

Financial markets survey

21 January 2019

THE MARKET IS COUNTING ON PROGRESS IN NEGOTIATIONS

WEEKLY ISSUE

Europe is preparing for a tough Brexit
The demographic situations continues deteriorating
Non-residents returned to the market of internal government bonds

GLOBAL MARKET

The American stock indices demonstrated growth in the course of the previous week thanks to expectations that the US will manage to settle trade disputes with China and the European Union, and also thanks to positive data on processing industry (output in processing industry grew 1.1% in December 2018, while experts expected it to rise 0.3%). Investors also showed a positive reaction to statements of FRS Vice Chair Randal Quarles saying that the American economy was in a very good condition, but still there were fears connected with slower economic growth in the US and other countries and the continuing shutdown in the US.

Germany's GDP slowed down from 2.2% in 2016 and 2017 to 1.5% in 2018, which is a record-low for the last five years. Weaker growth is the result of an overall slowdown in global demand and trade, as well as interruptions in the car-making industry, including due to stricter regulations.

Stock indices of western European countries were moderately shrinking in the course of the previous week spurred by financial statements of European companies and statistical data on inflation.

In December 2018, consumer prices in the euro-area grew 1.6% in annual terms, which is a record-low since April 2018. Compared to November 2018, prices remained unchanged. In December, consumer prices rose 1.7% in Germany, 1.9% in France and 1.2% in Spain and Italy.

On Tuesday, 15 January, the House of Commons of the British Parliament voted down the agreement on UK's withdrawal from the European Union (Brexit) proposed by Prime Minister Theresa May. The number of MPs who voted against the deal doubled over those who supported the agreement – 432 votes against 202, which turned out to be the biggest failure of the Government for the last 95 years. The UK shall leave the European Union on 29 March 2019. If the draft agreement is turned down again during the repeated vote, Great Britain is to face the so-called tough withdrawal scenario without any preliminary settlements. One more option can be a repeated referendum on the expediency of the Brexit procedure itself.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1367-1.1491/EUR. On Friday, 18 January, trading closed at USD 1.1402/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1402	-1.1	0.2	-0.4
GBP/USD	1.2872	0.2	1.8	0.9
USD/RUB	66.4438	-0.6	-0.3	-4.4
USD/UAH	27.9808	-0.6	0.5	1.1

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2670.7	2.9	4.9	6.5
FTSE 100 (UK)	6968.3	0.7	4.0	3.6
MXME (East. Eur.)	164.1	1.9	5.7	8.1
PFTS Index	554.6	-1.0	-1.9	-0.9
RTS (Russia)	1176.4	2.4	6.4	10.1

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	3.030	0.4	-1.0	0.8
FRS, % p.a.	2.25-2.50	0.0	9.1	0.0
ECB, % p.a.	0.000	0.0	0.0	0.0
NBU, % p.a.	18.000	0.0	0.0	0.0
CB RF, % p.a.	7.750	0.0	0.0	0.0

Source: Bloomberg

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MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 7.8% in 2018. In particular, output at agricultural enterprises grew 12.1%, while output at private farms went up 2.2%. At that, plant-growing output rose 10.7%, while livestock breeding output inched up a mere 0.3%.

Over January-December 2018, agricultural output in Poltava oblast (+23.7%), Cherkasy oblast (+22.5%) and Kyiv oblast (+20.7%) grew the most. Over the previous year, agricultural output declined in two Ukrainian oblasts – in Zaporizhzhya (-14.4%) and Donetsk (-9.7%) oblasts.

Demographic situation

According to estimates of the State Statistics Service, Ukraine's current population stood at 42,177,579 people as of 1 December 2018.

The number of deaths continues to seriously outpace the number of births: 58 newborns per every 100 deceased.

Over January-November 2018, Ukraine's population shrank 208,824 people.

Unemployment

The total number of registered unemployed went up 40,700 individuals over the previous month and landed at 341,700 Ukrainians by the end of 2018. 183,200 registered unemployed are residing in urban areas, while 158,500 registered unemployed are living in rural area. The majority of registered unemployed are women, totaling 184,000 individuals.

In December 2018, the number of vacant positions went down to 58,400 vacancies. There were six registered unemployed for each vacancy in December 2018.

The average size of unemployment benefit grew to UAH 2,876.00 in December 2018 (UAH 2,670.00 in November 2018).

Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 9,161.00 in November 2018, which constitutes approximately 250.0% of the minimum wage (UAH 3,723.00).

The average nominal wage was registered at 99.4% compared to October 2018 and at 122.5% compared to November 2017.

