

# Financial markets survey

18 June 2019

## INVESTORS ARE AVOIDING RISKS

WEEKLY ISSUE

Trade wars are picking up speed

Producer prices went up in May

The Ministry of Finance placed debut 6-year internal bonds

### GLOBAL MARKET

The previous week followed a neutral format for the US markets. American stock indices went down on Friday, 14 June, in connection with investors generally avoiding risks in the environment of increased tension on the Middle East. The negative moods on the market were also supported by weak statistical data on the dynamics of industrial output in China. In May 2019, industrial output in China grew 5.0% in annual terms, which is a record-low for the last seventeen years. These data made investors convinced that the trade dispute with the US is seriously weakening the Chinese economy.

US President Donald Trump is threatening to introduce additional duties on imports from China, if Xi Jinping does not attend the G20 summit at the end of June, where the leaders of the two countries can meet. The US president stated that the trade deal either would be incredible or would not be made at all.

India is preparing to announce that it will be raising import duties for a number of American goods starting from the current week. Earlier US President Donald Trump made a decision to deprive India of preferences in trade relations with the US as part of the Generalized System of Preferences for developing countries.

The Consumer Confidence Index in the US dropped to 97.9 points in June 2019 from 100.0 points in May. This worsening of consumer confidence in the US is connected with growing tension in trade relations with China, as well as with slower growth of employment in the country.

In May 2019, industrial output in the US inched up 0.4% compared to April (the forecast was 0.2%). Output in processing industry, which accounts for 75% of the total industrial output, went up 0.2% in May 2019, which was in line with forecasts.

The European Commission confirmed that Brexit is possible without any agreement and made a conclusion that preparatory measures undertaken by Brussels for this case did not require any modifications.

The German Bundesbank is expecting a slight decline of the German GDP in the second quarter of the current year. Miraculously, the country's economy escaped a technical recession in the second half of 2018. The German economy is export-oriented and is currently under pressure due to increased protectionism at the global level, problems in China and Brexit risks.

During the previous week, 10-14 June, trading in the "EUR/USD" pair ranged within the limits of USD 1.1229-1.1343/EUR.

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### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1265	-0.1	0.3	-1.6
GBP/USD	1.2589	-1.2	-2.4	-1.3
USD/RUB	64.6314	-0.9	-1.3	-7.0
USD/UAH	26.4219	-0.7	1.0	-4.6

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2887.0	0.5	1.9	15.2
FTSE 100 (UK)	7345.8	0.2	1.4	9.2
MXME (East. Eur.)	177.2	0.4	7.6	16.5
PFTS (Ukraine)	552.6	-0.2	-3.0	-1.2
RTS (Russia)	1341.1	1.1	8.0	25.5

Source: Bloomberg

### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.247	-4.2	-14.9	-25.3
FRS, % p.a.	2.25-2.50	0.0	0.0	0.0
ECB, % p.a.	0.000	0.0	0.0	0.0
NBU, % p.a.	17.500	0.0	0.0	-2.8
CB RF, % p.a.	7.500	-3.2	-3.2	-3.2

Source: Bloomberg

## MACROECONOMICS

### Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 8.8% in May 2019 compared to April 2019. Compared to May 2018, the country registered a 0.8% growth of agricultural output.

Over January-May 2019, agricultural output increased 2.0% compared to the same period during the previous year. In particular, output at agricultural enterprises grew 6.3%, whereas output at private farms shrank 2.3%.

Since the beginning of the current year, agricultural output grew in thirteen Ukrainian oblasts. Agricultural output in Vinnytsya (+14.8%), Lviv (+9.3%) and Kharkiv (+8.3%) oblasts increased the most.

Over January-May 2019, agricultural output declined in ten Ukrainian oblasts. Agricultural output in Kherson (-7.9%), Zaporizhzhya (-6.5%) and Odesa (-5.0%) oblasts shrank the most.

Over January-May 2019, agricultural output in Chernihiv oblast was registered at the level observed over January-May 2018.

### Producer prices

In May 2019, producer prices went up 2.1% compared to the previous month. Compared to May of the previous year, inflation of producer prices accelerated to 8.5%.

In May, producer prices increased both in mining industry and quarry development (+3.4%) and in processing industry (+0.1%). Prices in deliveries of electric energy, gas and vapor also registered a 5.5% growth over the previous month.

Prices in the production of iron ores went up 9.6% in May 2019, while prices in black coal production remained at the level registered in April 2019. At the same time, prices in the production of crude oil and natural gas went down 1.0%.

In May 2019, the country registered shrinking prices in coke production and oil refining (-3.2%), in chemicals and chemical products (-1.5%), in machine-building (-0.2%), and in wood, timber products and printing industry (-1.0%).

At the same time, prices in food products, beverages and tobacco products went up 0.4%, prices in

key pharmaceutical products increased 0.5%, and prices in steel industry rose 1.2%.

