

Financial markets survey

29 July 2019

CONFRONTATION OF CENTRAL BANKS

WEEKLY ISSUE

Positive news from the White House
Industrial output in Ukraine shrank 2.3%
The hryvnia is breaking records

GLOBAL MARKET

The previous week followed mostly a positive format for financial markets. Once again, the S&P 500 Index set a new historical record-high (3,025.86 points).

Investors are preparing for the upcoming FRS meeting scheduled for 30-31 July and further trade negotiations between the US and China. This week, the American delegation is expected to visit Beijing. China's regulators gave permits to five companies to import soy beans from the US, exempting these procurements from earlier introduced import duties. Market participants took this decision as the readiness of the Chinese leadership to make concessions.

US President Donald Trump stated that the White House reached an agreement with the Congress regarding the budget and the upper limit of the public debt until July 2021. This step will make it possible to escape a new shutdown and conditional risks of a default for the US national debt. At the moment, the US national debt stands at around USD 22.0 trillion.

According to the first estimate, the US GDP grew 2.1% in the second quarter of 2019 compared to 3.1% in the first quarter (quarter-on-quarter). A consensus forecast of economists provided for a 1.8% growth. Consumer expenditures grew 4.3%, which is a positive sign. However, exports shrank 5.2%, while business investment went down 0.8%.

The season of corporate financial statements is going on in the US. Stocks of Tesla, Ford, Caterpillar, and Facebook demonstrated a negative dynamics after quarterly releases. At the same time, stocks of Alphabet, Starbucks and Twitter went up after the publication of financial statements.

On Thursday, 25 July, the ECB held a meeting. As expected, interest rates remained unchanged. Now, the ECB is expecting that indicative rates will remain at the previous level until the end of the first half of 2020. The ECB sees it necessary to institute extensive monetary incentives for the region's economy. The ECB will study various options for supporting the economy, including changing the forecast for interest rates, instituting a multilevel system for accruing interests on bank deposits, as well as renewing the quantitative easing (QE) program.

During the previous week, 22-26 July, trading in the "EUR/USD" pair ranged within the limits of USD 1.1102-1.1210/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1138	-0.8	-2.0	-2.7
GBP/USD	1.2384	-0.9	-2.4	-2.9
USD/RUB	63.1572	0.5	1.0	-9.1
USD/UAH	25.4397	-1.5	-2.8	-8.1

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3025.9	1.7	3.8	20.7
FTSE 100 (UK)	7549.1	0.5	1.8	12.2
MXME (East. Eur.)	176.4	-0.9	-3.2	16.0
PFTS (Ukraine)	540.6	-0.8	-1.8	-3.3
RTS (Russia)	1348.3	-0.2	-2.8	26.2

Source: Bloomberg

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.197	1.8	0.6	-26.9
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.	17.000	0.0	-2.9	-5.6
CB RF, % p.a.	7.250	-3.3	-3.3	-6.5

Source: Bloomberg

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output in Ukraine shrank 1.3% in June 2019 compared to June 2018 with due consideration for an adjustment to the calendar days effect and 2.3% without the above-mentioned adjustment.

Output in mining industry grew 4.3% in June 2019 compared to June 2018 without seasonal adjustment. In particular, black and brown coal output grew 9.4%, crude oil and natural gas output rose 3.0%, and iron ores output went up 5.1%.

Output in processing industry registered a drop in June 2019. Output in processing industry shrank 6.1% in June 2019 compared to June 2018 without seasonal adjustment. Basic metals industry went down 6.0%, coke production and oil refining dropped 11.9%, machinery-building shrank 13.3%, while rubber and plastic products declined 7.0%. At the same time, output in basic pharmaceutical products and pharmaceutical preparations increased 2.2%, while chemicals and chemical products rose 6.7%. Deliveries of electricity, gas and steam went up 4.4% in June 2019 without seasonal adjustment.

Over January-June 2019, the Industrial Output Index reached 100.5% compared to January-June 2018, including 103.0% in mining industry and quarry development, 99.9% in processing industry, and 98.5% in deliveries of electricity, gas and steam.

Construction

In June 2019, the Index of Construction Products reached 101.7% compared to June 2018 (with due consideration for an adjustment to the calendar days effect), and 92.7% compared to May 2019 (with due consideration for seasonal adjustment).

Over January-June 2019, Ukrainian companies carried out construction works (construction products output) for the total of UAH 66.0 billion.

Construction of new objects, reconstruction and technical re-equipment made up 77.8% of total construction works, while overhaul and maintenance works accounted for 13.9% and 8.3% of total construction works respectively.

Over January-June 2019, the Index of Construction Products reached 121.2% compared to January-June 2018.

Transportation

Over January-June 2019, freight turnover of transportation companies totaled 167.5 billion ton-km, which constitutes 103.0% compared to January-June 2018.

