the Standard & Poor's 500 Index set a new record-high once again.

Statistical data turned out to be ambiguous. However, the focus was on inflationary data. The Producer Price Index in the US slipped 0.1% in December 2017, whereas experts expected this indicator to grow 0.2%. In annual terms, growth of this indicator slowed down from 3.1% to 2.6% against 3.0% forecast by analysts.

In December 2017, the Consumer Price Index in the US rose 0.1% compared to the previous month and 2.1% compared to December 2016. In November 2017, consumer prices grew 0.4% and 2.2% respectively.

It is assumed that accelerating inflation will urge the US Federal Reserve System (FRS) to further toughen its monetary policy.

Retail sales in the US grew 0.4% in December 2017 compared to the previous month, although analysts expected a more serious growth – 0.5%. On the whole, retail sales grew 5.5% over the fourth quarter of 2017 compared to the same period in 2016. By the end of 2017, retail sales rose 4.2%, which is a record-high for the last three years.

The European stock platforms closed on Friday with a moderate positive dynamics thanks to the continuing appreciation of the Euro. The Euro appreciated against all key currencies owing to the news that German parties agreed on a grand coalition, which will make it possible to form the Government after the parliamentary elections in that country.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1914-1.2155/EUR. On Friday, 12 January, trading closed at USD 1.2137/EUR.

WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1,2137	0.8	1.2	1.2
GBP/USD	1,3728	1.2	1.6	1.6
USD/RUB	56,9957	-1.0	-1.0	-1.0
USD/UAH	28,5366	1.2	1.7	1.7

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2786.2	1.6	4.2	4.2
FTSE 100 (UK)	7778.6	0.7	1.2	1.2
MXME (East. Eur.)	178.2	2.4	7.6	7.6
UX (Ukraine)	1513.9	10.8	11.1	11.1
RTS (Russia)	1261.1	3.4	9.2	9.2

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2,17	1.1	3.1	3.1
FRS, % per annum	1,50	0.0	0.0	0.0
ECB, % per annum	0,00	0.0	0.0	0.0
NBU, % per annum	14,50	0.0	0.0	0.0
CB RF, % per annum	7,75	0.0	0.0	0.0

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer inflation landed at 13.7% in 2017. Consumer prices grew 1.0% in December 2017 compared to the previous month.

On the consumer market, prices for food products and non-alcoholic beverages rose 1.5% in December. Prices for vegetables (+7.1%), eggs (+6.8%) and milk (+4.0%) grew the most. At the same time, the country registered shrinking prices for sugar (-3.7%), as well as fish and fish products (-0.5%). Prices for clothes and footwear dropped 2.4% over the previous month. Transport prices went up 1.8% over the previous month in connection with higher fuel prices and higher motor transportation rates for passengers.

In December 2017, producer prices rose 1.7% compared to the previous month. In annual terms, inflation of producer prices slowed down and landed at 16.5% by the end of 2017. Inflation of producer prices was caused by growing prices in mining industry (+2.9%) and processing industry (+1.2%). In particular, prices rose 4.6% in iron ores production, 3.3% in chemicals and chemical products, 2.6% in coke production and oil refining, and 0.5% in steel industry.

Inflationary targeting

The priority goal of monetary policy is to achieve and support price stability in the country. To achieve this goal, the NBU is using inflationary targeting.

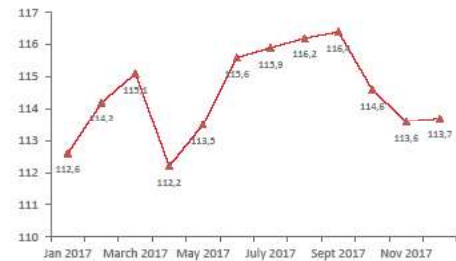
The medium-term goal for the National Bank for 2017 was set at 8% ±2 percentage points. By the end of the year, inflation reached 13.7% and surpassed the forecast indicator because of factors that the NBU could not influence by way of monetary policy instruments.

First of all, these factors include shrinking supply of particular types of goods because of unfavorable weather conditions in the first half of the year, unstable situation in livestock breeding and growth of global prices and external demand for domestic products.

Also, rising prices were the result of seriously growing prices for services that are included in the base inflation, growing production costs, in particular, labor costs, and rapid recovery of consumer demand.

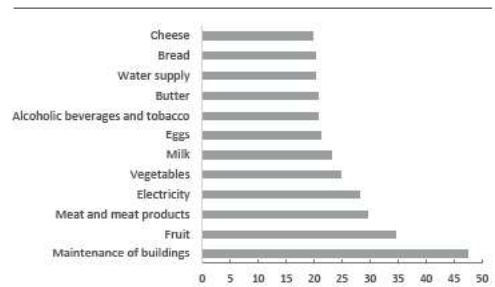
The strategy of Ukraine's monetary policy is based on the following medium-term inflation rates: December 2018 – 6% with the allowable deviation range ±2 percentage points and December 2019 – 5% with the allowable deviation range ±1 percentage point.

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



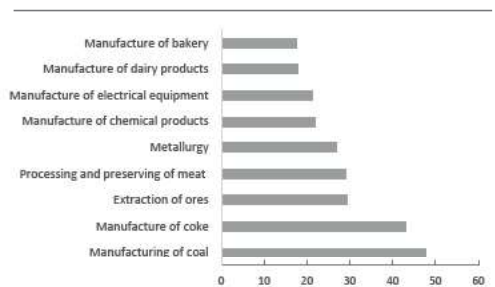
Source: the State Statistics Service

CHANGES IN CONSUMER PRICES IN 2017 (%)



Source: the State Statistics Service

CHANGES IN PRODUCER PRICES IN 2017 (%)



Source: the State Statistics Service

BOND MARKET

On 10 January, the Ministry of Finance of Ukraine held the first tender in 2018 to place internal government bonds. Out of five types of bonds scheduled for placement, the Ministry of Finance offered only three types of bonds.

