

Financial markets survey

02 November 2020

EXPECTING FOR THE ELECTION RESULTS

Strong macrostatistical data stopped panic sales
The balance of payments formed a deficit
The hryvnia is under pressure

GLOBAL MARKET

October finished on a negative note on global stock markets, having demonstrated one of the worst indicators of corporate value dynamics since spring. The factor of the presidential election in the US is playing the dominant role in pricing for assets. The outcomes of the election will influence how quickly the fiscal package of government support for the country's economy during the second wave of the pandemic will be adopted. Positive results of quarterly corporate financial statements and strong macrostatistical data sank into the background.

In the third quarter of 2020, the US economy grew 33.1% in annual terms and 9.0% compared to the previous quarter. Consumer expenditures, which account for two-thirds of the US GDP, grew 40.7%. Business investment in equipment leapt 70.1%, housing purchases jumped almost 60.0%, exports soared 60.0%, while imports rose 91.0%. At the same time, public expenditures shrank 6.2%.

The economy of the nineteen euro-area countries grew 12.7% in the third quarter compared to the second quarter of 2020 and shrank 4.3% in annual terms. In the third quarter, business activity in European countries expanded significantly thanks to lifted quarantine restrictions and recovering global demand.

Based on the results of its meeting on Thursday, 29 October, the ECB expectedly kept the rates at the current level and refrained from changing the volumes of the Pandemic Emergency Purchase Program. However, it signaled about the possibility of adjusting instruments based on December macroeconomic forecasts.

In October 2020, the Consumer Price Index in the euro-area went down 0.3% in annual terms and inched up 0.2% compared to the previous month. In October 2020, the Consumer Price Index in Germany shrank 0.5% in annual terms and remained unchanged compared to the previous month.

Resumed restrictive measures connected with growing numbers of new COVID-19 cases and deteriorating economic prospects continue putting further pressure on inflation.

Petroleum prices continue falling. The petroleum market is pressured by growing petroleum output in the US and Africa: over the last week alone, boring activities in the US grew 5.0%, while Libya is restarting its petroleum industry at an accelerated pace.

Demand for the American currency is growing across the world. This is how the US dollar is manifesting its protective function in the moments of market uncertainty. During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1648-1.1859/EUR.

WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1698	-1.3	-0.1	4.1
GBP/USD	1.2947	-0.7	0.2	-2.3
USD/RUB	78.8699	2.3	-1.0	27.4
USD/UAH	28.4507	0.6	0.5	20.1

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3270.0	-5.6	-2.8	1.2
FTSE 100 (UK)	5577.3	-4.8	-4.9	-26.1
MXME (East. Eur.)	121.4	-8.7	-10.4	-37.1
PFTS (Ukraine)	500.1	-0.2	0.0	-1.9
RTS (Russia)	1066.6	-8.4	-9.5	-31.1

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.330	-1.9	-8.3	-83.5
FRS. % p.a.	0.00-0.25	0.0	0.0	-85.7
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	6.000	0.0	0.0	-55.6
CB RF. % p.a.	4.250	0.0	0.0	-32.0

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	249.5	1.6	8.7	22.3
Brent. USD/barrel	37.9	-9.8	-11.3	-37.7
WTI. USD/barrel	35.8	-10.2	-11.6	-36.6
Gold. USD/ounce	1881.9	-1.1	-0.3	24.2

Source: Bloomberg

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MACROECONOMICS

Balance of payments

In September 2020, the current account deficit totaled USD 211.0 million (in September 2019 – USD 1.8 billion).

Export of goods went up 1.0% in September 2020 (compared to September 2019) and landed at USD 3.8 billion. Exports grew in the following groups of goods: mineral products (including ores) jumped 24.3%, timber and wood products rose 16.9%, machinery and equipment grew 5.9%, manufactured products increased 18.9%, and chemical products went up 5.0%. At the same time, food exports dropped 2.6% (including seeds of oil-bearing crops falling 32.4%) and exports of ferrous and non-ferrous metals went down 4.5%.

Imports of goods declined 14.5% in September 2020 (compared to September 2019) and landed at USD 4.5 billion. Energy imports shrank 1.8 times (same as in August), while non-energy imports decreased 5.4%. In particular, machinery and equipment imports shrank 6.5%, imports of manufactured goods sagged 9.6% and imports of ferrous and non-ferrous metals dropped 6.3%. At the same time, food imports went up 14.0%, chemical imports rose 3.9% and imports of timber and wood products grew 15.5%.