Transportation companies carried 328.5 million tons of freight over January-June 2019, which stands at 108.2% of the similar indicator registered over January-June 2018.

2,137.0 million passengers used services of passenger transport over the first half of 2019, which accounted for 93.7% of the indicator registered over the same period during the previous year.

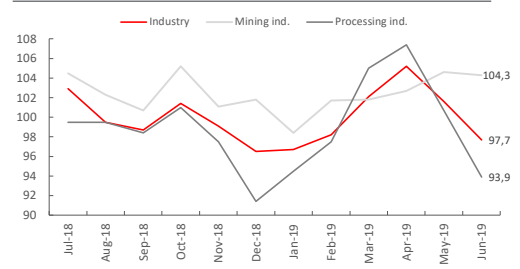
Over January-June 2019, traffic in pipeline transport went up compared to the similar indicator registered over January-June 2018. Pipeline transportation of ammonia and gas grew 12.4% and 1.9% respectively. At the same time, pipeline transportation of oil shrank 9.3%. Transit of ammonia rose 10.9%, while gas transit went up 6.1%, whereas oil transit dropped 12.1%.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in June 2019, % year-on-year (without adjustments)	-2.3

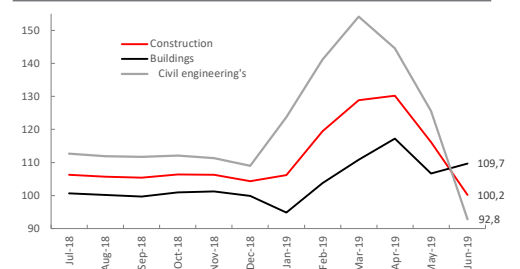
Source: the State Statistics Service

INDUSTRIAL OUTPUT INDEX (% year-on-year, excluding adjustments)



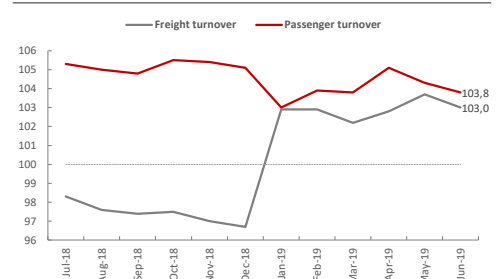
Source: the State Statistics Service

THE INDEX OF CONSTRUCTION PRODUCTS (% year-on-year, excluding adjustments)



Source: the State Statistics Service

TRANSPORTATION SERVICES (% year-on-year, progressive total)



Source: the State Statistics Service

BOND MARKET

At a scheduled auction for primary placement of domestic government bonds held on 23 July, the Ministry of Finance continued the practice of setting limits for the total amount of placements. This time, the Ministry of Finance set a limit for placing bonds maturing in six months and in twelve months totaling UAH 0.5 billion each. Again, this step made it possible to lower accepted yield, and the weight-average yield for the bonds.

Twenty-five bids for the total of UAH 1.7 billion were submitted for purchasing bonds maturing in six months. This was a triple of the total amount of placement for this instrument. The Ministry of Finance lowered the accepted yield to 16.73% p.a. and satisfied only ten bids.

Bonds maturing in twelve months enjoyed the highest demand in terms of the number of bids. Fifty-four bids were submitted for purchasing the above-mentioned bonds. The requested yield ranged within the limits of 16.99-17.74% p.a. The Ministry of Finance set the accepted yield at 16.99% p.a. and rejected more than 50% of bids for the total of UAH 2.5 billion.

Bonds maturing in three years enjoyed the highest demand in terms of the total sum of bids. Total demand reached UAH 5.5 billion, while the requested yield within the limits of 16.16-16.75% p.a. The Ministry of Finance rejected three bids, setting the accepted yield at 16.55% p.a.

Last week, the Ministry of Finance updated its calendar of domestic bonds placement for the third quarter 2019. According to the new calendar, there are no plans to place bonds denominated in foreign currency until the end of the current quarter.

This week, the Ministry of Finance will have to pay out one issue of domestic government bonds denominated in hryvnia for the total of UAH 1.0 billion (maturing on 31 July) and one issue of domestic government bonds denominated in US dollars for the total of USD 0.1 billion (maturing on 01 August).

Funds raised to the State Budget from the sale of instruments on July 23, 2019 – UAH 7.0 billion

Over the previous week, the volume of outstanding domestic government bonds went up UAH 4.0 billion and, as of 26 July 2019, totaled UAH 790.1 billion (according to the total principal).

NBU OPERATIONS

Last week banks purchased NBU deposit certificates for the total of UAH 79.5 billion, including overnight certificates of deposit for the total of UAH 45.0 billion.

On Friday, 26 July, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 34.5 billion, satisfying bids of 51 banks.

The interest rate for overnight certificates of deposit landed at 15.00% p.a. The interest rate for deposit certificates maturing in fourteen days stood at 17.00% p.a.

