

# Financial markets survey

08 July 2019

## STANDBY MODE

WEEKLY ISSUE

**The US published its key labor market report**  
**Unemployment in Ukraine is estimated according to new standards**  
**The hryvnia continues appreciating**

### GLOBAL MARKET

The previous week followed a rather ambiguous format for the US market. On Wednesday, 3 July, the S&P 500 Index set a new historical record-high once again, at 2,995.82 points. On Thursday, 4 July, America was celebrating its Independence Day. On Friday, 5 July, the American market began to adjust after the publication of the key labor market report.

The number of jobs in the US economy grew 224,000 in June 2019. This indicator turned out to be much better than expectations: the consensus forecast of experts provided for the number of jobs to grow 160,000. The rate of unemployment in the US rose to 3.7% in June 2019 from 3.6% in May 2019, which is a record-low since 1969.

Growing unemployment is explained by the overall increase in the numbers of working population in the US. The share of the country's labor force in total population grew to 62.9% in June 2019 from 62.8% in May. A serious increase in the number of jobs in June indicates that the American labor market remains strong, regardless of the pressure connected with trade wars. The June data on the labor market was considered to be the main report that should influence the Federal Reserve System's decision regarding the level of the federal funds rate at its meeting during 30-31 July 2019.

The rate of unemployment in the nineteen euro-area countries dropped to 7.5% in May 2019, which is a record-low since July 2008. In May 2019, the lowest unemployment rates in Europe were registered in Czech Republic (2.2%), Germany (3.1%) and the Netherlands (3.3%).

On Thursday, 4 July, the earning rate for Germany's ten-year government bonds for the first time dropped below the rate on the deposit facility rate established by the European Central Bank at 0.4% per annum spurred by growing expectations of a softer monetary policy. In such an environment, investors started more active purchases of riskier securities, including Italian and Greek securities.

Expectations of a softer monetary policy in the euro-area in the future are connected with Christine Lagarde nominated for ECB president, whose earlier statements demonstrated that she is an advocate of a softer monetary policy.

During the previous week, 1-5 July, trading in the "EUR/USD" pair ranged within the limits of USD 1.1213-1.1374/EUR.

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### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1260	-1.1	0.0	-1.7
GBP/USD	1.2521	-1.4	-1.3	-1.8
USD/RUB	63.4013	0.6	-2.7	-8.7
USD/UAH	25.7114	-1.8	-4.5	-7.1

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2990.4	1.7	5.8	19.3
FTSE 100 (UK)	7553.1	1.7	4.6	12.3
MXME (East. Eur.)	183.2	0.7	5.8	20.4
PFTS (Ukraine)	547.2	1.0	-1.4	-2.2
RTS (Russia)	1398.8	1.3	7.3	30.9

Source: Bloomberg

### KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.192	0.6	-8.0	-27.1
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	0.0	-3.2	-3.2

Source: Bloomberg

## MACROECONOMICS

### Demographic situation

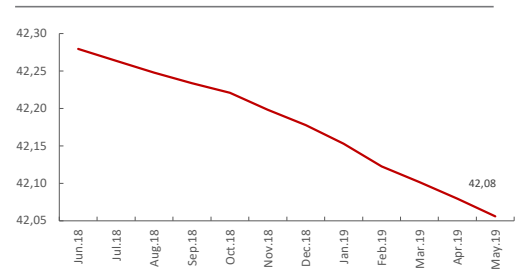
According to estimates of the State Statistics Service, Ukraine's current population stood at 42,055,934 people as of 1 May 2019. Ukraine's current resident population totaled 41,886,297 people as of 1 May 2019.

Over January-April 2019, Ukraine's population shrank 97,267 people.

Migration helped increase population numbers by 9,485 people over the first four months of 2019.

The number of deaths continues to seriously outpace the number of births: 48 newborns per every 100 deceased.

POPULATION (MILLIONS OF PEOPLE)



Source: the State Statistics Service

### Labor market and unemployment

Starting from the first quarter of 2019, labor force survey will cover population aged 15 years and older for the purpose of harmonizing statistical data on employment and unemployment according to the Resolution concerning statistics of work, employment and labor underutilization adopted by the 19th International Conference of Labor Statisticians in October 2013 and the Council Regulation (EC) No 577/98 on the organization of a labor force sample survey in the Community. The State Statistics Service will also continue publishing information on labor force aged 15-70 in order to ensure dynamic comparison of indicators.

The results of the labor force survey demonstrated that the total numbers of working population aged 15 and older reached 16.4 million people in the first quarter of 2019, while the total numbers of those unemployed of the same age landed at 1.6 million people.

In Q1'2019, the rate of employment among those aged 15 and older reached 50.7%. The rate of unemployment among the country's labor force aged 15 and older landed at 9.1%.