The surplus of trade in services increased to USD 395.0 million in September 2020.

In September 2020, the net borrowing from the rest of the world totaled USD 208.0 million.

The net outflow on the financial account amounted to USD 1.7 billion in September 2020, and was mainly resulted from the net outflow on government sector's transactions.

The net outflow on government sector's transactions totaled USD 1.5 billion in September 2020 and resulted from several factors: repayments on previously issued Eurobonds (USD 1.7 billion) and net repayments on domestic government bonds to non-residents (USD 172.0 million).

The net inflow of foreign direct investment was estimated as USD 147.0 million in September 2020, USD 14.0 million of which were reinvestment of earnings.

The net increase of the banking system's external position amounted to USD 209.0 million and resulted from net increase of external position under the "currency and deposits" item and payments under earlier issued Eurobonds.

The net increase of the real sector's external position (excluding foreign direct investment) reached USD 280.0 million in September 2020 and resulted from several oppositely directed factors: fincrease of the amount of cash outside banks by USD 515.0 million, repayments on Eurobonds by USD 50.0 million, net increase of the external liabilities on trade credits by USD 238.0 million, and nnet increase of the external liabilities on loans by USD 40.0 million.

The net outflow on private sector's transactions (including errors and omissions) reached USD 202.0 million in September 2020.

The deficit of the overall balance of payments amounted to USD 2.0 billion. The repayment of debt to the IMF totaled USD 417.0 million.

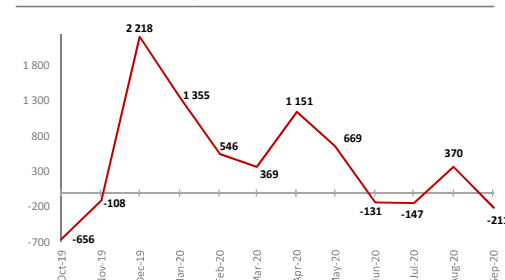
As of 1 October 2020, Ukraine's international reserves reached USD 26.5 billion.

LATEST MACROECONOMIC DATA

Indicator	Value
Current account of the balance of payments in September 2020, USD billions	-0.2

Source: the State Statistics Service

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD billions, by the end of the period)



Source: the National Bank of Ukraine

BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for placing domestic government bonds, which took place on 27 October, the Ministry of Finance offered only two issues of bonds denominated in hryvnia maturing in eleven months and three and a half years.

Twelve bids for the total of UAH 0.7 billion (at face-value) were submitted for purchasing bonds maturing in September 2021. The requested yields ranged within the limits of 10.30-11.00% p.a. The Ministry of Finance decided against raising the cost of borrowings and set the accepted yield at the level of the previous auction (20 October), at 10.30% p.a, and rejected one half of demand.

Six bids for the total of UAH 0.2 billion (at face-value) were submitted for purchasing bonds maturing in May 2024. The requested yields ranged within the limits of 11.40-12.50% p.a. The last time the Ministry of Finance placed similar instruments was on 21 January 2020. At that time, the accepted yield reached 10.15% p.a. So, the Ministry of Finance turned out to be unprepared to raise yields significantly and rejected all bids in full.

As a result of the auction to place domestic government bonds held on 27 October 2020, the Ministry of Finance managed to raise UAH 395.6 million to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went up UAH 0.9 billion and, as of 30 October 2020, totaled UAH 891.7 billion (according to the total principal).

There are no pay-outs of government bonds scheduled for the current week.

Over January-October 2020, Ukraine's total budget revenues came to UAH 842.3 billion (UAH 61.1 billion in October), while VAT refunds totaled UAH 116.1 billion (UAH 11.5 billion was refunded in October). As of 01 November 2020, the balance at the Single Treasury Account (STA) was registered at UAH 15.1 billion.

NBU TRANSACTIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 195.3 billion, including overnight certificates of deposit for the total of UAH 92.6 billion (the interest rate for overnight certificates of deposit stood at 5.00% p. a.).

As a result of the NBU quantitative liquidity-providing tender to refinance banks, which was held on Friday, 30 October, bids of five banks for the total of UAH 10.3 billion were satisfied. The interest rate reached 6.00% p.a. The loans were provided for the period of up to eighty-four days.

On Friday, 30 October, the National Bank placed deposit certificates maturing in seven days for the total of UAH 102.7 billion. The interest rate stood at 6.00% p.a.

Banks used the standing NBU refinancing line (overnight loans) for the total of UAH 0.9 billion over 26-30 October (the interest rate was 7.00% p.a.).

