

Financial markets survey

11 November 2019

MARKETS ARE GROWING ON PROMISES

Markets are reaching new record-highs
Inflation in Ukraine is approaching the target
Non-residents' portfolio of internal government bonds went above UAH 100.0 billion

GLOBAL MARKET

The previous week ended with absolute historical record-highs on the American stock market: the leading S&P 500 Index reached 3,093.08 points, while the Dow Jones Index landed at 27,681.24 points. Trading gets more volatile in expectations of a tariff agreement between the US and China, while incoming signals lead to changes in investors' risk-sensitivity.

The US and China agreed on a mutual stage-by-stage reduction of trade tariffs. The first stage takes account of arrangements on delivering American agricultural products to China, on setting rules to prevent exchange rates manipulations, on ensuring measures to protect intellectual property rights, and on opening Chinese markets for American companies. According to terms and conditions of the agreement, China will increase imports of American agricultural products by USD 40.0-50.0 billion.

The US debt market, which characterizes market moods, continues registering growing yields of US Treasuries: yields on 10-year securities rose to 1.95% per annum, instruments maturing in two years are traded around 1.7% per annum yields, while yields on long-term 30-year US Treasury bonds went above 2.4% per annum.

For the first time over the last fifteen years, China placed three tranches of Eurobonds for the total of EUR 4.0 billion. One tranche maturing in seven years totaled EUR 2.0 billion, while two tranches maturing in twelve years and in twenty years totaled EUR 1.0 billion each. The premium stands at thirty basis points to the market average swaps for a seven-year issue, forty basis points for a twelve-year issue and fifty-eight basis points for a twenty-year issue. During the current year, borrowings in Euros become more and more popular both among sovereign and corporate borrowers, given record-low interest rates.

Turkey placed Eurobonds maturing in five years and yielding 5.75% per annum for the total of USD 2.5 billion. Turkey has entered external markets following a certain improvement of the situation in the country.

In September 2019, industrial output in Germany shrank 0.6% compared to the previous month. Compared to September 2018, industrial output fell 4.3%. It is expected that GDP in Germany will grow a mere 0.5% by the end of 2019.

During the previous week, 04-08 November, trading in the "EUR/USD" pair ranged within the limits of USD 1.1022-1.1175/EUR.

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WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1034	-0.9	0.4	-3.6
GBP/USD	1.2774	-1.3	4.5	0.2
USD/RUB	63.7298	-0.1	-1.7	-8.3
USD/UAH	24.5019	-1.0	-0.8	-11.5

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3093.1	0.9	6.9	23.4
FTSE 100 (UK)	7359.4	0.8	3.0	9.4
MXME (East. Eur.)	188.0	0.7	12.1	23.6
PFTS (Ukraine)	517.7	-0.8	-2.0	-7.5
RTS (Russia)	1468.2	0.9	12.4	37.4

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	2,000	3,9	5,9	-33,5
FRS. % p.a.	1,50-1,75	0,0	-12,5	-30,0
ECB. % p.a.	0,000	0,0	0,0	0,0
NBU. % p.a.	15,500	0,0	-6,1	-13,9
CB RF. % p.a.	6,500	0,0	-7,1	-16,1

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	200.0	0.0	6.4	-9.5
Brent crude. USD/barrel	62.5	1.3	8.2	13.1
WTI crude. USD/barrel	57.2	1.9	8.8	18.3
Gold. USD/ounce	1464.2	-3.0	-2.8	14.5

Source: Bloomberg

MACROECONOMICS

Consumer prices

According to information of the State Statistics Service, consumer prices grew 0.7% in October 2019 compared to September 2019. Compared to October of the previous year, consumer prices rose 6.5%. Since the beginning of the current year, consumer prices grew 4.2%.

In October 2019, core inflation landed at 0.7% compared to the previous month and at 4.1% since the beginning of the current year.

The consumer market registered that prices for the entire group of food products and non-alcoholic beverages rose 0.9% in October 2019. Prices for buckwheat groats grew the most – 27.2%. Prices for eggs, vegetables, milk and dairy products, lard, butter, and beef went up 9.6-0.6%. At the same time, prices for sugar, poultry meat, fruits, fish and fish products, sunflower oil, and pork went down 2.3-0.6%.

Prices for alcoholic beverages and tobacco products rose 0.8% over the previous month, including 1.5% for tobacco products and 0.1% for alcoholic beverages.

