

Financial markets survey

12 March 2018

TRADE BARRIERS

**Europe is prepared for countermeasures
Inflation is somewhere close
Earning rates of internal government bonds are going up again**

GLOBAL MARKET

The previous week was rather quiet for the US stock market. The American indices demonstrated good growth during Friday trading after the report on the US labor market in February was published. According to data published in the above-mentioned report, the rate of unemployment remained at 4.1%, although it was expected to inch down to 4.0%. At the same time, the number of those employed grew noticeably thanks to those not included moving to the work force.

On Thursday, 08 March, US President Donald Trump signed documents on introducing import duties on steel and aluminum at 25.0% and 10.0% respectively with the exception of Canada and Mexico only. These decisions will come into force on 23 March. Since the decisions are drawn up in the form of two proclamations, President Trump may, at any moment, cancel them or modify conditions of any of them or both at the same time.

Europe would like to avoid a trade war with the US, but is prepared for countermeasures, if US President Donald Trump's plans to raise import duties on steel and aluminum are implemented, stated European Commissioner for Economic and Financial Affairs, Taxation and Customs Pierre Moscovici.

During the current week, the US is expecting numerous important macroeconomic statistical data. In particular, the US will publish data on consumer inflation, producer prices, retail sales, and industrial output.

Macroeconomic statistical data for Germany that was published during the previous week unexpectedly brought a negative surprise. Exports and imports dropped 0.5% in January 2018 compared to December 2017. Industrial output inched down 0.1%. After such statistical data, the Euro's depreciation against the US dollar accelerated.

Based on the results of its meeting on Thursday, 08 March, the European Central Bank (ECB) did not decide to change the interest rate for the main refinancing operations and kept it at zero level. The interest rate for ECB deposit facility was left at -0.40% per annum, while the interest rate for the marginal lending facility remained at 0.25% per annum.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.2267-1.2443/EUR. On Friday, 09 March, trading closed at USD 1.2291/EUR.

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WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.2291	-0.2	-0.3	2.5
GBP/USD	1.3850	0.3	-0.7	2.5
USD/RUB	56.8011	0.7	0.3	-1.4
USD/UAH	26.0940	-1.7	-5.0	-7.0

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2786.6	3.5	3.4	4.2
FTSE 100 (UK)	7224.5	2.2	1.2	-6.0
MXME (East. Eur.)	179.2	1.9	2.1	8.2
UX (Ukraine)	1611.5	1.0	11.1	18.2
RTS (Russia)	1285.5	1.9	4.3	11.4

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.54	1.9	11.7	20.8
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	17.00	0.0	6.3	17.2
CB RF, % per annum	7.50	0.0	-3.2	-3.2

Source: Bloomberg

MACROECONOMICS

Inflation

In February, consumer inflation slowed down a little. According to information of the State Statistics Service, consumer prices grew 0.9% in February compared to the previous month. Since the beginning of the current year, consumer prices rose 2.4%. Consumer inflation landed at 14.0% in February 2018 compared to February 2017.

In February 2018, core inflation reached 0.6% compared to January 2018 and 1.3% since the beginning of the current year.

Same as in previous months, the main reason for inflation was growing prices for food products and non-alcoholic beverages – prices for these consumer items rose 1.0% in February. Prices for fruits (+6.8%) and fish (+2.4%) grew the most. Prices for bread, vegetables, pasta, cheese and cottage cheese rose 1.0-1.6%. At the same time, the country registered shrinking prices for eggs (-1.6%), sugar (-0.7%), meat and meat products (-0.3%). Prices for alcoholic beverages and tobacco products grew 1.4% over the previous month. Prices for clothes and footwear dropped 2.8% over the previous month. Transport prices went up 1.5% over the previous month in connection with higher rates for motor transportation services (+2.7%) and higher fuel prices (+2.2%). Prices (rates) for housing, water supply, electricity, and gas rising 0.4% were mainly the result of higher rates for maintenance of houses and adjoining territories (+2.2%), growing costs of water supply (+2.1%), sewage (+1.7%), higher housing rents (+0.8%).

Wages

The average nominal wage shrank 12.1% in real terms in January 2018 compared to December 2017. Wages in January go down compared to the previous month on the annual basis. This is the result of one-time pay-outs in December: yearly bonuses, bonuses for the length of work record, compensatory payments for unused vacation and so on. Over the last twelve months (compared to January 2017), the nominal wage grew 28.4%.

