

Financial markets survey

22 January 2018

GROWTH POTENTIAL IS NOT EXHAUSTED

WEEKLY ISSUE

**The US Government is to be shut down?
Activity on the market of internal government bonds
FX Interventions of NBU**

GLOBAL MARKET

During the previous week, key American stock indices set new historical record-highs once again thanks to positive results of quarterly corporate reports and data on industrial output surpassing expectations. This indicator grew 0.9% in December 2017 against 0.4% forecast by analysts. It happened thanks to loading of production capacities and demand for heating, which resulted from cold weather. Positive moods did not seriously influence the tension related to the financing of the Government and its possible shutdown. Once again, this issue becomes a small coin in disputes between the Republicans and the Democrats.

Next week, the US will see the publication of data on its GDP for the fourth quarter of 2017, durable goods, new home sales, as well as a new portion of corporate reports.

A scheduled meeting of the European Central Bank (ECB) is expected to take place on Thursday, 25 January. Analysts are interested in possible comments on appreciation of the common European currency, which has been witnessed recently. It is possible that the EUR/USD exchange rate can be adjusted downwards after the ECB meeting is over.

Retail sales in the UK shrank 1.5% in December 2017 compared to the previous month. This is a record-low drop for the last eighteen months. For December, this fall was record-low for the last seven years. British consumers are suffering from accelerating inflation and shrinking available income. The Pound Sterling appreciated against the US dollar after the publication of data on retail sales. However, it depreciated against the Euro.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.2163-1.2322/EUR. On Friday, 19 January, trading closed at USD 1.2255/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1,2255	1,0	2,2	2,2
GBP/USD	1,3858	0,9	2,6	2,6
USD/RUB	56,7597	-0,4	-1,5	-1,5
USD/UAH	28,8448	1,1	2,8	2,8

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2810.3	0.9	5.1	5.1
FTSE 100 (UK)	7730.8	-0.6	0.6	0.6
MXME (East. Eur.)	180.9	1.5	9.3	9.3
UX (Ukraine)	1427.7	-5.7	4.7	4.7
RTS (Russia)	1270.9	0.8	10.1	10.1

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.23	2.5	5.7	5.7
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

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine shrank 2.7% in 2017 compared to 2016. In particular, plant-growing output dropped 3.6%, while livestock breeding output slipped 0.4%.

Output at agricultural enterprises (-3.9%) shrank much more seriously than output at private farms (-1.2%). Over the previous year, agricultural output fell in twelve Ukrainian oblasts. Output in Poltava oblast (-17.1%), Kirovohrad oblast (-13.9%) and Cherkasy oblast (-11.9%) shrank most seriously.

In 2017, agricultural output grew the most in Khmelnytskyi oblast (9.7%), Ternopil oblast (6.6%) and Lviv oblast (5.7%).

Demographic situation

According to estimates, Ukraine's current population stood at 42.403 million of people as of 1 December 2017.

Over January-November 2017, Ukraine's population shrank 181,500 people.

The number of deaths is still seriously outpacing the number of births: 64 newborns per every 100 deceased.

Migration helped increase population numbers 7,900 people over January-November 2017.

Unemployment

In early 2017 (January and February), there was a steep growth of officially registered unemployed. Afterwards, this indicator was shrinking in the course of the subsequent nine months. In December, the number of registered unemployed began growing again and landed at 354,400 Ukrainians by the end of 2017.

A little over 50% of registered unemployed (53.44%) are residing in urban areas, while 46.56% of unemployed are residing in rural areas. 53.47% of registered unemployed are females and 46.52% are males.

The average size of unemployment benefit landed at UAH 2,331.0 in December 2017.

In December, employers needed 50,400 individuals to close their vacant positions. There were seven registered unemployed for each vacancy in December 2017.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output in 2017, % year-on-year	-2.7

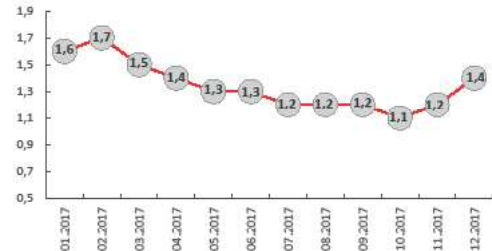
Source: the State Statistics Service

POPULATION (MILLIONS OF PEOPLE)



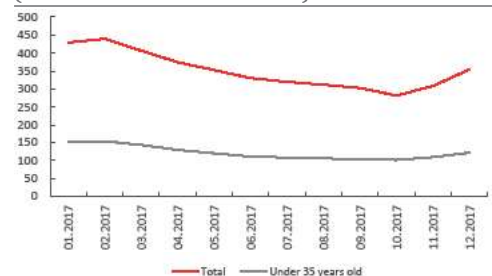
Source: the State Statistics Service

UNEMPLOYMENT RATE (%)



Source: the State Statistics Service

OFFICIALLY REGISTERED UNEMPLOYED (THOUSANDS OF PEOPLE)



Source: the State Statistics Service

BOND MARKET

At a scheduled tender on 16 January, the Ministry of Finance of Ukraine offered four types of internal government bonds maturing in three months to three years. All bonds offered by the Ministry of Finance enjoyed demand among participants in this tender.