Prices for clothes and footwear increased 1.9% over the previous month.

In October 2019, transport prices went down 0.7% on the whole, which was mainly the result of fares for railway transport shrinking 5.3% and prices for vehicles sliding 1.8%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel went down 0.4% in October 2019, which was mainly the result of lower rates for natural gas (-4.3%). At the same time, the country registered that rates for water supply grew 1.9%, rates for sewage rose 1.6% and rates for housing rentals went up 0.9%.

Prices for healthcare services inched up 0.3% in October 2019. Prices for education services rose 0.4%. Prices in hotels and restaurants increased 1.1%. Prices for communication services went up 4.2% in October 2019 (due to a 10.7% rates hike for mobile communication services), while prices for rest, recreation and cultural services grew 0.3%.

Producer prices

In October 2019, producer prices shrank 1.2% compared to the previous month. Compared to October of the previous year, inflation of producer prices slowed down to 0.2%.

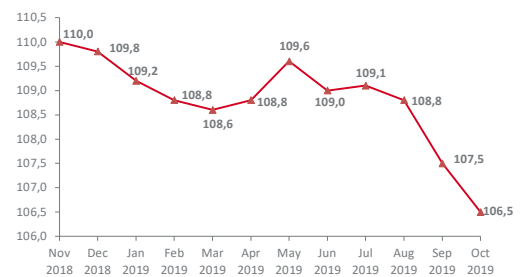
In October 2019, producer prices declined in mining industry and quarry development (-11.2%) and in processing industry (-1.6%). At the same time, prices in deliveries of electric energy, gas and vapor increased 2.6%.

Prices in the production of iron ores declined 9.7% in October 2019, prices in the production of crude oil and natural gas dropped 5.4%, while prices in black coal production went down 9.2%.

In October 2019, the country registered shrinking prices in chemicals and chemical products (-1.7%), in steel industry (-3.3), in wood, timber products, paper industry, and printing industry (-0.2%), in coke production and oil refining (-7.7%), and in food products, beverages and tobacco products (-0.7%).

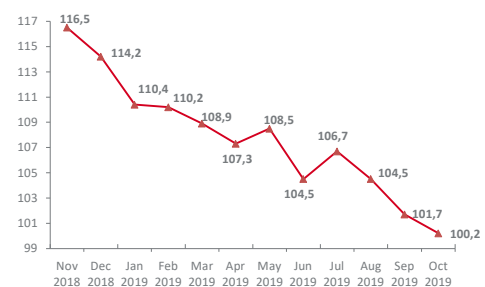
At the same time, October registered that prices went up 0.9% in key pharmaceuticals and pharmaceutical products.

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



Source: the State Statistics Service

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



Source: the State Statistics Service

BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for primary placement of domestic government bonds held on 05 November, the Ministry of Finance offered three issues of bonds denominated in hryvnia. Demand for all instruments surpassed the limits established by the Ministry of Finance: UAH 0.3 billion for bonds maturing in three months, UAH 0.5 billion for bonds maturing in eleven months and UAH 2.5 billion for bonds maturing in four years.

Thirteen bids for the total of UAH 0.7 billion were submitted for purchasing bonds maturing in three months. The requested yields ranged within the limits of 14.35-15.33% p.a. The Ministry of Finance set the accepted yield at 14.35% p.a. and rejected three bids.

Seven bids for the total of UAH 0.7 billion were submitted for purchasing bonds maturing in eleven months. The single requested yield landed at 14.00% p.a. The Ministry of Finance satisfied all bids, although in part, within the established limit. The accepted yield landed at 14.00% p.a.

Bonds maturing in four years enjoyed the highest demand. Market participants submitted seventy-eight bids for the total of UAH 12.5 billion for purchasing the above-mentioned bonds. The requested yields ranged within the limits of 13.13-14.60% p.a. Given the established limit for the total sum of placement, the Ministry of Finance managed to lower the accepted yield to 13.38% p.a. and to reject forty-seven bids.

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

As a result of the auction held on 05 November, the Ministry of Finance managed to raise UAH 3.1 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went down UAH 2.4 billion and, as of 08 November 2019, totaled UAH 807.4 billion (according to the total principal).

NBU OPERATIONS

During the previous week, market participants purchased NBU deposit certificates for the total of UAH 127.1 billion, including overnight certificates of deposit for the total of UAH 111.3 billion.