In January 2018, the index of real wages reached 86.6% compared to December 2017 and 112.3% compared to January 2017.

The average monthly nominal wage of full-time employees totaled UAH 7,711.00 in January 2018, which constitutes 210.0% of the minimum wage (UAH 3,200.00). In January, the highest wages were observed, as usual, in the city of Kyiv (UAH 11,668.00) and Donetsk oblast (UAH 8,389.00). The lowest wages were registered in Ternopil oblast (UAH 5,865.00) and Chernivtsi oblast (UAH 5,914.00).

The highest average wages were registered in finances and insurance (UAH 15,192.00) and also in information and communication area (UAH 12,248.00).

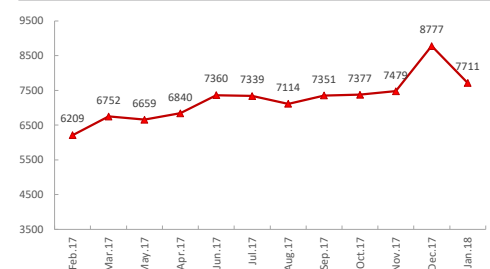
As of 1 February 2018, total wage arrears were registered at UAH 2.5 billion, including wage arrears of economically active companies reaching UAH 1.4 billion (109.9% compared to 1 January 2018).

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



Source: the State Statistics Service

AVERAGE WAGES (UAH)



Source: the State Statistics Service

BOND MARKET

At a scheduled tender on 6 March, the Ministry of Finance of Ukraine offered six types of internal government bonds maturing in three months to three years.

Despite a higher NBU discount rate and expected growth of rates for internal government bonds, there wasn't any special excitement. Total demand reached UAH 1.74 billion, while the highest rates requested in the bids landed at 18.00% per annum.

Nine bids for the total of UAH 234.5 million were submitted to purchase the recently popular bonds maturing in three months. Requested rates stood at 17.00-18.00% per annum. The Ministry of Finance satisfied eight bids and rejected one bid requesting the highest rate. The earning rate for these bonds went up record-high as it was – to 17.50% per annum. As a result of this tender, the weighted average interest rate for these bonds reached 17.43% per annum.

This time, bonds maturing in nine months enjoyed the highest demand. Participants submitted seven bids to purchase them for the total of UAH 787.3 million, while the requested rates ranged within the limits of 16.75%-17.50% per annum. The Ministry of Finance satisfied five bids for the total of UAH 383.5 million. At that, the earning rate was established at 17.00% per annum, while the weighted average interest rate reached 16.99% per annum.

As a result of the above-mentioned tender held on 06 March, the Ministry of Finance managed to raise UAH 1.23 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding internal government bonds shrank UAH 0.7 billion and, as of 09 March 2018, totaled UAH 739.1 billion (according to the total principal).

NBU OPERATIONS

Over the three business days of the previous week, banks purchased NBU deposit certificates for the total of UAH 63.3 billion, including overnight certificates of deposit for the total of UAH 51.1 billion.

On Tuesday, 06 March, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 12.3 billion. As a matter of fact, banks reinvested UAH 1.2 billion from the repayment of deposit certificates maturing in three months and UAH 9.4 billion from the repayment of deposit certificates maturing in fourteen days, which took place during the previous week.

The scheduled NBU tender announced on 07 March to support liquidity of banks for the period of ninety days failed to take place.

In the course of the previous week, banks did not use the standing NBU refinancing line (overnight loans). The interest rate for these loans was 19.00% per annum.

The banking system liquidity was distributed between the balance on correspondent accounts of banks with the National Bank and NBU 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
06 Mar.	91 days	17.43%	9/8	176.8
06 Mar.	182 days	16.92%	6/5	133.0
06 Mar.	266 days	16.99%	7/5	383.5
06 Mar.	364 days	16.93%	6/5	295.9
06 Mar.	679 days	16.13%	2/2	101.5
06 Mar.	1050 days	16.07%	3/3	137.3

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	354.3	0.0	-1.2	-1.7
Banks	342.4	-0.2	-2.8	-5.1
Legal entities	26.7	0.0	15.7	20.1
Private individ.	1.9	2.4	22.3	30.9
Non-residents	13.8	0.0	47.9	164.4

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		39.2	-10.9	-20.5	4.6
NBU refinancing	O/N UAH billions	0.0	0.0	0.0	0.0
	Total, UAH billions	56.1	-3.4	-7.1	-9.1
NBU deposit certificates	O/N, UAH billions	14.4	-22.1	192.1	-15.7
	Total, UAH billions	51.6	-10.2	3.3	-11.2

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

After interest rates for interbank lending resources were raised, which was caused by the NBU discount rate revised upwards, the market stabilized at 14.00-16.00% per annum for overnight loans and 15.00-17.00% per annum for weekly and monthly resources. On Wednesday, 07 March, the market was a bit stormy. Before the long weekend, demand for overnight loans went up and so did the cost of overnight resources – rates grew to 15.50-16.50% per annum.

