

# Financial markets survey

31 August 2020

## THE RALLY GOES ON

**The FRS makes a smart move**  
**Ukraine's industry is gradually recovering**  
**Liquidity stabilized**

### GLOBAL MARKET

The US stock market does not stop setting new records. The month is coming over on absolute historical record-highs for the S&P500 Index and the hi-tech Nasdaq Composite. August 2020 turns out to be the best month for the last forty years. Buyers are supported by the FRS, as it confirmed the long-term nature of low interest rates regardless of inflationary risks, and positive news about testing of the coronavirus vaccine.

On Thursday, 27 August, FRS Chair Jerome Powell informed that the regulator approved a new monetary policy strategy, which is based on changes to the approach to targeting inflation. During the current crisis situation, the regulator accepts that the rate of inflation may grow above the targeted indicator without the risk of raising the base interest rate. Thus, the FRS is currently demonstrating that recovery of the labor market, as well as producer and consumer activities is more important than likely price hikes. This means that the FRS will not hurry with raising interest rates immediately after the targeted inflation indicator has been reached.

Macrostatistical data published during the previous week was uneven. The US GDP in the second quarter shrank 31.7% in annual terms, which turned out to be better than forecast (-32.9%). However, this is a record-low fall of the US economy for the last 73 years.

In July, personal incomes of Americans rose 0.4% (the forecast was 0.2%), while personal expenditures grew 1.9% (the forecast was 1.5%). Also, the US registered a rapid growth of durable goods orders in July, by 11.2% (the forecast was 4.8%). At the same time, the Consumer Confidence Index dropped record-low for the last six years.

Stock indices of Western Europe reacted with a growth to the news that support will be provided to economies of the region. In particular, the Government of Germany decided to provide subsidies to keep jobs approximately for the total of EUR 10.0 billion until the end of 2021. On 03 September, the Government of France will have to provide its own plan for economic recovery totaling EUR 100.0 billion.

The American dollar continues depreciating against the basket of global reserve currencies. On the one hand, it helps supporting currencies of developing economies; on the other, it serves as an important factor of competition in foreign trade for US exporters.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1763-1.1922/EUR.

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### WEEKLY ISSUE

#### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1915	1.2	1.7	6.1
GBP/USD	1.3353	2.0	3.3	0.7
USD/RUB	75.2354	2.0	5.1	21.5
USD/UAH	27.4759	0.3	-0.8	16.0

#### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3508.0	3.3	9.0	8.6
FTSE 100 (UK)	5963.6	-0.6	-2.7	-20.9
MXME (East. Eur.)	148.8	0.0	-0.2	-22.9
PFTS (Ukraine)	500.2	0.0	0.0	-1.9
RTS (Russia)	1265.6	0.3	0.6	-18.3

#### KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.445	1.0	-3.3	-77.7
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	198.5	1.5	-1.0	-2.7
Brent. USD/barrel	45.8	2.0	4.0	-25.7
WTI. USD/barrel	43.0	1.5	4.1	-25.0
Gold. USD/ounce	1957.4	1.7	0.8	29.2

Source: Bloomberg

## MACROECONOMICS

### Industrial output

According to information of the State Statistics Service, industrial output in Ukraine shrank 4.4% in July 2020 compared to July 2019 with due consideration for seasonal adjustment and 4.2% without the above-mentioned adjustment.

In July 2020, the Industrial Output Index (seasonally adjusted) reached 101.4% compared to June 2020.

Output in mining and quarrying went down 0.7% in July 2020 compared to July 2019 without adjustments. Metal ores output registered a 5.1% drop. At the same time, black and brown coal output went up 4.7%, while crude oil and natural gas output grew 0.7%.

Output in processing industry registered a 6.6% drop in July 2020 compared to July 2019 without adjustments. Output in steel industry dropped 10.6%, output in machine-building plummeted 21.3%, output in basic pharmaceutical products and pharmaceutical preparations declined 19.6%, and output in coke production and oil refining sagged 9.4%. At the same time, output in food products and beverages went up 4.6% and output in chemicals and chemical products rose 13.2% in July 2020. Output in electricity, gas and steam supply grew 0.7% in July 2020.

### Transportation

Over January-July 2020, freight turnover of transportation companies totaled 159.4 billion ton-km, which constitutes 81.1% compared to January-July 2019. Over the first seven months of the current year, transportation companies carried 327.0 million tons of freight, which stands at 84.9% of the similar indicator registered over January-July 2019.

