

# Financial markets survey

19 March 2018

## PERSONNEL SHUFFLES

**The White House team is realigned**  
**Germany has got the same “new” Chancellor**  
**The NBU is already headed by a new Chair**

### GLOBAL MARKET

The previous week started with moderate growth of key indices on the American stock markets. On Tuesday, 13 March, this trend was interrupted by the news that United States Secretary of State Rex Tillerson was dismissed. He will be succeeded by US Central Intelligence Agency Director Mike Pompeo, while Gina Haspel, the first woman to take this post, will head the Central Intelligence Agency.

Only by the end of the previous week, American stock indices registered weak growth thanks to estimates of news from the corporate sector and statistical data. Industrial output in the US in February jumped 1.1% compared to the previous month. Output in processing industry grew 1.2% during the previous month, although experts forecast a 0.5% growth.

The Consumer Price Index in the US rose 2.2% in February 2018 compared to the same month one year ago. Thus, inflation accelerated compared to 2.1% registered in January 2018. During the recent months, investors have been demonstrating a keener reaction to inflationary data, being concerned that a higher rate of inflation will result in a more rapid growth of interest rates in the US and other countries.

For the first time in the entire history, the US national debt exceeded USD 21.0 trillion, including USD 5.7 trillion of domestic debt. The major part of this debt – USD 15.4 trillion – is debts to private individuals and legal entities.

Attention of investors is currently focused on the results of the G20 Meeting of Finance Ministers and Central Bank Governors, scheduled for the upcoming weekend, where it will be possible to see the reaction of other countries to the US trade policies.

On 14 March, deputies of the German Bundestag elected Leader of the Christian Democratic Union of Germany (German: Christlich Demokratische Union Deutschlands) Angela Merkel to be the Chancellor of Germany. Angela Merkel is serving her fourth consecutive term as the Chancellor of Germany.

The US dollar is depreciating spurred by growing political risks in the US, while the Euro has slackened its growth after statistical data on inflation in the Euro-area that disappointed investors. The February inflation in the Euro-area turned out to be weaker than the market expected – at 1.1% in annual terms, while the consensus forecast expected a 1.2% growth.

During the previous week, trading in the “EUR/USD” pair ranged within the limits of USD 1.2259-1.2412/EUR. On Friday, 16 March, trading closed at USD 1.2301/EUR.

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### WEEKLY ISSUE

### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.2301	0.1	-0.3	2.6
GBP/USD	1.3942	0.7	0.3	3.2
USD/RUB	57.0188	0.4	-1.7	-1.0
USD/UAH	26.3539	1.0	-1.3	-6.1

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2752.0	-1.2	3.3	2.9
FTSE 100 (UK)	7164.1	-0.8	-0.1	-6.8
MXME (East. Eur.)	174.5	-2.6	-0.4	5.4
UX (Ukraine)	1629.6	1.1	11.1	19.6
RTS (Russia)	1254.3	-2.4	2.2	8.7

Source: Bloomberg

### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.615	2.8	12.4	24.1
FRS, % per annum	1.500	0.0	0.0	0.0
ECB, % per annum	0.000	0.0	0.0	0.0
NBU, % per annum	17.000	0.0	6.3	17.2
CB RF, % per annum	7.500	0.0	0.0	-3.2

Source: Bloomberg

## MACROECONOMICS

### Agriculture

As of 1 January 2018, Ukraine registered 4,031,700 private farms with the total area of land plots reaching 6,158,200 ha. Almost 50% of these land plots (2,799,300 ha) were registered for commercial farming.

According to information of the State Statistics Service, agricultural output in Ukraine inched down 0.3% over January-February 2018 compared to the same period last year. In particular, output at agricultural enterprises went up 2.1%, whereas output at private farms shrank 3.0%.

Over January-February 2018, agricultural output dropped in eleven Ukrainian oblasts: Luhansk, Khmelnytskyi, Cherkasy, Dnipropetrovsk, Zaporizhzhya, Odesa, Mykolayiv, Zakarpattya, Kharkiv, Chernihiv, and Chernivtsi. Over the above-mentioned period, agricultural output in Kyiv oblast (+7.0%) and Kherson oblast (+6.9%) grew the most.

### Inflation

In February 2018, producer prices rose 1.2% compared to the previous month. In annual terms, inflation of producer prices slowed down a little and landed at 19.6%. Inflation of producer prices in February was caused by growing prices in mining industry (+2.6%) and processing industry (+1.2%).

