

Financial markets survey

28 October 2019

MONETARY INCENTIVES

Actions of the FRS do not scare the market
Industrial output is shrinking at a slower pace, at 1.1%
The NBU continued its cycle for a softer monetary policy

GLOBAL MARKET

During the previous week, key stock indices came close to their record-highs in expectation of incentives for economies to be provided by global central banks. Lower tension in trade relations between the US and China and monetary incentives are supporting stock market, while investors are focusing their attention on corporate financial statements.

The US and China moved forward in their trade negotiations, having completed technical consultations on a number of issues and having come close to agreeing specific items in the first stage of the trade agreement.

In September, durable goods orders in the US went down for the first time over the last three months, declining 1.1%. This data confirmed that investments of American businesses continued shrinking. At the same time, the Consumer Confidence Index in the US grew to 95.5 points in October 2019, which is a record-high for the last three months.

On Wednesday, 23 October, the Federal Reserve System announced that it would raise the limits for its repo transactions from USD 75.0 billion to USD 120.0 billion for overnight transactions and from USD 35.0 billion to USD 45.0 billion for two-week transactions. The market is not showing any concerns about these plans.

As a result of its October meeting on Thursday, 24 October, the ECB kept the interest rate on the main refinancing operations at zero level and the rate on the deposit facility at minus 0.5% per annum. The rate on the marginal lending facility was left at 0.25% per annum. The ECB officials are saying that the rates will be left at the current level or lowered more as long as inflation in the euro-area has not approached its targeted indicator of 2.0%. The ECB also confirmed that, starting from 1 November, it would launch its assets re-purchase program for EUR 20.0 billion per month. In addition, the ECB will continue fully reinvesting resources incoming from securities to be repaid. Based on the results of the ECB's meeting, ECB President Mario Draghi stated that incoming information was confirming "a long-term weakening of the euro-area economy, sustainability of serious downgrading risks and a discreet inflationary pressure". Among the key downgrading risks for the euro-area economy, Mr. Draghi mentioned lingering uncertainty connected with geopolitical factors, growing protectionism and problems of emerging markets.

27 European Union countries agreed to comply with the UK's request regarding a "flexible" postponement of Brexit till 31 January 2020.

During the previous week, 21–25 October, trading in the "EUR/USD" pair ranged within the limits of USD 1.1094-1.1181/EUR.

WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1107	-0.3	1.1	-3.0
GBP/USD	1.2827	-1.2	3.8	0.6
USD/RUB	63.8600	-0.2	0.2	-8.1
USD/UAH	25.1741	0.6	4.4	-9.1

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3022.6	1.2	1.3	20.6
FTSE 100 (UK)	7324.5	2.4	0.5	8.9
MXME (East. Eur.)	182.4	3.8	5.7	19.9
PFTS (Ukraine)	521.9	0.1	-0.3	-6.7
RTS (Russia)	1421.2	4.9	5.0	33.0

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.956	-1.6	-1.5	-34.9
FRS. % p.a.	1.75-2.00	0.0	0.0	-20.0
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	15.500	-6.1	-6.1	-13.9
CB RF. % p.a.	6.500	-7.1	-7.1	-16.1

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 September 2019 compared to September 2018 with due consideration for an adjustment to the calendar days effect and 1.1% without the above-mentioned adjustment.

Output in mining industry went down 1.2% in September 2019 compared to September 2018 without seasonal adjustment. In particular, iron ores output shrank 1.0%, black and brown coal output went down 1.5%, while crude oil and natural gas output inched down 0.5%.

Output in processing industry also registered a 1.2% drop in September 2019 compared to September 2018 without seasonal adjustment. Output of food products and beverages grew 1.6%, while key pharmaceuticals and pharmaceutical products went up 3.5%. Output in chemicals and chemical products rose 1.7%. At the same time, the country registered that steel industry declined 5.4%, coke production and oil refining dropped 3.4%, and output in machine-building shrank 3.6%. Output in deliveries of electric energy, gas and vapor went down 1.0% in September 2019.

Over January-September 2019, the Industrial Output Index reached 100.0% compared to January-September 2018, including 102.2% in mining industry and quarry development, 99.4% in processing industry, and 98.6% in deliveries of electric energy, gas and vapor.

Construction

In September 2019, the Index of Construction Products reached 111.3% compared to September 2018 (with due consideration for an adjustment to the calendar days effect), and 97.9% compared to August 2019 (with due consideration for seasonal adjustment).

Over January-September 2019, Ukrainian companies carried out construction works (construction products output) for the total of UAH 113.9 billion.