The balance of the State Treasury transactions landed at UAH 0.3 billion over 26-30 October.

The banking system liquidity is staying at a high level.

THE RESULTS OF PLACING DOMESTIC BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
27 Oct.	336 days.	10.30%	12/6	395.56

Source: the Ministry of Finance of Ukraine

HOLDERS OF DOMESTIC BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	324.6	0.0	0.0	-3.7
Banks	447.4	0.3	4.7	33.0
Legal entities	32.1	0.8	2.8	21.8
Private individ.	8.3	0.9	-0.5	-14.8
Non-residents	79.3	-0.8	-5.7	-32.6

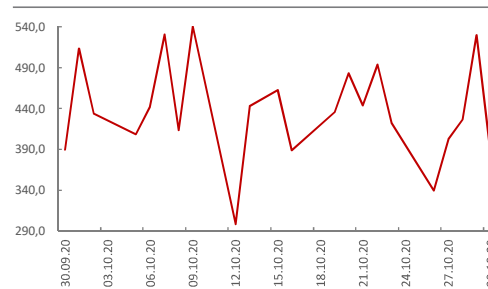
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions		55.6	-0.8	6.8	6.0
NBU refinancing. UAH billions		68.6	15.1	24.2	52.4
NBU deposit certi- ficates	O/N. UAH billions	20.0	21.8	18.6	-66.0
	Total. UAH billions	122.7	7.4	7.6	-19.2

Source: the National Bank of Ukraine

TRADING VOLUMES (USD MILLIONS)



Source: NBU

INTERBANK LENDING MARKET

The interbank lending market remained stable during the previous week. Rates for overnight lending resources in the national currency were ranging within the limits of 4.00-6.00% per annum.

FOREIGN EXCHANGE MARKET

The previous week on the Ukrainian interbank foreign exchange market was marked by tax payments. Regardless of the fact that exporters increased foreign currency supply, demand for foreign currency was nevertheless higher. Large VAT refunds during the last business days of October put additional pressure on the hryvnia. As a result, on Friday, 30 October, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 28.4507/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.30-28.36/USD on Monday, 26 October, UAH 28.33-28.39/USD on Tuesday, 27 October, UAH 28.36-28.42/USD on Wednesday, 28 October, UAH 28.40-28.46/USD on Thursday, 29 October, and UAH 28.42-28.55/USD on Friday, 30 October.

Over 26-30 October, the National Bank sold USD 147.5 million to banks: USD 47.5 million by way of the best exchange rate interventions and USD 100.0 million by way of the single exchange rate interventions.

The overall foreign currency sales on the interbank foreign exchange market reached USD 2.1 billion over the previous week.

BONDS AND SHARES OF UKRAINIAN ISSUERS

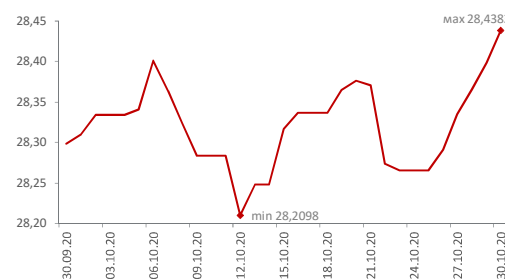
On 26 October, JSC Ukreximbank has announced an offer for holders of its loan participation notes (LPN) maturing in 2025 with a coupon rate of 9.75% per annum and in 2022 with a coupon rate of 9.625% per annum issued through Biz Finance Plc for the purpose of granting loans to JSC Ukreximbank to buy back the above-mentioned notes for the total of up to USD 300.0 million. According to the offer, it is planned to buy back LPNs due in 2025 for up to USD 200.0 million and their redemption has a higher priority than the buyback of LPNs due in 2022, which is limited to USD 100.0 million.

The buyback price offered for LPNs maturing in 2025 shall reach 104.5% of their face-value and for LPNs maturing in 2022 – 103.75% of their face-value. Both cases include the premium for early presentation of bids (3.0% if holders submit bids by 6 November 2020 inclusive).

Through the buyback of its LPNs, JSC Ukreximbank is seeking to optimize its portfolio of obligations and to reduce the cost of servicing its debt. The notes redeemed by the borrower will be immediately canceled and will not be reissued or resold.

Goldman Sachs International is the lead manager of the buyback deal. Lucid Issuer Services Limited is the tender agent.