Prices in the production of iron ores grew the most – 7.6%. Also, prices rose 2.9% in machinery and equipment and 2.6% in steel industry. There was a tangible growth of prices in sugar production (+5.1%) and the production of beverages (+2.8%). At the same time, in February 2018, prices shrank 2.6% in the production of crude oil and natural gas. As well, prices in coke production and oil refining dropped 1.3%.

### Unemployment

By late February 2018, the total number of registered unemployed landed at 383,700 Ukrainians, including 311,000 unemployed receiving unemployment benefit.

A little over 50% of registered unemployed (199,000 individuals) are residing in urban areas, while 184,700 unemployed are residing in rural areas. Women account for 200,500 of registered unemployed, while 128,300 unemployed individuals are young people under 35.

Again, the highest numbers of unemployed were registered in Dnipropetrovsk oblast (27,900 individuals), Poltava oblast (26,100 individuals) and Vinnytsya oblast (24,600 individuals). The lowest numbers of unemployed were registered in Zakarpattya oblast (5,600 individuals) and Chernivtsi oblast (6,900 individuals). The number of officially registered unemployed in Kyiv stood at 9,400 individuals in February 2018.

In February 2018, employers' needs for manpower to fill vacant positions increased and reached 71,800 workers. There were five registered unemployed for each vacancy in February 2018.

The average size of unemployment benefit shrank and landed at UAH 2,357.0 in February 2018.

### LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-February 2018, % year-on-year	-0.3

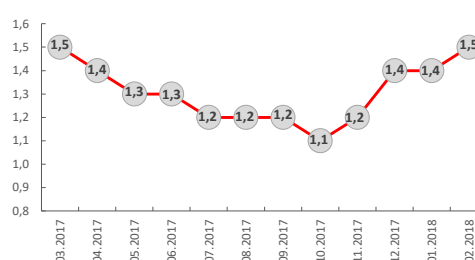
Source: the State Statistics Service

### CHANGES IN PRODUCER PRICES (in % to the correspondent month of prev. year)



Source: the State Statistics Service

### UNEMPLOYMENT RATE (%)



Source: the State Statistics Service

## BOND MARKET

At a scheduled tender for primary placement of internal government bonds, held on 13 March, the Ministry of Finance of Ukraine offered five types of bonds maturing in three months to two years.

Again, bonds maturing in three months enjoyed the highest demand. Eleven bids for the total of UAH 994.7 million were submitted to purchase these bonds. Requested interest rates stood at 17.30- 18.00% per annum. Since the Ministry of Finance has established a limit of UAH 500.0 million for placements of bonds maturing in three and six months, the Ministry of Finance satisfied ten bids for the total of UAH 480.0 million. The cut-off rate stood at 17.50% per annum.

Demand for longer-term bonds was noticeably lower. Regardless of this fact, the Ministry of Finance rejected a rather serious part of bids because it was not willing to raise the cut-off rates, leaving them as they were at the previous tender. The cut-off rate for bonds maturing in two years was even slightly lowered and reached 16.10% per annum. At a tender held on 6 March, the cut-off rate stood at 16.15% per annum.

As a result of the above-mentioned tender held on 13 March, the Ministry of Finance managed to raise UAH 1.1 billion to the State Budget of Ukraine, which is UAH 0.1 billion below the indicator registered at the previous tender.

During the previous week, non-residents turned out to be the most active buyers of internal government bonds again. Over the previous week, their portfolio grew UAH 0.7 billion.

Over the previous week, the volume of outstanding internal government bonds shrank UAH 0.8 billion and, as of 16 March 2018, totaled UAH 738.2 billion (according to the total principal).

## NBU OPERATIONS

Banks' activities on the market of NBU deposit certificates were at a very low level. Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 37.1 billion (UAH 63.3 billion over the three business days a week earlier), including overnight certificates of deposit for the total of UAH 16.0 billion.

On Tuesday and Thursday, 13 and 15 March, the National Bank traditionally placed deposit certificates maturing in fourteen days. The total sum of placement reached UAH 8.2 billion on 13 March and UAH 13.0 billion on 15 March.

The interest rate for overnight certificates of deposit stood at 15.00% per annum. The earning rate for deposit certificates maturing in fourteen days landed at 17.00% per annum.

At a scheduled NBU tender announced on 14 March to support liquidity of banks for the period of fourteen days, one bid of a bank for the total of UAH 122.0 million was satisfied. The interest rate reached 19.00% per annum. In the course of the previous week, banks did not use the standing NBU refinancing line (overnight loans).