On Friday, 08 November, the National Bank placed deposit certificates maturing in seven days for the total of UAH 15.8 billion, satisfying bids of thirty-two banks.

The interest rate for overnight certificates of deposit landed at 13.50% p.a. The interest rate for deposit certificates maturing in seven days stood at 15.50% p.a.

At a scheduled NBU tender announced on 08 November to support liquidity, bids of two banks for the total of UAH 130.4 million were satisfied. The interest rate reached 15.50% p.a. The resources were provided for the period of fourteen days.

Over the previous week, 04-08 November, the balance of the State Treasury transactions landed at UAH 6.5 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.

INTERBANK LENDING MARKET

The interbank lending market was stable 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 during the previous week.

THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
05 Nov.	105 days	14.35%	13/10	311.66
05 Nov.	329 days	14.00%	7/7	521.43
05 Nov.	1386 days	13.30%	78/31	2306.78

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	332.3	-1.4	-5.4	-11.2
Legal entities	26.4	1.7	-1.0	27.3
Private individ.	9.6	-2.7	-8.4	58.0
Non-residents	102.0	2.1	5.3	1506.1

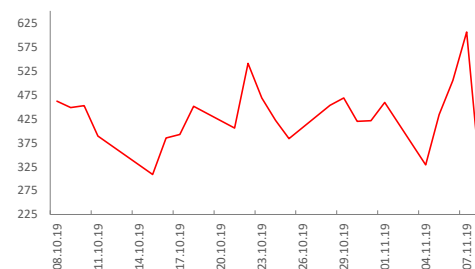
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	44.6	-9.7	-28.0	25.0	
NBU refinancing. UAH billions	46.3	-0.1	-2.8	-15.5	
NBU deposit certificates	O/N. UAH billions	15.0	-9.3	17.7	-50.1
	Total. UAH billions	88.5	19.2	89.6	42.9

Source: the National Bank of Ukraine

TRADING VOLUMES (USD MILLIONS)



Source: NBU

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued appreciating. Demand for internal government bonds among non-residents supported the hryvnia once again. By the end of the previous week, excessive foreign exchange supply on the interbank foreign exchange market grew even more due to NJSC Naftogaz of Ukraine selling foreign exchange received from placing Eurobonds. The National Bank entered the market several times to buy out excessive supply of US dollars for the purpose of controlling sharp appreciation of the hryvnia exchange rate. As a result, on Friday, 08 November, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 24.5019/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 24.75-24.85/USD on Monday, 04 November, UAH 24.68-24.75/USD on Tuesday, 05 November, UAH 24.60-24.72/USD on Wednesday, 06 November, UAH 24.48-24.57/USD on Thursday, 07 November, and UAH 24.45-24.55/USD on Friday, 08 November.

Over 04-08 November, the National Bank purchased USD 372.00 million from banks: USD 30.00 million by way of foreign exchange interventions in the form of matching and USD 342.00 million by way of foreign exchange interventions in the form of a single exchange rate.

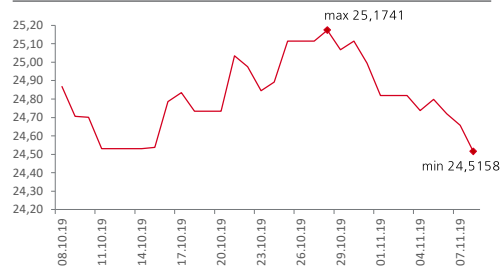
Over the previous week, the foreign exchange sales reached USD 2.2 billion.

BONDS OF UKRAINIAN ISSUERS ON GLOBAL MARKETS

For the first time in the history of Ukrainian business, DTEK Holding placed specialized securities to develop renewable energy. Debut green Eurobonds maturing in five years and yielding 8.5% per annum were sold for the total of EUR 325.0 million. Funds raised by way of placing green Eurobonds will be channeled exclusively to existing and future renewable energy projects of DTEK Renewables. On 08 November, S&P Global Ratings, a credit-rating agency, assigned DTEK Renewables a long-term international foreign exchange rating "B-". The outlook is "stable". Starting from 12 November, the green Eurobonds will be listed on Euronext Dublin, a European stock exchange.