Over January-September 2019, the Index of Construction Products reached 120.5% compared to January-September 2018.

Transportation

Over January-September 2019, freight turnover of transportation companies totaled 252.7 billion ton-km, which constitutes 101.9% compared to January-September 2018.

Transportation companies carried 501.1 million tons of freight over January-September 2019, which stands at 108.2% of the similar indicator registered over January-September 2018.

3,167.4 million passengers used services of passenger transport over the first nine months of 2019, which accounted for 94.3% of the indicator registered over the same period during the previous year.

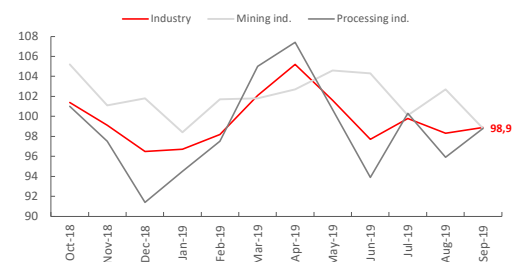
Over January-September 2019, pipeline transportation of ammonia grew 10.5% compared to the same period of the previous year. Transportation of gas remained at the level registered during the previous year. Transit of ammonia rose 9.6%, while gas transit went up 1.3%. At the same time, oil transportation and transit dropped 2.6% and 5.2% respectively.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in September 2019, % year-on-year (without adjustments)	-1.1

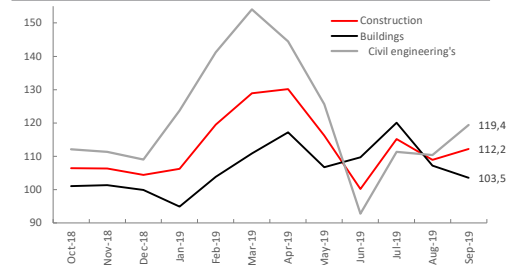
Source: the State Statistics Service

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



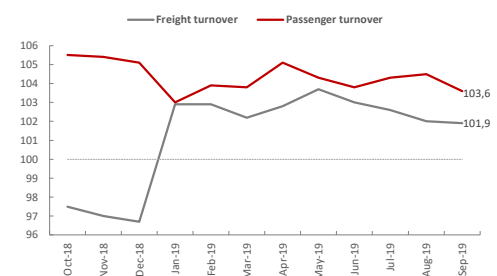
Source: the State Statistics Service

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 AND PUBLIC FINANCE

At a scheduled auction for primary placement of domestic government bonds held on 22 October, the Ministry of Finance offered three issues of bonds denominated in hryvnia. Once again, the Ministry of Finance set a limit for all three placements: UAH 0.5 billion for bonds maturing in six months and in twelve months and UAH 2.0 billion for bonds maturing in three years, which made it possible for the Ministry of Finance to do both: to raise a scheduled amount to the Budget and to lower the cost of borrowing.

The Ministry of Finance satisfied the entire demand for purchasing bonds maturing in six months, which consisted of eight bids, for the total of UAH 0.5 billion. The requested yields ranged within the limits of 15.25-15.40% p.a. The accepted yield landed at 15.40% p.a.

Nine bids for the total of UAH 0.5 billion were submitted for purchasing bonds maturing in twelve months. The requested yields ranged within the limits of 14.80-15.00% p.a. The Ministry of Finance set the accepted yield at 14.80% p.a. and rejected two bids.

Demand for bonds maturing in three years doubled over the limit established by the Ministry of Finance. Fifty-one bids for the total of UAH 4.1 billion were submitted for purchasing the above-mentioned instrument. The requested yields ranged within the limits of 14.94-15.50% p.a. The Ministry of Finance lowered the accepted yield to 15.15 p.a. and rejected thirteen bids.

There aren't any payouts of domestic government bonds scheduled for the current week.

As a result of the auction held on 22 October, the Ministry of Finance managed to raise UAH 3.0 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went down UAH 6.7 billion and, as of 25 October 2019, totaled UAH 809.5 billion (according to the total principal).

NBU OPERATIONS

At the NBU Board meeting on monetary policy issues, which took place on 24 October, the decision was to cut the key policy rate to 15.50% p.a. starting from 25 October. The National Bank continues its cycle of a softer monetary policy, since it is expecting that inflation will slow down to the targeted 5.0%.

After the NBU key policy rate was cut, interest rates for the main NBU instruments also went down. Starting from 25 October 2019, the interest rate for deposit certificates maturing in fourteen days declined to 15.50% p.a., while the interest rate for overnight certificates of deposit dropped to 13.50% p.a.

Last week, market participants purchased NBU deposit certificates for the total of UAH 95.0 billion, and all of them were overnight certificates of deposit.