In November 2018, the index of real wages reached 98.0% compared to October 2018 and 111.4% compared to November 2017.

In November 2018, the highest wages were observed in the city of Kyiv (UAH 13,897.00), Donetsk oblast (UAH 9,977.00) and Kyiv oblast (UAH 9,447.00). The lowest wages were registered in Chernihiv (UAH 7,221.00), Kherson (UAH 7,234.00) and Kirovohrad (UAH 7,391.00) oblasts.

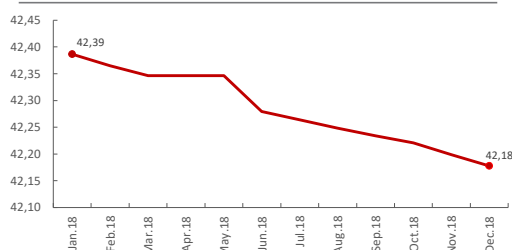
Areas of business activity where the highest wages were observed include finance and insurance (UAH 16,479.00), information and telecommunications (UAH 15,172.00), and public administration and defense (UAH 13,440.00). The lowest wages were registered in healthcare and social security (UAH 5,997.00), in public catering (UAH 5,910.00) and in education (UAH 6,938.00).

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-December 2018, % year-on-year	7.8

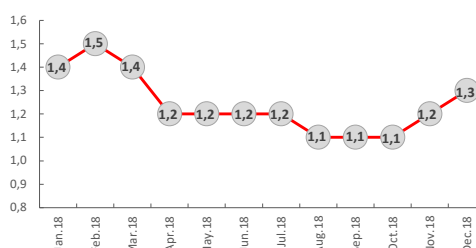
Source: the State Statistics Service

POPULATION (MILLIONS OF PEOPLE)



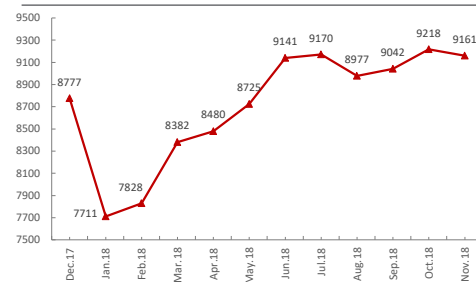
Source: the State Statistics Service

UNEMPLOYMENT RATE (% of the employable population)



Source: the State Statistics Service

AVERAGE NOMINAL WAGES (UAH)



Source: the State Statistics Service

BOND MARKET

At a tender for primary placement of internal government bonds held on 15 January, the Ministry of Finance offered five types of bonds denominated in hryvnia, three types of bonds denominated in US dollars and one type of bonds denominated in Euros.

Bonds denominated in hryvnia and maturing in seventy-seven days enjoyed the highest demand. They scored thirty-four bids for the total of UAH 3.3 billion. The requested interest rates ranged within the limits of 19.00-20.50% per annum. The Ministry of Finance set the cut-off rate at 19.50% per annum and rejected ten bids.

Bonds maturing in six and eight months scored thirteen bids each. The requested interest rates ranged within the limits of 19.00-20.00% per annum and 18.50-20.50% per annum respectively. For bonds maturing in six months, the cut-off rate was established at 19.00% per annum, and three bids were rejected. For bonds maturing in eight months, the cut-off rate was established at 18.50% per annum, and five bids were rejected.

The Ministry of Finance satisfied five out of nine bids submitted for purchasing bonds maturing in twelve months where the requested interest rates ranged within the limits of 18.50-20.50% per annum. The cut-off rate landed at 18.50% per annum.

Ten bids were submitted for purchasing bonds maturing in September 2020. The requested interest rates ranged within the limits of 18.25-20.50% per annum. The Ministry of Finance set the cut-off rate at 18.25% per annum and rejected half of the bids.

Demand for bonds denominated in foreign exchange was satisfied in full. Rates remained at the level of similar placements at previous tenders.

As a result of the tender held on 15 January, the Ministry of Finance managed to raise UAH 9.7 billion to the State Budget of Ukraine (according to the NBU exchange rate).

Over the previous week, the volume of outstanding internal government bonds went down UAH 6.0 billion and, as of 18 January 2019, totaled UAH 747.3 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 69.3 billion, and all of them were overnight certificates of deposit.

The interest rate for overnight certificates of deposit stood at 16.00% per annum.

During the previous week, the National Bank did not place deposit certificates maturing in fourteen days.

At a scheduled NBU quantity tender announced on 18 January to refinance banks, bids of two banks for the total of UAH 7.0 billion were satisfied. The interest rate reached 18.00% per annum. The resources were provided for the period of fourteen days.