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

QUOTATIONS ON GLOBAL MARKETS

Name	Cou pon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2021	7,75	01.09.2021	103,05	103,48	3,43	USD
Ukraine-2022	7,75	01.09.2022	104,27	104,77	4,98	USD
Ukraine-2023	7,75	01.09.2023	104,25	104,81	5,87	USD
Ukraine-2024	8,99	01.02.2024	106,63	107,56	6,37	USD
Ukraine-2024	7,75	01.09.2024	103,68	104,61	6,37	USD
Ukraine-2025	7,75	01.09.2025	102,74	103,65	6,85	USD
Ukraine-2026	6,75	20.06.2026	98,76	99,52	6,84	EUR
Ukraine-2026	7,75	01.09.2026	101,67	102,33	7,25	USD
Ukraine-2027	7,75	01.09.2027	101,19	101,86	7,40	USD
Ukraine-2028	9,75	01.11.2028	109,24	110,03	8,03	USD
Ukraine-2030	4,38	27.01.2030	83,73	84,83	6,80	EUR
Ukraine-2032	7,38	25.09.2032	96,31	97,26	7,73	USD
Ukraine-2033	7,253	15.03.2033	94,56	95,48	7,83	USD
Ukreximbank	16,50	02.03.2021	98,63	100,95	13,11	UAH
Ukreximbank	9,63	27.04.2022	102,53	103,61	7,02	USD
Ukreximbank	9,05	09.02.2023	99,45	101,30	6,61	USD
Ukreximbank	9,75	22.01.2025	103,28	103,28	8,79	USD
Oschadbank	9,38	10.03.2023	102,43	102,63	8,11	USD
Oschadbank	9,07	19.01.2024	94,63	98,00	7,83	USD
Oschadbank	9,63	20.03.2025	101,71	102,17	9,01	USD
Metinvest BV	7,75	23.04.2023	102,56	102,79	6,51	USD
Metinvest BV	5,63	17.06.2025	93,50	94,88	6,94	EUR
Metinvest BV	8,50	23.04.2026	101,08	101,72	8,10	USD
Metinvest BV	7,65	01.10.2027	97,636	97,841	8,06	USD
Metinvest BV	7,75	17.10.2029	95,38	96,49	8,31	USD
DTEK Finance	10,75	31.12.2024	64,65	67,35	22,42	USD
MHP SE	7,75	10.05.2024	104,71	105,05	6,13	USD
MHP Lux SA	6,95	03.04.2026	100,65	101,23	6,67	USD
MHP Lux SA	6,25	19.09.2029	93,93	96,57	6,77	USD
Kernel Holding	8,75	31.01.2022	104,76	104,90	4,63	USD
Kernel Holding	6,50	17.10.2024	100,50	101,85	5,97	USD
Ukraine Railways	9,88	15.09.2021	100,90	101,19	8,39	USD
Ukraine Railways	8,25	09.07.2024	99,69	100,04	8,23	USD
NAK Naftogaz	7,38	19.07.2022	101,16	101,33	6,53	USD
NAK Naftogaz	7,13	19.07.2024	95,48	96,59	8,21	EUR
NAK Naftogaz	7,625	08.11.2026	93,89	94,88	8,74	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2016	2017	2018	2019	2020
GDP, %	2.3	2.5	3.3	3.2	-11.4 (second quarter, preliminary data)
Industrial output, %	2.4	-0.1	1.1	-1.8	-4.4 (September)
Consumer price growth. % year-on-year	12.4	13.7	9.8	4.1	2.3 (September)
Producer price growth. % year-on-year	35.7	16.5	14.2	-7.4	-1.7 (September)
Balance of payments (consolidated). USD billions	1.3	2.6	2.9	6.0 (preliminary data)	-2.0 (September, preliminary estimate)
Current account balance. USD billions	-1.3	-2.4	-4.4	-1.1 (preliminary data)	-0.2 (September, preliminary estimate)
Balance of trade. USD billions	-6.5	-8.6	-12.7	-14.0 (preliminary data)	-0.7 (September, preliminary estimate)
International reserves, USD billions, by the end of the period	15.5	18.8	20.8	25.3	26.5 (September, preliminary estimate)
External debt. USD billions	113.6	116.6	114.7	121.7 (forth quarter)	122.8 (second quarter)
Banking system assets, % of annual growth	0.2	6.4	2.0	9.9	14.4 (January-September)
Exchange rate, by year end. UAH/USD	27.19	28.07	27.69	23.69	28.44 (October)
Exchange rate, annual average. UAH/USD	25.55	26.60	27.20	25.85	26.52 (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	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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