Over January-July 2020, freight transportation by railway transport dropped 7.5%, by road transport – 23.5%, by water transport – 11.9%, by pipeline transport – 19.3%, and by air transport – 7.0% as compared to the relevant period in 2019.

Over January-July 2020, passenger turnover of transportation companies reached 27.2 billion passenger-km, which stands at 43.8% compared to the first seven months of 2019. 1,441.7 million passengers used services of passenger transport over January-July 2020, which accounted for 58.3% of the indicator registered over the same period during the previous year.

### Construction

In June 2020, the Index of Construction Products reached 98.8% seasonally adjusted compared to May 2020 (113.4% seasonally not adjusted). Compared to June 2019, the Index of Construction Products landed at 98.3% adjusted to the calendar days' effect and at 100.1% without the above-mentioned adjustment.

Over January-June 2020, the Index of Construction Products stood at 94.5% compared to January-June 2019. Ukrainian companies carried out construction works (construction products output) for the total of UAH 64.6 billion over January-June 2020.

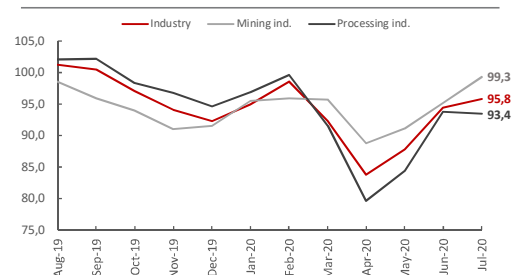
Construction of new objects made up 41.6% of total construction works, overhaul and maintenance works accounted for 30.6%, while reconstruction and technical re-equipment came to 27.8% of total construction works.

### LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in July 2020, % year-on-year (without adjustments)	-4.2

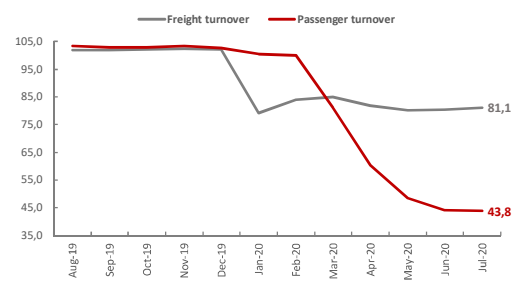
Source: the State Statistics Service

### INDUSTRIAL OUTPUT INDEX (% year-on-year, without adjustments)



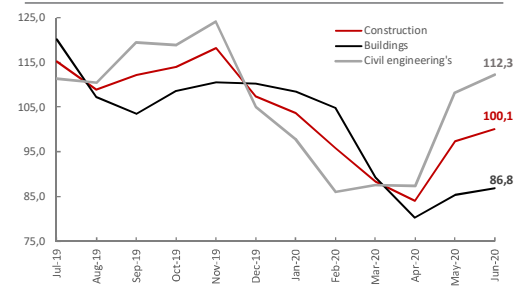
Source: the State Statistics Service (revised data)

### TRANSPORTATION SERVICES (% year-on-year, progressive total)



Source: the State Statistics Service

### THE INDEX OF CONSTRUCTION PRODUCTS (% year-on-year, without adjustments)



Source: the State Statistics Service

## BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for placing domestic government bonds, which was held on 25 August, the Ministry of Finance offered only two issues of securities: one of them denominated in the national currency and the other issue denominated in foreign currency.

Four bids for the total of UAH 1.2 billion (at face-value) were submitted for purchasing bonds denominated in hryvnia and maturing in three months. The requested yields ranged within the limits of 7.00-9.00% per annum. The Ministry of Finance decided against raising the cost of borrowing and set the accepted yield at 7.00% per annum, rejecting a serious part of demand.

Bonds denominated in US dollars and maturing in twelve months scored twenty-four bids for the total of USD 30.3 million (at face-value). The requested yields ranged within the limits of 3.50-4.00% per annum. The Ministry of Finance set the accepted yield at 3.50% per annum and rejected two bids for insignificant amounts.

As a result of the auction to place domestic government bonds held on 25 August 2020, the Ministry of Finance managed to raise UAH 0.9 billion to the State Budget of Ukraine (according to the official NBU exchange rate).

Over the previous week, the volume of outstanding domestic government bonds went up UAH 0.8 billion and, as of 28 August 2020, totaled UAH 862.5 billion (according to the total principal).

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

## NBU TRANSACTIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 161.1 billion, including overnight certificates of deposit for the total of UAH 71.1 billion (the interest rate for overnight certificates of deposit stood at 5.00% per annum).