Banks used the standing NBU refinancing line (overnight loans) for the total of UAH 9.0 billion over the previous week. The interest rate stood at 20.00% per annum.

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

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
15 Jan.	77 days	19,20%	34/24	2691,12
15 Jan.	168 days	19,00%	13/10	975,74
15 Jan.	231 days	18,50%	13/8	28,40
15 Jan.	357 days	18,50%	9/5	1875,92
15 Jan.	623 days	18,25%	10/5	24,18
15 Jan.	92 days den. in USD	6,47%	10/10	137,59*
15 Jan.	154 days den. in USD	6,70%	7/7	1,40*
15 Jan.	392 days den. in USD	7,25%	8/8	3,50*
15 Jan.	140 days den. in EUR	4,52%	3/3	3,96**

* - USD millions, ** - EUR millions

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	344.4	-0.7	-1.1	-1.1
Banks	368.3	-1.5	4.3	-1.6
Legal entities	20.5	3.7	8.6	-1.3
Private individ.	6.3	4.0	6.6	3.6
Non-residents	7.7	18.5	23.3	22.1

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	56.3	3.9	-15.4	57.8
NBU refinancing, UAH billions	59.5	8.7	-6.1	8.5
NBU deposit certificates	O/N, UAH billions	17.9	25.3	41.3
	Total, UAH billions	54.1	-25.7	59.6

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, the interbank lending market was stable. Rates for overnight, weekly and monthly lending resources in the national currency ranged within the limits of 15.00-17.00% per annum.

FOREIGN EXCHANGE MARKET

On the whole, the foreign exchange market was registering a relative equilibrium of demand and supply in the course of the previous week

Despite the days of budgetary payments, placement of a large volume of hryvnia bonds by the Ministry of Finance and sale of deposit certificates by the National Bank, the hryvnia did not hurry to appreciate. On Friday, at the beginning of a trading session, foreign exchange supply exceeded demand, and this made it possible for the National Bank to replenish its reserves. As a result, on Friday, 18 January, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.9808/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 20.00-28.10/USD on Monday, 14 January, UAH 28.10-28.20/USD on Tuesday, 15 January, UAH 27.97-28.07/USD on Wednesday, 16 January, UAH 28.00-28.10/USD on Thursday, 17 January, and UAH 27.95-28.05/USD on Friday, 18 January.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.4 billion over 14-18 January.

Over 14-18 January, the National Bank purchased USD 22.0 million from banks by way of foreign exchange interventions in the form of matching.

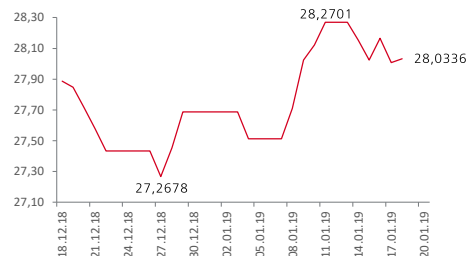
COMMODITY MARKETS

Prices for benchmark crude oils continued growing during the previous week thanks to optimistic expectations regarding the restoration of balance between demand and supply on the market.

News about the negotiations between the US and China are raising hopes that trade disputes will be settled, while signals about shrinking global petroleum output are practically eliminating the risk of overproduction.

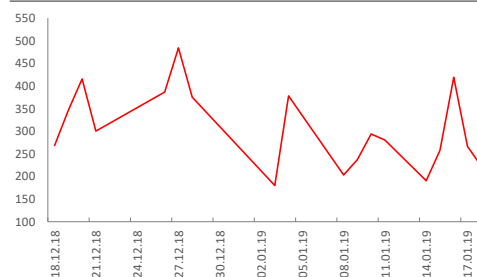
Also, petroleum prices were also supported by the information that the number of operating derricks on the US territory is shrinking. It has been declining for three consecutive weeks and dropped record-low since February 2016.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD millions)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	224.0	1.4	1.8	1.4
Brent crude. USD/barrel	62.7	3.7	11.5	16.5
WTI crude. USD/barrel	53.8	4.3	15.5	18.5
Gold. USD/ounce	1284.2	-0.4	3.0	0.4

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018
GDP. %	-9.8	2.3	2.5	2.8 (third quarter, preliminary estimate)
Industrial output. %	-13.4	2.4	-0.1	-0/9 (November)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	1.1 (November, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-0.3 (November, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-10.6 (January-November, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	17.7 (November, preliminary estimate, revised)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)
Banking system assets. % of growth	4.7	0.2	6.4	-1.0 (January-November)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20

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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