On the whole, the banking system liquidity was at a rather high level, including thanks to a positive balance of the State Treasury transactions at UAH 6.3 billion, and was concentrated in the balance on correspondent accounts of banks with the National Bank and in 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
13 Mar.	84 days	17.44%	11/10	480.7
13 Mar.	175 days	17.00%	4/3	85.6
13 Mar.	259 days	17.00%	5/2	9.8
13 Mar.	357 days	17.00%	7/7	234.1
13 Mar.	672 days	16.10%	3/2	269.8
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		57.5	46.8	-0.4	53.5
NBU refinancing	O/N UAH billions	0.0	0.0	0.0	0.0
	Total, UAH billions	56.2	0.1	-4.7	-9.0
NBU deposit certificates	O/N, UAH billions	3.8	-73.3	-25.5	-77.4
	Total, UAH billions	46.0	-10.9	6.5	-20.9

Source: the National Bank of Ukraine

## INTERBANK LENDING MARKET

Rates at the interbank lending market remained unchanged. The cost of overnight, weekly and monthly resources stood at 15.00-17.00% per annum

## FOREIGN EXCHANGE MARKET

After a confident appreciation in the course of several recent weeks, the Hryvnia began depreciating. As early as the beginning of the previous week, the NBU bought out surplus foreign exchange supply twice at foreign exchange tenders, thus limiting appreciation of the Hryvnia. However, on Wednesday, 14 March, the national currency has already begun depreciating.

On Thursday, 15 March, the Verkhovna Rada supported Yakov Smoliy as the presidential nominee for the National Bank Chair. However, this did not manage to support the Hryvnia. The new National Bank Chair assured that "the course of reforms undertaken by the National Bank would not be changeable". Yakov Smoliy said that "the NBU would clearly follow its mandate to provide price stability and financial stability for the purpose of promoting sustainable economic growth". The IMF welcomes Yakov Smoliy's appointment to the position of the National Bank Chair and mentions the importance of keeping the regulator independent.

As a result, on Friday, 16 March, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.3539/USD.

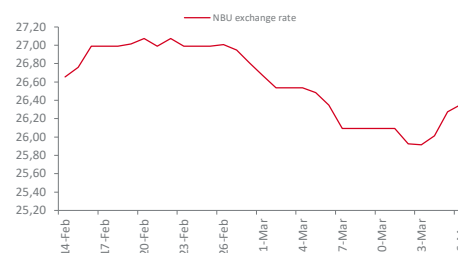
In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.88-25.98/USD on Monday, 12 March, UAH 25.88-25.95/USD on Tuesday, 13 March, UAH 25.98-26.09/USD on Wednesday, 14 March, UAH 26.23-26.35/USD on Thursday, 15 March, and UAH 26.30-26.44/USD on Friday, 16 March. The maximum foreign exchange sales volumes were registered on Thursday, 15 March: USD 293.5 million (all currencies), including sales of the American currency alone for the total of USD 258.5 million.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.3 billion

On Monday, 12 March, the National Bank held a tender to purchase and sell foreign exchange with banks. At this tender, the NBU purchased USD 59.3 million from banks. The weighted average exchange rate stood at UAH 25.9465/USD. At a similar tender, held on Tuesday, 13 March, the NBU purchased USD 74.9 million, and the weighted average exchange rate was registered at UAH 25.9233/USD.

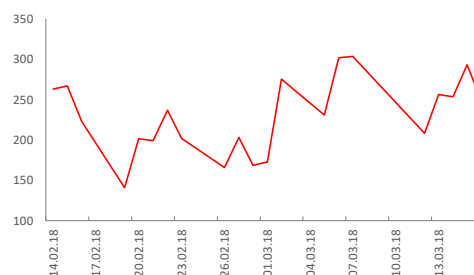
During the previous week, the National Bank carried out foreign exchange interventions in the form the best exchange rate query. By way of these interventions, the NBU purchased USD 30.0 million and sold USD 88.0 million.

## EXCHANGE RATE (UAH/USD)



Source: NBU

## TRADING VOLUMES (MILLIONS USD)



Source: NBU

## COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	201.5	1.0	7.8	12.3
Brent crude, USD/barrel	66.2	1.1	6.0	0.2
WTI crude, USD/barrel	62.3	0.5	5.6	3.2
Gold, USD/ounce	1310.1	-0.8	-1.2	1.5

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	14.0 (February)
Producer price growth. % year-on-year	25.4	35.7	16.5	19.6 (February)
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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