As a result of the NBU quantitative liquidity-providing tender to refinance banks held on Friday, 28 August, bids of three banks for the total of UAH 0.9 billion were satisfied. The interest rate reached 6.00% per annum. The loans were provided for the period of eighty-four days.

On Friday, 28 August, the National Bank placed deposit certificates maturing in seven days for the total of UAH 90.0 billion, satisfying bids of fifty-three banks. The interest rate stood at 6.00% per annum.

Banks did not use the standing NBU refinancing line (overnight loans) during the previous week.

A negative balance of the State Treasury transactions landed at UAH 6.5 billion over 25-28 August.

The banking system liquidity is staying at a sufficient level, approximately at UAH 160.0 billion, and is concentrated in NBU deposit certificates and on correspondent accounts of banks with the National Bank.

## INTERBANK LENDING MARKET

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

## THE RESULTS OF PLACING DOMESTIC BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
25 Aug	112 days	7.00%	4/2	78.47
25 Aug	421 days	3.50%	24/22	29.79*

\* USD millions

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	414.9	0.4	-2.6	23.3
Legal entities	27.8	-0.3	-4.3	5.6
Private individ.	7.6	2.1	7.5	-22.2
Non-residents	87.6	-1.0	-5.8	-25.5

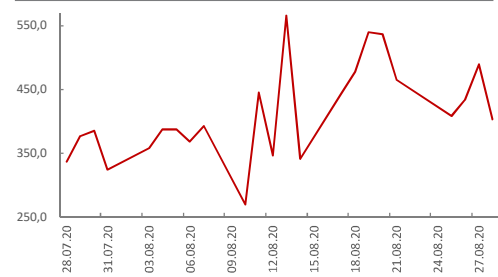
Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	48.3	-14.3	-14.6	-7.9	
NBU refinancing. UAH billions	54.8	1.7	12.1	21.7	
NBU deposit certificates	O/N. UAH billions	21.7	35.3	44.6	-63.0
	Total. UAH billions	111.7	6.8	20.3	-26.5

Source: the National Bank of Ukraine

## TRADING VOLUMES (USD MILLIONS)



Source: NBU

## FOREIGN EXCHANGE MARKET

The previous week was rather standard for the Ukrainian interbank foreign exchange market as for the end of the month. Given the shortened business week and the end of the reporting period, clients were making active settlements. VAT refunds to exporters resulted in shrinking foreign currency supply, which contributed to a situational appreciation of the US dollar quotations. As a result, on Friday, 28 August, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.4759/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.40-27.50/USD on Tuesday, 25 August, UAH 27.34-27.46/USD on Wednesday, 26 August, UAH 27.40-27.50/USD on Thursday, 27 August, and UAH 27.44-27.52/USD on Friday, 28 August.

Over 25-28 August, the National Bank purchased USD 68.0 million from banks by way of the single exchange rate interventions.

The overall foreign currency sales on the interbank foreign exchange market reached USD 1.7 billion over the previous week.

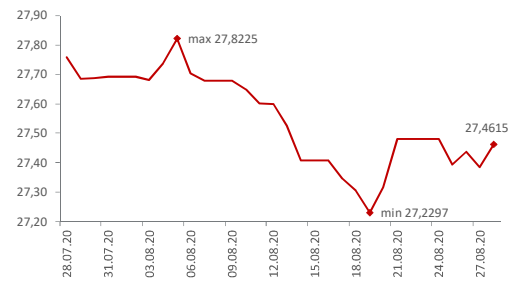
## BONDS AND SHARES OF UKRAINIAN ISSUERS

On 27 August, the Ministry of Finance informed that Ukraine increased the total sum of Eurobonds in circulation yielding 7.75% per annum and maturing on 01 September 2020 by USD 328.79 million. The total sum of outstanding Eurobonds reached USD 1.36 billion. J.P. Morgan acted as the only buyer and Lead Manager of the transaction.

Funds raised will be used to complete settlements in active debt management transaction that implied buying back government derivatives (GDP-linked warrants) on the open market in 2020.