According to the ILO methodology, the rate of unemployment among those aged 15 and older reached 9.1% of total labor force in the first quarter of 2019 and 9.6% of total employable population.

### Household incomes and expenditures

According to data published by the State Statistics Service, household incomes reached UAH 803.4 billion in the first quarter of 2019, while household expenditures stood at UAH 852.4 billion. Household savings shrank UAH 49.0 billion.

Available income calculated per one individual reached UAH 14,398.0 in Q1'2019.

Nominal household incomes grew 15.5% in the first quarter of 2019 compared to the same period in 2018.

Growth of incomes was caused by wages rising 17.8%, profits and mixed incomes growing 18.2%, social aid and other current transfers received increasing 11.4%, as well as incomes from property (received) going up 6.8% over the first quarter of 2019 as compared to the first quarter of 2018.

Household expenditures grew 15.5% over the first quarter of 2019 compared to the same period in 2018. Current incomes from property (paid) (+38.8%), expenditures on goods and services (+20.2%) and current taxes on incomes and property (+25.4%) grew the most.

## BOND MARKET AND PUBLIC FINANCE

At a scheduled Auction for primary placement of domestic government bonds held on 2 July, the Ministry of Finance offered six types of bonds and all of them were denominated in hryvnia. Demand was practically even for all instruments.

The Ministry of Finance set a limit for placing bonds maturing in three months and in seven months totaling UAH 0.5 billion each and lowered the accepted yield down to 17.44% p.a. and 17.94% p.a. respectively.

Thirty-three bids for the total of UAH 2.7 billion were submitted for purchasing bonds maturing in twelve months. The requested yield ranged within the limits of 18.19-18.40% p.a. The Ministry of Finance lowered the accepted yield down to 18.30% p.a. and rejected twelve bids.

Seven bids for the total of UAH 1.4 billion were submitted for purchasing bonds maturing in eighteen months. The requested yield ranged within the limits of 18.00-18.25% p.a. The Ministry of Finance rejected two bids, leaving the accepted yield at the level of the previous placement of such bonds at 18.00% p.a.

The Ministry of Finance satisfied the entire demand of twenty-three bids for purchasing bonds maturing in two years, leaving the accepted yield for the above-mentioned type of bonds at 17.95% p.a.

Twelve bids were submitted for purchasing bonds maturing in three years. The requested yield within the limits of 16.90-19.95% p.a. The Ministry of Finance rejected one bid for the total of UAH 25.0 million requesting a high yield and set the accepted yield at 16.95% p.a.

During the current week, the Ministry of Finance will have to pay out one issue of domestic government bonds denominated in hryvnia for the total of UAH 2.7 billion (with maturity in three years on 10 July) and one issue of domestic government bonds denominated in US dollars for the total of USD 0.5 billion (maturing in two years on 10 July).

Funds raised to the State Budget from the sale of instruments on July 2 – UAH 8.0 billion (at the NBU rate).

Over the previous week, the volume of outstanding internal government bonds went up UAH 0.8 billion and, as of 5 July 2019, totaled UAH 773.6 billion (according to the total principal).

## NBU OPERATIONS

During the previous week, banks purchased NBU deposit certificates for the total of UAH 145.3 billion, and all of them were overnight certificates of deposit.

The interest rate for overnight certificates of deposit landed at 15.50% per annum.

At a scheduled NBU tender announced on 5 July to support liquidity, bids of three banks for the total of UAH 7.6 billion were satisfied. The interest rate reached 17.50% per annum. The resources were provided for the period of fourteen days.

Last week banks did not use the NBU standing refinancing facility (overnight loans).

Over the previous week, 1-5 July, a negative balance of the State Treasury transactions landed at UAH 6.0 billion.

The banking system liquidity is at a sufficient level and is concentrated in NBU deposit certificates and on correspondent accounts of banks with the National Bank.

## THE RESULTS ON ISSUANCE OF DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
02 Jul.	105 days	17,44%	12/3	476,12
02 Jul.	210 days	17,91%	25/11	453,29
02 Jul.	343 days	18,23%	33/21	2083,60
02 Jul.	455 days	17,98%	7/5	1375,72
02 Jul.	770 days	17,94%	23/23	2517,46
02 Jul.	1043 days	16,93%	12/11	1136,37

Source: the Ministry of Finance of Ukraine

## OWNERS OF DOMESTIC GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	337.1	0.0	0.0	-3.2
Banks	344.1	-1.0	-5.4	-8.1
Legal entities	23.4	1.0	-10.5	12.7
Private individ.	9.0	2.5	-6.8	47.6
Non-residents	60.1	6.8	42.1	846.1

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a, UAH billions	37.6	-40.4	-23.0	2.7	
NBU refinancing, UAH billions	50.9	-8.3	1.9	-7.2	
NBU deposit certificates	O/N, UAH billions	34.0	123.8	61.1	12.8
	Total, UAH billions	64.2	46.8	22.3	3.6

Source: the National Bank of Ukraine

### INTERBANK LENDING MARKET

Last week the interbank lending market was stable. Rates for overnight, weekly and monthly lending loans in the national currency were ranging within the limits of 15.00-17.00% per annum.

### FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued appreciating. All days of the previous week, foreign currency supply seriously exceeded foreign currency demand. Again, the hryvnia was supported by non-residents that are selling foreign currency to invest into Ukrainian government bonds. The National Bank entered the interbank FX market several times to purchase foreign currency for the purpose of avoiding a sharp drop of the US dollar quotations. As a result, on Friday, 5 July, the weighted average exchange rate on the interbank FX market was registered at UAH 25.7114/USD.

In the course of the previous week, trading on the interbank FX market ranged within the following limits: UAH 26.18-26.26/USD on Monday, 1 July, UAH 26.15-26.22/USD on Tuesday, 2 July, UAH 26.00-26.10/USD on Wednesday, 3 July, UAH 25.80-25.93/USD on Thursday, 4 July, and UAH 25.66-25.78/USD on Friday, 5 July.

Over the previous week, the foreign exchange sales reached USD 1.8 billion.

Over 1-5 July, the National Bank purchased USD 321.2 million from banks by way of foreign exchange interventions: USD 40.0 million by way of interventions in the form of best FX rate and USD 281.2 million by way of interventions in the form of a single exchange rate.

### COMMODITY MARKETS

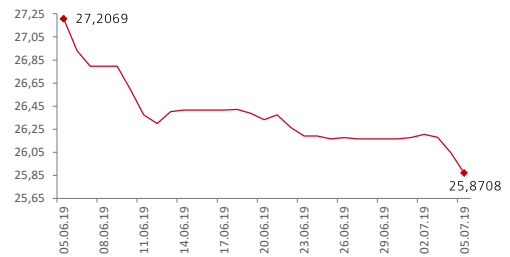
On Tuesday, 2 July, prices for Brent crude went down from USD 65.06 per barrel to USD 62.40 per barrel spurred by the decision of the OPEC member countries to approve the extension of the deal to curtail crude output for another nine months.

On Wednesday, 3 July, oil prices went up before the publication of the official report on oil inventories in the US. The American Petroleum Institute (API) reported that crude oil inventories in the US dropped 5.0 million barrels as of late June. This indicator turned out to be stronger than forecasts expecting that petroleum inventories would decline 2.96 million barrels.

On Friday, 5 July, oil prices grew more than 1.0% spurred by renewed negotiations between the US and China. Statistical data on petroleum output in the OPEC countries that demonstrated another reduction of total output by the end of June was an additional driver for oil prices.

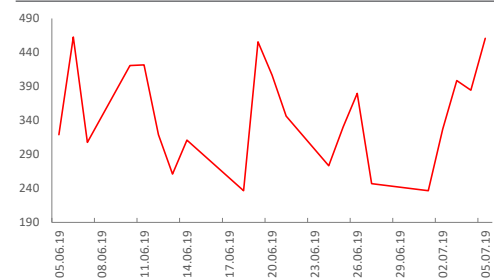
Despite positive factors for the petroleum market in form of the extended OPEC/non-OPEC deal and shrinking crude output in Iran and Venezuela, market participants continue to be rather wary of risks related to a more serious global economic slowdown.

### EXCHANGE RATE (UAH/USD)



Source: NBU

### TRADING VOLUMES (USD MILLIONS)



Source: NBU

### COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	180.5	1.1	-5.7	-18.3
Brent crude. USD/barrel	64.2	-0.8	7.9	17.0
WTI crude. USD/barrel	57.5	-1.6	11.0	20.8
Gold. USD/ounce	1388.7	-1.4	4.0	8.6

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	2.5 (first quarter, revised estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	1.6 (May)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9.6 (May)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	8.5 (May)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	-0.8 (May, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	0.2 (May, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-0.6 (May, preliminary estimate)
<b>International reserves. USD billions</b>	13.3	15.5	18.8	20.8 (preliminary estimate)	<b>20.6 (June, preliminary estimate)</b>
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	114.4 (first quarter)
Banking system assets. % of growth	4.7	0.2	6.4	2.0	-1.4 (January-May)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.17 (June)
<b>Exchange rate. annual average. UAH/USD</b>	21.85	25.55	26.60	27.20	<b>26.93 (January-June)</b>

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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