At this tender, the Ministry of Finance offered internal government bonds maturing in six months, in twelve months and in two years. Bonds maturing in six months enjoyed the highest demand, which was satisfied in full. Market players submitted three bids to purchase bonds maturing in twelve months for the total of UAH 104.6 million, and the requested earning rates ranged within the limits of 15.75-16.00% per annum. Although the total volume of this issue stood at UAH 914.0 million, the Ministry of Finance satisfied only one bid for the total of UAH 50.0 million with the earning rate of 15.75% per annum. Out of four bids submitted by market participants for purchasing bonds maturing in two years with the requested earning rates ranging within 15.70-16.00% per annum, the Ministry of Finance satisfied only three bids, setting the earning rate at 15.70% per annum.

As a result of the above-mentioned tender held on 10 January, the Ministry of Finance managed to raise UAH 1.0 billion to the State Budget of Ukraine.

As of 12 January 2018, there were outstanding internal government bonds for the total of UAH 750.6 billion (according to the total principal).

NBU OPERATIONS

During the previous week, banks were noticeably less active on the market of NBU deposit certificates. Over the previous week, market participants purchased deposit certificates for the total of UAH 66.5 billion, including overnight certificates of deposit for the total of UAH 49.1 billion.

On Tuesday and Thursday, 9 and 11 January, the National Bank placed deposit certificates maturing in fourteen days. The total sum of placement landed at UAH 7.9 billion on 9 January and UAH 6.6 billion on 11 January. However, this is, in total, UAH 2.3 billion less than the NBU repayment for its certificates maturing in fourteen days, which matured on these particular dates.

On Wednesday, 10 January, the National Bank held a scheduled tender to place deposit certificates maturing in three months for the total of UAH 300.0 million. Once again, the National Bank lowered the interest rate, setting the cut-off rate at 14.70% per annum. Only 15 bids were submitted to participate in this tender for the total of UAH 900.0 million. The National Bank satisfied only two bids.

The interest rate for overnight certificates of deposit totaled 12.50% per annum. The earning rate for deposit certificates maturing in fourteen days stood at 14.50% per annum.

At the NBU tender announced on 10 January to support liquidity of banks for the period of eighty-four days, the NBU satisfied only one bid of a bank for the total of UAH 2.3 billion with the interest rate of 16.50% per annum.

In the course of the previous week, banks managed to raise UAH 9.6 billion through the standing NBU refinancing line (overnight loans). The interest rate stood at 16.50% per annum.

The overall level of the banking system liquidity went down because of shrinking budget payments and growing tax payments.

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
10 Jan.	175 days.	15,97%	12/12	897,9
10 Jan.	273 days.	15,75%	3/1	51,2
10 Jan.	728 days.	15,70%	4/3	36,9

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	360,6	0,0	0,0	0,0
Banks	361,3	0,3	0,1	0,1
Legal entities	22,0	-1,0	-0,9	-0,9
Private individ.	1,5	1,0	0,8	0,8
Non-residents	5,3	0,7	0,7	0,7

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		51,9	23,1	8,2	8,2
NBU refinancing	O/N UAH billions	2,1	-8,7	-8,7	-
	Total, UAH billions	64,6	3,2	4,5	4,5
NBU deposit certificates	O/N, UAH billions	9,4	-67,7	-45,2	-45,2
	Total, UAH billions	47,1	-32,6	-18,9	-18,9

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The interbank lending market is demonstrating an enviable stability and tranquility. During the previous week, rates for overnight loans stood at 11.50-13.50% per annum. The cost of weekly and monthly resources landed at 12.00-14.00% per annum.

FOREIGN EXCHANGE MARKET

During the previous week, the national currency continued depreciating. Despite shrinking liquidity of the banking system, demand for the US dollar did not subside. According to information of the regulator, depreciation of the Hryvnia is caused by seasonal factors and is a temporary phenomenon. Also, it was announced that the NBU had sufficient resources to further even out excessive fluctuations on the foreign exchange market. On Friday, 12 January, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 28.5366/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.17-28.27/USD on Tuesday, 9 January, UAH 28.27-28.37/USD on Wednesday, 10 January, UAH 28.38-28.48/USD on Thursday, 11 January, and UAH 28.48-28.58/USD on Friday, 12 January. The maximum foreign exchange sales volumes were registered on Thursday, 11 January: USD 211.3 million (all currencies), including sales of the American currency alone for the total of USD 168.1 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 0.8 billion against USD 0.7 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.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	181,5	0,0	1,1	1,1
Oil, USD/barrel	58,6	1,4	1,7	1,7
Gold, USD/ounce	1326,8	0,7	2,8	2,8

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017
GDP, %	-9.9	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	13.7 (December)
Producer price growth, % year-on-year	25.4	35.7	16.5
Balance of trade, USD billions	-1.7	-5.4	-5.8 (January-November)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.60
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	28.07
Banking system assets, % of growth	4.7	0.2	2.1 (January-November)
External debt, USD billions	118.7	113.6	117.4 (third quarter)
Міжнародні резерви, млрд. дол. США	13,3	15,5	18,8 (December)

Source: the State Statistics Service, NBU



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