The Ministry of Finance mentioned that the earlier published Medium-Term Public Debt Management Strategy for 2019-2022 included preventive transactions to manage liabilities for the purpose of smoothing out the profile of public debt servicing and lowering peak pressure on the state budget. Such transactions to manage liabilities may include buyback of government securities under favorable market conditions. f

## NBU EXCHANGE RATE (UAH/USD)



Source: NBU

## QUOTATIONS ON GLOBAL MARKETS

Name	Coupon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2021	7,75	01.09.2021	103,48	104,23	3,39	USD
Ukraine-2022	7,75	01.09.2022	105,19	105,77	4,69	USD
Ukraine-2023	7,75	01.09.2023	106,29	106,87	5,24	USD
Ukraine-2024	8,99	01.02.2024	108,87	109,80	5,78	USD
Ukraine-2024	7,75	01.09.2024	106,01	106,95	5,78	USD
Ukraine-2025	7,75	01.09.2025	105,61	106,52	6,21	USD
Ukraine-2026	6,75	20.06.2026	101,18	101,87	6,35	EUR
Ukraine-2026	7,75	01.09.2026	105,70	106,45	6,44	USD
Ukraine-2027	7,75	01.09.2027	105,71	106,37	6,60	USD
Ukraine-2028	9,75	01.11.2028	114,50	115,23	7,24	USD
Ukraine-2030	4,38	27.01.2030	86,58	87,46	6,31	EUR
Ukraine-2032	7,38	25.09.2032	101,40	102,34	7,08	USD
Ukraine-2033	7,253	15.03.2033	100,14	100,93	7,14	USD
Ukreximbank	16,50	02.03.2021	99,02	101,00	14,33	UAH
Ukreximbank	9,63	27.04.2022	102,70	103,80	7,13	USD
Ukreximbank	9,05	09.02.2023	99,37	101,07	6,82	USD
Ukreximbank	9,75	22.01.2025	103,78	103,78	8,69	USD
Oschadbank	9,38	10.03.2023	102,68	102,87	8,09	USD
Oschadbank	9,07	19.01.2024	94,63	97,87	7,92	USD
Oschadbank	9,63	20.03.2025	102,59	102,99	8,81	USD
Metinvest BV	7,50	31.12.2021	99,26	101,17	6,50	USD
Metinvest BV	7,75	23.04.2023	102,64	102,83	6,57	USD
Metinvest BV	5,63	17.06.2025	92,07	93,14	7,35	EUR
Metinvest BV	8,50	23.04.2026	101,56	102,22	8,00	USD
Metinvest BV	7,75	17.10.2029	96,84	97,98	8,07	USD
DTEK Finance	10,75	31.12.2024	67,52	70,38	21,06	USD
MHP SE	7,75	10.05.2024	106,55	106,91	5,64	USD
MHP Lux SA	6,95	03.04.2026	103,27	103,88	6,12	USD
MHP Lux SA	6,25	19.09.2029	96,70	99,48	6,33	USD
Kernel Holding	8,75	31.01.2022	103,67	103,82	5,87	USD
Kernel Holding	6,50	17.10.2024	99,49	101,30	6,14	USD
Ukraine Railways	9,88	15.09.2021	101,87	102,10	7,72	USD
Ukraine Railways	8,25	09.07.2024	101,76	102,14	7,59	USD
NAK Naftogaz	7,38	19.07.2022	99,76	99,95	7,40	USD
NAK Naftogaz	7,13	19.07.2024	97,94	98,88	7,46	EUR
NAK Naftogaz	7,625	08.11.2026	97,49	98,54	7,92	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	-4.2 (July)
Consumer price growth. % year-on-year	12.4	13.7	9.8	4.1	2.4 (June)
Producer price growth. % year-on-year	35.7	16.5	14.2	-7.4	-7.5 (July)
Balance of payments (consolidated). USD billions	1.3	2.6	2.9	6.0 (preliminary data)	1.0 (June, preliminary estimate)
Current account balance. USD billions	-1.3	-2.4	-4.4	-1.1 (preliminary data)	0.8 (June, preliminary estimate)
Balance of trade. USD billions	-6.5	-8.6	-12.7	-14.0 (preliminary data)	0.4 (May, preliminary estimate)
International reserves, USD billions, by the end of the period	15.5	18.8	20.8	25.3	28.8 (July, preliminary estimate)
External debt. USD billions	113.6	116.6	114.7	121,7 (forth quarter)	120.3 (first quarter, preliminary data)
Banking system assets, % of annual growth	0.2	6.4	2.0	9.9	10.1 (January-July)
Exchange rate. by year end. UAH/USD	27.19	28.07	27.69	23.69	27.48 (August)
Exchange rate. annual average. UAH/USD	25.55	26.60	27.20	25.85	26.16 (January-July)

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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