FOREIGN EXCHANGE MARKET

As was expected by analysts, the Hryvnia continued appreciating during the previous week. On Wednesday, 07 March, before leaving on a long festive weekend, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.093953/USD.

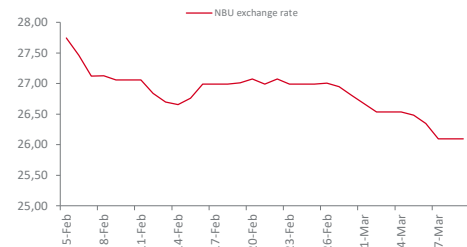
In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.42-26.54/USD on Monday, 05 March, UAH 26.30-26.42/USD on Tuesday, 06 March, UAH 26.03-26.15/USD on Wednesday, 07 March. The maximum foreign exchange sales volumes were registered on Tuesday, 06 March: USD 302.1 million (all currencies), including sales of the American currency alone for the total of USD 274.8 million.

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

On Wednesday, 07 March, the National Bank held a tender to purchase and sell foreign exchange with banks. At this tender, the NBU purchased USD 58.8 million from 21 banks. The weighted average exchange rate stood at UAH 26.1119/USD. The maximum exchange rate of satisfied bids reached UAH 26.1190/USD. All in all, 30 bids for the total of USD 68.7 million were submitted for this tender, and the requested exchange rates ranged within the limits of UAH 26.1000-26.1245/USD.

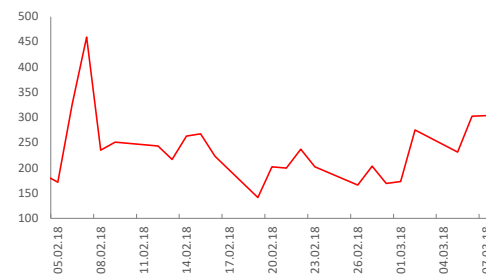
During the previous week, the National Bank did not carry out any foreign exchange interventions in the form the best exchange rate query.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	199.5	2.8	7.0	11.1
Brent crude, USD/barrel	65.5	1.7	-1.5	-0.9
WTI crude, USD/barrel	62.0	1.3	-1.7	2.7
Gold, USD/ounce	1320.6	-0.1	-0.8	2.3

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	
GDP. %	-9.8	2.3	1.8 (fourth quarter, preliminary data)	-
Industrial output. %	-13.4	2.4	-0.1	2.9 (January)
Consumer price growth. % year-on-year	43.3	12.4	13.7	14.1 (January)
Producer price growth. % year-on-year	25.4	35.7	16.5	22.0 (January)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	-0.5 (January)
Current account balance. USD billions	-0.2	-3.5	-3.8	-0.1 (January)
Balance of trade. USD billions	-1.7	-5.5	-6.8	-0.4 (January)
International reserves. USD billions	13.3	15.5	18.8	18.4 (February, preliminary data)
External debt. USD billions	118.7	113.6	117.4 (third quarter)	-
Banking system assets. % of growth	4.7	0.2	6.4	-2.6 (January)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	26.81 (February)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.80 (January-February)

Source: the State Statistics Service, NBU

Index/ commodity	Description
S&P 500	Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks
FTSE 100	The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange
MSCI	The MSCI EM Eastern Europe Index is a free-float weighted equity index
UX Index	The Ukrainian Equities Index is an indicator calculated by the Ukrainian Exchange
RTS	[RTSI\$] Index RTS Index is cap-weighted composite index calculated based on prices of the 50 most liquid Russian stocks of the largest and dynamically developing Russian issuers presented on the Moscow Exchange
Brent crude	COA Comdty Crude Oil, Brent Active Contract
WTI crude	CLA Comdty Crude Oil, WTI Brent Active Contract
Wheat	Ukraine Feed Wheat Feed Grain Market FOB Black Sea Ports Price



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