### Unemployment

The total number of registered unemployed went down 10,500 individuals over the previous month and landed at 300,900 individuals by the end of May 2019.

126,600 registered unemployed are residing in urban areas, while 174,300 registered unemployed are living in rural area. As before, the majority of registered unemployed are women, totaling 172,700 individuals.

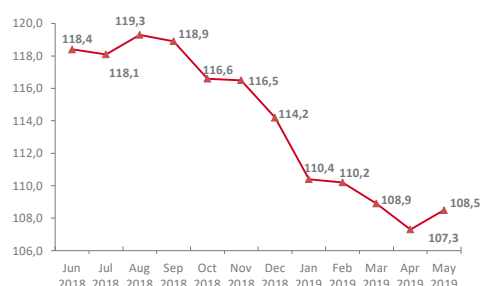
In May 2019, the number of vacant positions increased 5,400 vacancies landing at 96,200 vacancies. There were three registered unemployed for each vacancy in May 2019.

### LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-May 2019, % year-on-year	2.0

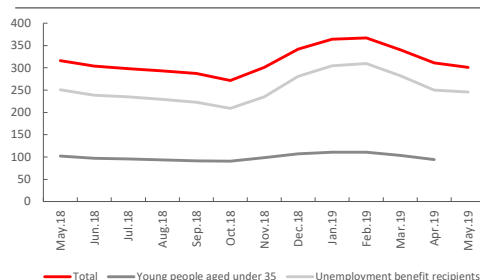
Source: the State Statistics Service

### PRODUCER PRICE INDEX (month-on-month of the previous year, %)



Source: the State Statistics Service

### REGISTERED UNEMPLOYED (thousands of people)



Source: the State Statistics Service

## BOND MARKET

After a 15-year break, Ukraine placed Eurobonds denominated in Euros. The total sum of placement reached EUR 1.0 billion. The Eurobonds will mature on 26 June 2026, while the interest rate landed at 6.75% p. a. Standard&Poor's agency rated this issue as B-, and Fitch agency also rated the issue as B-. Settlements will be made on 20 June 2019. The total of sum of bids for purchasing securities of this new issue reached EUR 6.0 billion. Bonds were purchased by 212 investment funds from 25 countries. Resources raised will be channeled to financing the country's budget deficit.

At a scheduled tender for primary placement of internal government bonds held on 11 June, the Ministry of Finance offered seven types of bonds – five types of bonds denominated in hryvnia and two types of bonds denominated in US dollars. Unlike the previous tender, key demand was concentrated on bonds denominated in hryvnia.

For some instruments, the Ministry of Finance even managed to lower the established earning rates. In particular, fourteen bids for the total of UAH 1.2 billion were submitted for purchasing internal government bonds maturing in six months. The requested interest rates ranged within the limits of 18.35-18.50% p. a. The Ministry of Finance set a limit for this placement totaling UAH 0.5 billion and lowered the cut-off rate down to 18.39% p. a. (earlier, it was 18.50% p. a.).

As part of the National Debt Management Strategy, the Ministry of Finance placed bonds denominated in hryvnia and maturing in six years for the first time. Eleven bids were submitted for purchasing the above-mentioned bonds for the total of UAH 3.5 billion. The requested interest rates ranged within the limits of 15.70-16.00% p. a. The Ministry of Finance satisfied eight bids for the total of UAH 3.3 billion, while the cut-off rate landed at 15.85% p. a.

During the current week, the Ministry of Finance will have to pay out one issue of internal government bonds denominated in US dollars for the total of USD 0.5 billion (maturing in twelve months on 19 June).

As a result of the tender held on 11 June, the Ministry of Finance managed to raise UAH 6.6 billion to the State Budget of Ukraine (according to the NBU exchange rate).

Over the previous week, the volume of outstanding internal government bonds went down UAH 0.2 billion and, as of 14 June 2019, totaled UAH 777.8 billion (according to the total principal). At the same time, non-residents purchased more than 50% of the debut issue of internal government bonds maturing in six years, while their portfolio increased UAH 5.3 billion.

## NBU OPERATIONS

During the previous week, banks purchased NBU deposit certificates for the total of UAH 60.0 billion, including overnight certificates of deposit for the total of UAH 31.4 billion.

On Friday, 14 June, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 28.5 billion, satisfying bids of forty-five banks.

The interest rate for overnight certificates of deposit landed at 15.50% p.a. The interest rate for deposit certificates maturing in fourteen days stood at 17.50% p. a.

The NBU did not hold any quantity tenders to refinance banks during the previous week. Banks used the standing NBU refinancing line (overnight loans with a 19.50% p. a. interest rate) for the total of UAH 27.0 million during the previous week.

Over the previous week, 10-14 June, the balance of the State Treasury transactions landed at UAH 5.0 billion.