During the previous week, NJSC Naftogaz of Ukraine placed Eurobonds maturing in seven years and yielding 7.625% per annum for the total of USD 500.0 million. Naftogaz of Ukraine managed to receive the lowest rate with respect to the sovereign among all placements of Ukrainian state-owned companies during the current year. The company will pay interests twice a year – in May and in November. The issue is a priority unsecured debt, is not guaranteed by the stated and is regulated according to the requirements 144A/Reg S. The Eurobonds are issued by Kondor Finance plc with a single goal to provide a loan to Naftogaz of Ukraine for the total of USD 500.0 million. Peak demand for Naftogaz of Ukraine's Eurobonds exceeded the supply 2.9 times. Buyers were institutional investors from the US, the UK and other European Union countries, as well as from Asia and South America. Citi acted as the organizer of the issue. Legal support for the deal was provided by Freshfields Bruckhaus Deringer, AEQUO, White & Case, Avellum, Linklaters and Allen & Overy.

EXCHANGE RATE (UAH/USD)



Source: NBU

QUOTATIONS ON GLOBAL MARKETS

Name	Cou pon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2020	7,75	01.09.2020	102,82	103,07	3,81	USD
Ukraine-2021	7,75	01.09.2021	104,75	105,25	4,67	USD
Ukraine-2022	7,75	01.09.2022	106,63	107,13	4,99	USD
Ukraine-2023	7,75	01.09.2023	107,01	107,51	5,53	USD
Ukraine-2024	8,99	01.02.2024	111,30	112,00	5,74	USD
Ukraine-2024	7,75	01.09.2024	107,14	107,87	5,84	USD
Ukraine-2025	7,75	01.09.2025	107,30	108,02	6,09	USD
Ukraine-2026	6,75	20.06.2026	110,41	111,04	4,76	EUR
Ukraine-2026	7,75	01.09.2026	107,44	107,94	6,29	USD
Ukraine-2027	7,75	01.09.2027	107,72	108,22	6,39	USD
Ukraine-2028	9,75	01.11.2028	118,26	118,76	6,91	USD
Ukraine-2032	7,38	25.09.2032	104,20	104,90	6,80	USD
Ukreximbank	16,50	02.03.2021	97,51	98,86	17,45	UAH
Ukreximbank	9,63	27.04.2022	103,92	104,49	7,58	USD
Ukreximbank	9,05	09.02.2023	99,05	100,78	8,64	USD
Ukreximbank	9,75	22.01.2025	105,42	106,04	8,29	USD
Oschadbank	9,38	10.03.2023	104,39	104,64	7,76	USD
Oschadbank	9,07	19.01.2024	98,81	100,60	8,63	USD
Oschadbank	9,63	20.03.2025	104,46	104,69	8,51	USD
Privatbank CJSC	11,00	09.02.2021	20,27	29,35	147,11	USD
Metinvest BV	7,50	31.12.2021	99,64	101,08	6,88	USD
Metinvest BV	7,75	23.04.2023	103,78	104,19	6,38	USD
Metinvest BV	5,63	17.06.2025	99,19	99,82	5,66	EUR
Metinvest BV	8,50	23.04.2026	104,44	104,92	7,52	USD
Metinvest BV	7,75	17.10.2029	97,60	99,86	7,77	USD
DTEK Finance	10,75	31.12.2024	102,63	102,90	10,05	USD
MHP SE	7,75	10.05.2024	106,20	106,58	6,06	USD
MHP Lux SA	6,95	03.04.2026	103,21	103,58	6,26	USD
MHP Lux SA	6,25	19.09.2029	94,85	96,85	6,69	USD
Kernel Holding	8,75	31.01.2022	105,96	106,14	5,75	USD
Kernel Holding	6,50	17.10.2024	100,11	100,70	6,33	USD
Ukraine Railways	9,88	15.09.2021	104,34	104,42	7,25	USD
Ukraine Railways	8,25	09.07.2024	105,57	105,92	6,74	USD
NAK Naftogaz	7,38	19.07.2022	102,46	102,73	6,25	USD
NAK Naftogaz	7,13	19.07.2024	105,30	106,08	5,60	EUR
NAK Naftogaz	7,625	08.11.2026	100,50	100,94	7,45	USD

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	6.5 (October)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	0.2 (October)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	0.0 (September, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-1.5 (September, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.4 (September, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	21.4 (October, 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	1.0 (January-September)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	25.00 (October)
Exchange rate. annual average. UAH/ USD	21.85	25.55	26.60	27.20	26.22 (January-October)

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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