Last week the NBU did not hold any quantity tenders to refinance banks.

Last week banks used the NBU standing refinancing facility (overnight loans) for the total of UAH 0.5 billion (interest rate - 19.00% p.a.).

Over the previous week, 22-26 July, a negative balance of the State Treasury transactions landed at UAH 15.4 billion.

The banking system liquidity is at a high level.

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
23 Jul.	84 days	16.63%	15/13	354.20
23 Jul.	189 days	16.68%	25/10	460.24
23 Jul.	350 days	16.99%	54/26	491.16
23 Jul.	1022 days	16.44%	49/46	5647.08

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	344.1	-0.3	-2.0	-8.1
Legal entities	25.6	1.4	7.1	23.5
Private individ.	9.3	0.3	5.2	53.8
Non-residents	74.0	7.0	43.7	1065.3

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	53.0	-7.6	-3.1	48.6	
NBU refinancing. UAH billions	48.0	-0.1	-13.4	-12.4	
NBU deposit certificates	O/N. UAH billions	11.9	25.3	-0.3	-60.3
	Total. UAH billions	46.5	-0.4	14.7	-25.0

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

Last week, the interbank lending market was without changes. Interest rates for overnight, weekly and monthly loans in the national currency were ranging within the limits of 15.00-17.00% per annum on the interbank lending market.

FOREIGN EXCHANGE MARKET

Last week, the national currency continued appreciating. The official hryvnia exchange rate against the US dollar appreciated 1.5% during the previous week. Appreciation of the hryvnia was assisted by shrinking banking system liquidity caused by scheduled tax payments to the State Budget and payment of dividends by National Joint Stock Company Naftogaz Ukrayiny for 2018 (approximately UAH 8.2 billion), as well as by foreign currency sales by non-residents to purchasing domestic government bonds. During the entire previous week, foreign currency supply exceeded demand. The National Bank entered the interbank FX market several times and bought out surplus foreign currency, thus, significantly replenishing its reserves.

As a result, on Friday, 26 July, the weighted average exchange rate on the interbank FX market was registered at UAH 25.4397/USD.

Last week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.60-25.75/USD on Monday, 22 July, UAH 25.58-25.72/USD on Tuesday, 23 July, UAH 25.44-25.70/USD on Wednesday, 24 July, UAH 25.43-25.57/USD on Thursday, 25 July, and UAH 25.36-25.52/USD on Friday, 26 July.

Over the previous week, the foreign exchange sales reached USD 2.1 billion.

Over 22-26 July, the National Bank purchased USD 261.2 million from banks: USD 185.2 million by way of interventions in the form of a best FX rate and USD 76.0 million by way of interventions in the form of a single exchange rate.

COMMODITY MARKETS

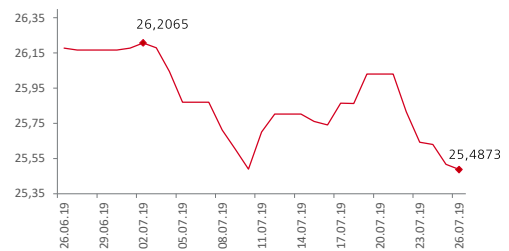
During the previous week, a slight growth of prices for benchmark crudes was caused by data on shrinking fuel inventories in the US and the geopolitical tension in the Middle East.

A report published by the US Department of Energy demonstrated that petroleum inventories in the country had been shrinking for six consecutive weeks. Petroleum inventories fell 10.84 million barrels, which is a triple of the drop forecast by experts.

In addition, crude output in the US shrank 700,000 barrels per day, which is a record-low drop since October 2017. In many ways, this was caused by suspended petroleum production in the Gulf of Mexico due to Hurricane Barry.

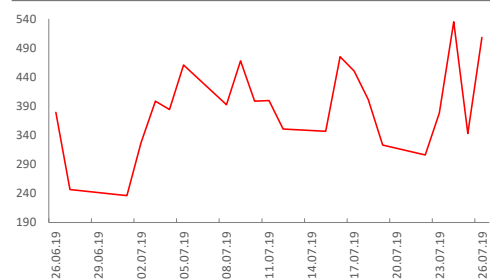
The key issues on the market continue to be the tension in the Middle East due to the conflict between Iran and the US, as well as the risks of slower global petroleum demand resulting from weak economies.

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch. %	mon. ch. %	YTD. %
Wheat. USD/ton	184.5	1.1	3.4	-16.5
Brent crude. USD/barrel	63.5	1.6	-3.4	15.5
WTI crude. USD/barrel	56.2	0.8	-5.4	17.5
Gold. USD/ounce	1420.4	-1.3	1.2	11.1

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	-2.3 (June)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9.0 (June)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	4.5 (June)
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)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	20.6 (June, preliminary estimate)
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	0.1 (January-June)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.17 (June)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	26.93 (January-June)

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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