At a scheduled NBU tender announced on 25 October to support liquidity, bids of two banks for the total of UAH 132.0 million were satisfied. The interest rate reached 15.50% per annum. The resources were provided for the period of fourteen days. Banks did not use the standing NBU refinancing line (overnight loans) during the previous week.

Over the previous week, 21–25 October, the balance of the State Treasury transactions landed at UAH 3.3 billion.

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

THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
22 Oct.	168 days	15.40%	8/8	500.30
22 Oct.	343 days	14.80%	9/7	512.86
22 Oct.	1085 days	15.06%	51/38	1998.45

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	338.4	-1.7	-2.0	-9.6
Legal entities	25.8	-1.0	-0.3	24.6
Private individ.	9.8	-7.8	-1.3	61.5
Non-residents	98.4	0.3	10.6	1450.0

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	51.7	-9.4	4.3	45.2	
NBU refinancing. UAH billions	46.7	-0.3	-13.9	-14.8	
NBU deposit certificates	O/N. UAH billions	24.0	141.2	30.7	-20.2
	Total. UAH billions	76.6	22.5	74.9	23.7

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The interbank lending market reacted to the lower NBU key policy rate by way of synchronously shrinking interbank interest rates. During the previous week, rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 13.50-15.50% per annum.

FOREIGN EXCHANGE MARKET

During the previous week, the market was registering a slight depreciation of the Ukrainian national currency. Despite the return of non-residents to the market of domestic government bonds and inflows of foreign currency, surplus hryvnia liquidity in the banking system and high foreign currency demand on the part of importers contributed to growing quotations of the US dollar. On the whole, market mechanisms were in effect on the foreign exchange market. As a result, on Friday, 25 October, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 25.1741/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 24.94-25.04/USD on Monday, 21 October, UAH 24.80-24.90/USD on Tuesday, 22 October, UAH 24.87-24.99/USD on Wednesday, 23 October, UAH 25.00-25.15/USD on Thursday, 24 October, and UAH 25.13-25.25/USD on Friday, 25 October.

Over the previous week, the foreign exchange sales reached USD 2.2 billion.

Over 21–25 October, the National Bank purchased USD 90.0 million from banks: USD 30.0 million by way of foreign exchange interventions in the form of a single exchange rate and USD 60.0 million by way of foreign exchange interventions in the form of a single exchange rate.

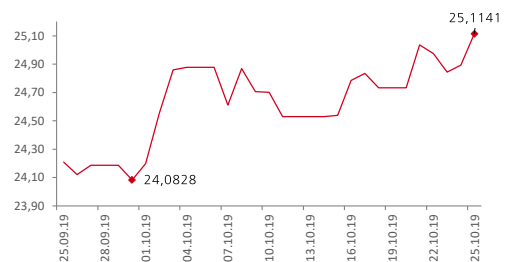
COMMODITY MARKETS

During the previous week, prices for benchmark crudes reacted to shrinking crude oil inventories in the US by way of a serious growth. The trend of the last weeks towards growing crude oil inventories was broken.

At the same time, weak economic statistical data enhanced concerns regarding weakening petroleum demand. Moods of investors are also being saddened by the ongoing trade dispute between the US and China.

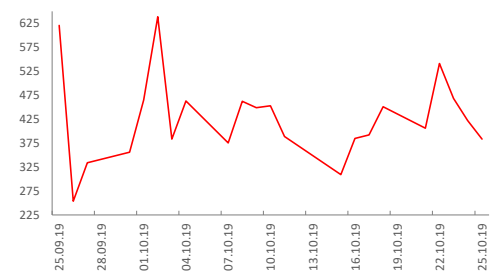
According to a report of the US Department of Energy, petroleum inventories in the US shrank 1.7 million barrels. This was the first drop over the last six weeks. At the same time, experts forecast an increase in petroleum inventories by 4.7 million barrels on the average.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	195.5	0.0	8.6	-11.5
Brent crude. USD/barrel	62.0	4.4	1.0	12.5
WTI crude. USD/barrel	56.7	5.2	0.6	17.1
Gold. USD/ounce	1513.5	1.6	-1.0	18.3

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	4.6 (second quarter)
Industrial output. %	-13.4	2.4	-0.1	1.1	-1.1 (September)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	7.5 (September)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	1.7 (September)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	0.1 (August, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.5 (August, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.2 (August, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	21.4 (September, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	115.5 (second quarter)
Banking system assets. % of growth	4.7	0.2	6.4	2.0	0.9 (January-August)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	24.08 (September)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	26.37 (January-September)

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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