

# Financial markets survey

09 September 2019

## CAUTION IS NEEDED

### WEEKLY ISSUE

**The labor market report in the US is worse than expected  
Prices are falling, while wages are growing  
The NBU lowered its key policy rate to 16.5% per annum**

#### GLOBAL MARKET

During the previous week, American markets were registering movements in different directions, which can be explained by uncertainty among investors as to which positions to take on the eve of the FRS meeting scheduled for 18 September. Information that the US and China are preparing for negotiations at the expert level in October added optimism to the market.

US President Donald Trump criticized the FRS's monetary policy, twitting that the American regulator was idling, while "negative interest rates were established in Germany and many other countries" and called on the Federal Reserve to soften its monetary policy.

In August 2019, the US economy continued growing at the same "moderate" pace, as earlier during the current year, says the Beige Book, an economic report, published by the FRS on Wednesday, 04 September. Despite the fact that fears connected with the institution of import duties and uncertainty in the trade sector still persist, the majority of business representatives keep optimistic moods regarding short-term economic prospects.

Data on Non-Farm Payrolls in August 2019 published on Friday, 06 September, turned out to be worse than expected. The rate of unemployment in the US remained unchanged in August compared to July and landed at 3.7%. Meanwhile, the number of jobs in the US economy grew 130,000 in August after rising 159,000 in July. Worse-than-expected data on growth of the number of jobs raise the likelihood that the FRS will lower the federal funds rate at its September meeting.

The total issue of bonds in Europe reached EUR 1.0 trillion in a record-short period, which was facilitated by an extremely low cost of raising money. Europe mounted this benchmark on Thursday, 05 September, which is six weeks earlier than last year and two weeks ahead of the previous record set in 2017.

The political confrontation in the UK goes on. Prime Minister Boris Johnson stated that he did not want any early elections. However, due to the Brexit situation, he would give the British the right of choice. At the same time, according to Prime Minister Johnson, he "will do everything in his power to withdraw from the EU on 31 October". Boris Johnson promised not to ask Brussels for another deferment.

During the previous week, 02–06 September, trading in the "EUR/USD" pair ranged within the limits of USD 1.0927-1.1087/EUR.

[www.pumb.ua](http://www.pumb.ua)

Department of Investment Business  
Andriivska St., 4, Kiev, Ukraine 04070  
tel. +38 044 231 7380

#### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1027	-0.1	-1.4	-3.7
GBP/USD	1.2283	1.0	0.9	-3.7
USD/RUB	66.0528	-1.0	1.5	-4.9
USD/UAH	25.0860	-0.2	-2.0	-9.4

Source: Bloomberg

#### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2978.7	1.8	3.4	18.8
FTSE 100 (UK)	7282.3	1.0	1.5	8.2
MXME (East. Eur.)	171.4	2.6	1.6	12.7
PFTS (Ukraine)	527.7	0.1	-1.5	-5.7
RTS (Russia)	1340.5	3.6	3.6	25.4

Source: Bloomberg

#### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.949	-1.3	-2.3	-35.2
FRS. % p.a.	2.00-2.25	0.0	0.0	-10.0
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	16.500	-2.9	-2.9	-8.3
CB RF. % p.a.	7.000	-3.4	-3.4	-9.7

Source: Bloomberg

## MACROECONOMICS

### Consumer prices

According to information of the State Statistics Service, consumer prices dropped 0.3% in August 2019 compared to July 2019. Compared to August of the previous year, consumer prices rose 8.8%. Since the beginning of the current year, consumer prices grew 2.7%.

In August 2019, core inflation landed at -0.1% compared to the previous month and at 2.1% since the beginning of the current year.

The consumer market registered that prices for the entire group of food products and non-alcoholic beverages shrank 0.3% in August 2019. Prices for vegetables and fruits dropped the most – 9.0% and 8.4% respectively. Prices for sugar, cheeses and dairy products went down 2.0-0.1%. At the same time, prices for eggs jumped 39.2%. Prices for meat and meat products, milk, bread, butter, and lard went up 1.0-0.6%.

Prices for alcoholic beverages and tobacco products rose 0.8% over the previous month, including 1.4% for tobacco products and 0.3% for alcoholic beverages.

Prices for clothes and footwear declined 2.8% over the previous month.

In August 2019, transport prices went down 0.6 % on the whole, which was mainly the result of prices for fuels, petroleum, oils and lubricants shrinking 1.7% and prices for vehicles sliding 1.1%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel went down 0.9% in August 2019, which was mainly the result of lower rates for natural gas (-4.5%). At the same time, rates for maintenance of houses and adjoining territories grew 0.7%, and rates for housing rentals went up 0.5%.

Prices for healthcare services remained at the level registered in July 2019. Prices for education services rose 0.3%. Prices in hotels and restaurants increased 0.6%, while prices for communication services grew 0.9% in August 2019.

### Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 10,971.00 in July 2019, which constitutes approximately 260.0% of the minimum wage (UAH 4,173.00).

The average nominal wage went up 1.7% in July 2019 compared to June 2019. Over the last twelve month (compared to July 2018), the average wage grew 19.6%.

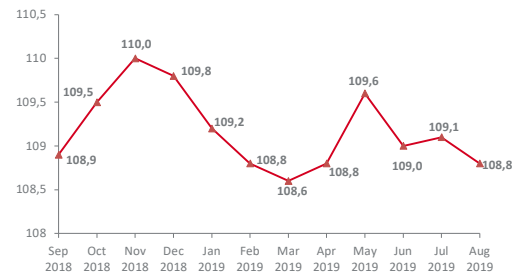
In July 2019, the index of real wages reached 102.4% compared to June 2019 and 109.5% compared to July 2018.

In July 2019, the highest wages were observed in the city of Kyiv (UAH 16,249.00), Donetsk oblast (UAH 12,010.00) and Kyiv oblast (UAH 11,567.00). The lowest wages were registered in Kherson oblast (UAH 8,547.00), Chernivtsi oblast (UAH 8,585.00) and Chernihiv oblast (UAH 8,653.00).

In July, areas of business activity where employees earned the highest average wages included finance and insurance (UAH 19,459.00), information and telecommunications (UAH 17,299.00), as well as public administration and defense (UAH 16,287.00).

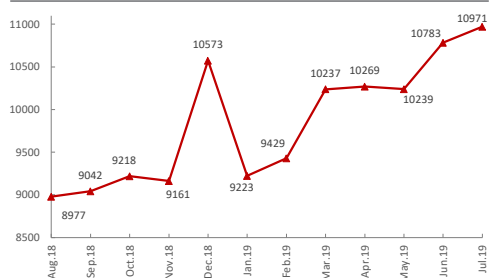
As of 1 August 2019, total wage arrears were registered at UAH 2,739.8 million or at 95.9% compared to 1 July 2019.

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



Source: the State Statistics Service

### AVERAGE NOMINAL WAGES (UAH)



Source: the State Statistics Service

## BOND MARKET AND PUBLIC FINANCE

On 03 September, Ukraine successfully paid off Eurobonds 2015 for the total of USD 661.3 million (yield 7.75% p. a.) and paid out coupon for eight types of Eurobonds 2015 for the total of USD 444.3 million.

At a scheduled auction for primary placement of domestic government bonds held on 03 September, which took place on the eve of the NBU meeting on its key policy rate, the Ministry of Finance lowered accepted yields for all instruments offered.

Ten bids were submitted for purchasing bonds maturing in three months. The requested yields ranged within the limits of 16.10-16.25% p.a. Demand for short-term instruments continues falling, and the total sum of bids submitted was below the limit equaling UAH 0.5 billion established by the Ministry of Finance. The Ministry of Finance set the accepted yield at 16.25% p.a. and satisfied the entire demand.

Eighteen bids for the total of UAH 0.7 billion were submitted for purchasing bonds maturing in twelve months. The requested yields ranged within the limits of 15.95-16.30% p.a. The Ministry of Finance set a limit for the above-mentioned placement totaling UAH 0.5 billion. This step made it possible to lower the accepted yield to 15.95% p.a. and to reject seven bids.

Bonds maturing in three years enjoyed the highest demand. Thirty-four bids for the total of UAH 1.9 billion were submitted for purchasing the above-mentioned bonds. The requested yields ranged within the limits of 16.00-16.20% p.a. The Ministry of Finance lowered the accepted yield to 16.00% p.a. and rejected thirteen bids.

This week, the Ministry of Finance will not have to pay out any issues of domestic government bonds.

As a result of the auction held on 03 September, the Ministry of Finance managed to raise UAH 1.9 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went down UAH 3.9 billion and, as of 06 September 2019, totaled UAH 792.7 billion (according to the total principal).

## NBU OPERATIONS

At the NBU Board meeting on monetary policy issues, which took place on 05 September, the decision was to cut the key policy rate to 16.50% p.a. starting from 06 September. 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 06 September 2019, the interest rate for deposit certificates maturing in fourteen days declined to 16.50% p.a., while the interest rate for overnight certificates of deposit dropped to 14.50% p.a..

Last week, banks were more active in respect of instrument offered by the National Bank and purchased NBU deposit certificates for the total of UAH 115.1 billion, including overnight certificates of deposit for the total of UAH 81.2 billion.

On Friday, 06 September, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 33.9 billion, satisfying bids of forty-six banks.

Last week the NBU did not hold any tenders to refinance banks. Last week banks did not use the NBU standing refinancing facility (overnight loans).

Over the previous week, 02-06 September, the balance of the State Treasury transactions landed at UAH 2.3 billion.

## THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
03 Sep.	91 days	16,24%	10/10	315,59
03 Sep.	350 days	15,95%	18/11	363,42
03 Sep.	1064 days	16,00%	34/21	1225,39

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	334.8	-0.7	-2.4	-10.6
Legal entities	25.2	-1.5	-3.2	21.7
Private individ.	9.3	-1.2	-2.9	53.7
Non-residents	86.2	-1.1	-1.7	1257.8

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	48.2	-15.9	8.7	35.3	
NBU refinancing. UAH billions	54.2	-0.8	7.4	-1.1	
NBU deposit certificates	O/N. UAH billions	13.6	-7.2	-32.7	-54.8
	Total. UAH billions	47.5	18.6	-13.2	-23.2

Source: the National Bank of Ukraine

### INTERBANK LENDING MARKET

The interbank 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 loans in the national currency were ranging within the limits of 14.50-16.50% per annum.

### FOREIGN EXCHANGE MARKET

Last week, the Ukrainian hryvnia was stable and stayed within a narrow range of UAH 25.20-25.40/USD. On Thursday and Friday the market registered that foreign exchange supply was seriously exceeding demand, which resulted in a sharp appreciation of the Ukrainian national currency. As a result, on Friday, 06 September, the weighted average exchange rate on the interbank FX market was registered at UAH 25.0860/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.20-25.32/USD on Monday, 02 September, UAH 25.25-25.35/USD on Tuesday, 03 September, UAH 25.22-25.32/USD on Wednesday, 04 September, UAH 25.20-25.39/USD on Thursday, 05 September, and UAH 25.02-25.20/USD on Friday, 06 September.

Over 02–06 September, the National Bank purchased USD 114.50 million from banks: USD 20.00 million by way of foreign exchange interventions in the form of best exchange rate and USD 94.50 million by way of foreign exchange interventions in the form of a single exchange rate.

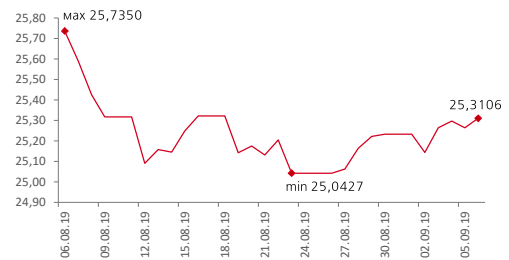
Over the previous week, the foreign exchange sales reached USD 2.0 billion.

### COMMODITY MARKETS

Last week on the petroleum market finished with a cheerful mood. Market participants showed a positive reaction to comments of FRS Chair Jerome Powell as regards supporting the economy with all disposable instruments, which was reflected in a strong dynamics of commodity prices.

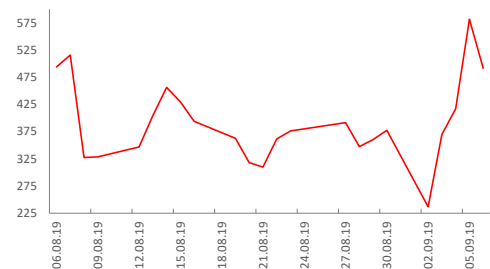
At the end of the previous week, additional support was provided by weekly statistical data on drilling activities from Baker Hughes, one of the world's largest oil field services companies. Drilling activities in the US have been declining for the ninth consecutive month. According to the company's report, the number of active oil derricks in the US shrank four derricks over the previous week and landed at 738 facilities. In annual terms, this indicator dropped 122 oil derricks. A little over 50% of all derricks (427 derricks against 487 derricks at the beginning of the current year) are located at Permian, the key American shale field.

### EXCHANGE RATE (UAH/USD)



Source: NBU

### TRADING VOLUMES (USD MILLIONS)



Source: NBU

### COMMODITY MARKETS

Commodity	last	week ch. %	mon. ch. %	YTD. %
Wheat. USD/ton	179.5	-1.1	-3.5	-18.8
Brent crude. USD/barrel	61.5	3.9	5.1	11.7
WTI crude. USD/barrel	56.5	2.6	5.5	17.7
Gold. USD/ounce	1523.7	-0.3	4.0	19.1

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	1.6 (second quarter, up-to-date estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	-0.2 (July)
<b>Consumer price growth. % year-on-year</b>	43.3	12.4	13.7	9.8	<b>8.8</b> <b>(August)</b>
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	6.7 (July)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	1.3 (July, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.6 (July, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.4 (July, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	22.0 (August, 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	0.9 (January-August)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	25.23 (August)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	26.57 (January-August)

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



**DEPARTMENT OF INVESTMENT BUSINESS**

Anton Stadnik  
Head of department  
+38 044 231 7046  
anton.stadnik@fuiib.com

Marina Timbay  
Trading and brokerage  
+38 044 231 7053  
marina.timbay@fuiib.com

Nataliya Khimich  
Research  
+38 044 231 7380  
nataliya.khimich@fuiib.com

**PUBLIC RELATIONS**

Anna Kokoba  
+38 044 231 7252  
anna.kokoba@fuiib.com

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