The Ministry of Finance satisfied all bids submitted to purchasing bonds maturing in three months and in six months. Out of six bids submitted for purchasing bonds maturing in nine months with the requested earning rates ranging within 15.70-16.00% per annum, the Ministry of Finance satisfied three bids, setting the interest rate at 15.75% per annum.

Demand for bonds maturing in three years also has to be mentioned. Four bids were submitted to purchase them with the requested earning rates ranging within the limits of 15.70-16.00% per annum. However, all of them turned out to be noncompetitive, and the Ministry of Finance did not satisfy any of them.

As a result of the above-mentioned tender held on 16 January, the Ministry of Finance managed to raise UAH 1.6 billion to the State Budget of Ukraine, which is UAH 0.6 billion above the indicator registered a week earlier.

Over the previous week, the volume of outstanding internal government bonds went up UAH 1.2 billion and, as of 19 January 2018, totaled UAH 751.8 billion (according to the total principal).

NBU OPERATIONS

During the previous week, banks cut down their investment in NBU deposit certificates once again. Over the previous week, market participants purchased deposit certificates for the total of UAH 51.4 billion (UAH 66.5 billion a week earlier), including overnight certificates of deposit for the total of UAH 34.0 billion.

On Tuesday and Thursday, 16 and 18 January, the National Bank traditionally placed deposit certificates maturing in fourteen days. The total sum of placement landed at UAH 4.6 billion on 16 January. On 18 January, the NBU managed to raise UAH 12.5 billion.

On Wednesday, 17 January, the National Bank held a scheduled tender to place deposit certificates maturing in three months for the total of UAH 300.0 million. Out of twelve bids submitted for this tender for the total of UAH 680.0 million, the National Bank satisfied only two bids, setting the cut-off rate at 14.73% per annum.

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.

No bids were submitted for the NBU tender announced on 17 January to support liquidity of banks for the period of fourteen days.

In the course of the previous week, banks managed to raise UAH 9.4 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 up and was concentrated on correspondent accounts of banks with the NBU and in deposit certificates.

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
16 Jan.	84 days	16.00%	7/7	718.5
16 Jan.	168 days	16.00%	3/3	569.6
16 Jan.	266 days	15.75%	6/3	308.3

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	358.6	-0.6	-0.6	-0.6
Banks	363.6	0.7	0.8	0.8
Legal entities	22.8	3.5	2.5	2.5
Private individ.	1.5	2.5	3.4	3.4
Non-residents	5.3	0.0	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		54.8	4.3	46.2	46.2
NBU refinancing	O/N UAH billions	1.8	-14.3	0.0	0.0
	Total, UAH billions	64.2	-0.5	4.0	4.0
NBU deposit certificates	O/N, UAH billions	6.8	-27.8	-60.4	-60.4
	Total, UAH billions	44.3	-6.1	-23.8	-23.8

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The situation on the interbank lending market has remained practically unchanged. 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

Depreciation of the national currency that had began at the end of the previous year continued during the previous week. The market was registering stable demand for foreign exchange on the part of importers, while shrinking export proceeds and growing Hryvnia liquidity of the banking system served as the background. On Friday, 19 January, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 28.8448/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.53-28.63/USD on Monday, 15 January, UAH 28.60-28.68/USD on Tuesday, 16 January, UAH 28.63-28.73/USD on Wednesday, 17 January, UAH 28.74-28.82/USD on Thursday, 18 January, and UAH 28.75-28.90/USD on Friday, 19 January. The maximum foreign exchange sales volumes were registered on Tuesday, 16 January: USD 235.9 million (all currencies), including sales of the American currency alone for the total of USD 197.7 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.0 billion against USD 0.8 billion registered a week earlier.

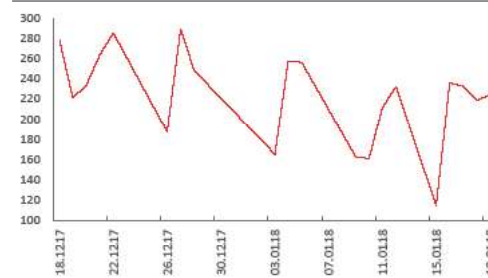
During the previous week, the National Bank did not hold any tenders to purchase or sell foreign exchange with banks. During foreign exchange interventions in the form of the best exchange rate query, the NBU purchased USD 17.0 million and sold USD 125.0 million to banks

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	184.0	0,0	2,5	2,5
Brent crude, USD/barrel	68,6	-1,8	2,6	2,6
WTI crude, USD/barrel	63,4	-1,4	4,9	4,9
Gold, USD/ounce	1335,0	0,6	3,4	3,4

Source: Bloomberg

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	13.7
Producer price growth, % year-on-year	25,4	35,7	16.5
Balance of trade, USD billions	-1,7	-5,5	-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)
International reserves, USD billions	13,3	15,5	18,8 (December)

Source: the State Statistics Service, NBU



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