The banking system liquidity is at a high level and is concentrated 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
11 June	84 days	17.95%	10/10	464.46
11 June	175 days	18.36%	14/8	459.54
11 June	329 days	18.45%	9/5	745.93
11 June	791 days	17.95%	11/11	1386.29
11 June	2086 days	15.84%	11/8	3422.38
11 June	295 days, den. in USD	7.25%	14/14	3.74*
11 June	491 days, den. in USD	7.25%	10/8	0.67*

\* - USD millions

Source: the Ministry of Finance of Ukraine

## OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	337.1	0.0	0.0	-3.2
Banks	357.5	-1.2	-0.4	-4.5
Legal entities	24.9	-3.7	-0.7	19.9
Private individ.	9.5	-1.1	7.1	55.6
Non-residents	48.9	11.9	24.7	669.9

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		64.0	19.0	14.0	79.6
NBU refinancing, UAH billions		55.2	-2.4	6.3	0.8
NBU deposit certi- ficates	O/N, UAH billions	8.8	-43.7	-15.9	-70.7
	Total, UAH billions	37.3	-20.6	-30.0	-39.7

Source: the National Bank of Ukraine

## INTERBANK LENDING MARKET

During the previous week, the interbank lending market reacted to expanding banking system liquidity by way of a slight decline of interest rates. Rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 14.50-16.50% per annum on the interbank lending market.

## FOREIGN EXCHANGE MARKET

During the previous week, the interbank foreign exchange market was rather balanced. Practically all days of the previous week were registering that foreign exchange supply was exceeding demand, which made it possible for the National Bank to replenish its international reserves. As a result, on Friday, 14 June, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.4219/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.32-26.44/USD on Monday, 10 June, UAH 26.20-26.40/USD on Tuesday, 11 June, UAH 26.35-26.47/USD on Wednesday, 12 June, UAH 26.36-26.46/USD on Thursday, 13 June, and UAH 26.38-26.50/USD on Friday, 14 June.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.6 billion over the previous week.

Over 10-14 June, the National Bank purchased USD 135.1 million from banks: USD 62.5 million by way of foreign exchange interventions in the form of matching and USD 72.6 million by way of foreign exchange interventions in the form of a single exchange rate.

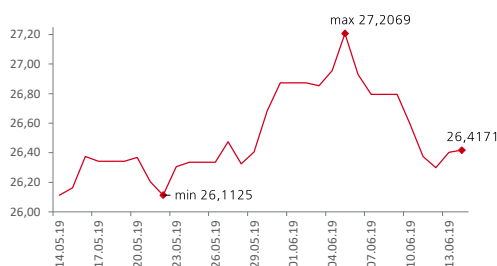
## COMMODITY MARKETS

Prices for benchmark crudes demonstrated moderate growth in the course of trading on Friday, 14 June, spurred by geopolitical risks. However, they shrank by the end of the previous week due to concerns related to global economic growth. The main negative factor was weak statistical data from China pointing to record-slow growth of industrial output in that country since 2002.

Also, participants of the petroleum market are showing reaction to the report published by the International Energy Agency that downgraded its forecast for petroleum demand growth 100,000 barrels per day for 2019 – down to 1.2 million barrels per day.

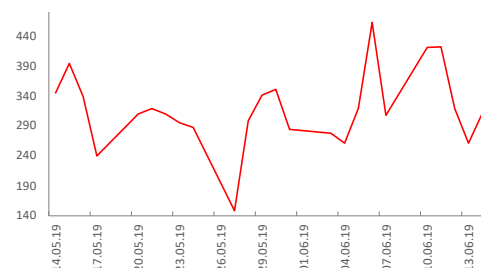
On Friday, prices for gold grew record-high since April 2018 due to concerns related to slower growth of the Chinese economy and escalating tension in the Middle East. Additional demand for protective assets, which include gold, was caused by the news that two oil tankers were attacked in the Gulf of Oman on Thursday, 13 June.

## EXCHANGE RATE (UAH/USD)



Source: NBU

## TRADING VOLUMES (USD MILLIONS)



Source: NBU

## COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	178.0	-7.0	-6.8	-19.5
Brent crude. USD/barrel	62.0	-2.0	-11.8	13.0
WTI crude. USD/barrel	52.5	-2.7	-15.3	11.0
Gold. USD/ounce	1351.3	0.8	4.1	5.6

Source: Bloomberg

## UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	2.2 (first quarter, preliminary estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	5.2 (April)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9.6 (May)
<b>Producer price growth. % year-on-year</b>	25.4	35.7	16.5	14.2	<b>8.5 (May)</b>
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	0.0 (April, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.0 (April, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-0.7 (April, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	19.4 (May, preliminary estimate)
<b>External debt. USD billions</b>	118.7	113.6	116.6	114.7 (third quarter)	<b>114.4 (first quarter)</b>
Banking system assets. % of growth	4.7	0.2	6.4	2.0	-1.4 (January-April)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.87 (May)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.02 (January-May)

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
PFTS	PFTS is a Ukrainian stock index, which is calculated daily based on the results of trading at the PFT stock 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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