

Financial markets survey

14 February 2022

UNDER THE PRESSURE OF INFLATION

Record high levels of inflation

CPI in Ukraine remained at the same level as previous month

Low yield from domestic government bonds

GLOBAL MARKET

Recently, there has been increased volatility in the US stock market, which is partly caused by fears that the Federal Reserve will raise the rates. The FRS is preparing to begin tightening its monetary policy, while the growth rate of the US economy is slowing down, and investors are conducting a large asset revaluation.

Consumer prices (CPI) in the US soared to 7.5% year on year in January, compared to 7.0% in December. Thus, this is a record high growth rate since 1982. At the same time, inflation in the United States exceeded the analysts' average forecast, which had been 7.3%. The CPI index in January went up 0.6% compared to December (a 0.4% increase had been forecast). The increase in price growth is caused by rising energy prices, labor shortages, increased demand and disruptions in global supply chains.

Consumer prices in the Eurozone soared to 5.1% year on year in January 2022, compared to 5.0% in December. This is the highest recorded value. High inflation is largely the result of extremely large increase in energy prices. The highest year-on-year inflation rate was recorded in Lithuania (12.2%) and Estonia (11.7%). Consumer prices in Germany went up 4.9% year on year in January after rising by 5.3% a month earlier.

The European Commission has downgraded the forecast for the EU and the Eurozone growth this year and upgraded its forecast for 2021. EU GDP will grow 4.0% in 2022 after rising by 5.3% in 2021. The Eurozone economy will also grow 4.0% in 2022. According to the forecast published in November last year, the EC had expected the economies of the European Union and the Eurozone to grow 4.3% this year. Factors leading to the slowdown include the ongoing COVID-19 pandemic, supply chain disruptions, and supply shortages, as well as inflationary pressures associated with soaring energy prices.

The UK economy grew 1.0% in the fourth quarter of 2021 compared to the third quarter (a 1.1% increase had been forecast). The country's economy grew 6.5% year-on-year after rising 6.8% in the third quarter. The UK economy is currently 0.4% smaller than in the pre-pandemic fourth quarter of 2019.

During the previous week, trading in the EUR/USD pair ranged within the limits of USD 1.1368/1.1495 EUR.

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WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1417	-0.4	0.7	0.8
GBP/USD	1.3564	0.2	-0.5	0.2
USD/RUB	74.7241	-2.5	-0.5	0.6
USD/UAH	28.0346	-0.4	1.9	2.8

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	4,418.6	-1.8	-6.2	-7.3
FTSE 100 (UK)	7,661.0	1.9	2.3	3.7
MXME (East. Eur.)	175.0	2.1	-6.3	-4.8
PFTS (Ukraine)	518.8	-0.6	-0.8	-0.8
RTS (Russia)	1,470.1	2.4	-7.9	-7.9

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.392	39.4	100.2	138.8
FRS. % p.a.	0.00-0.25	0.0	0.0	0.0
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	10.000	0.0	11.1	11.1
CB RF. % p.a.	9.500	0.0	11.8	11.8

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	293.0	-1.3	-3.3	-3.3
Brent. USD/barrel	94.4	1.3	13.7	22.1
Gas. EUR/MWh	77.4	-5.3	-5.6	-14.0
Gold. USD/ounce	1,858.8	2.8	2.0	1.6

Source: Bloomberg

MACROECONOMY

Consumer prices

According to information of the State Statistics Service, inflation in the consumer market in January 2022 was at 1.3% compared to December 2021 and at 10.0% compared to January 2021.

Core inflation in January 2022 landed at 0.1% compared to December 2021 and at 7.6% compared to January 2021.

The consumer market registered that prices for food products and non-alcoholic beverages went up 2.5% in January. Vegetables went up the most (by 20.5%). Prices for eggs, fruits, bread, milk and dairy products, meat and meat products, rice, lard, and butter went up 3.9–1.0%. At the same time, prices for sugar and sunflower oil fell by 0.8% and 0.5% respectively.

The increase in prices (tariffs) for housing, water, electricity, gas and other fuel by 0.7% was mainly due to a 14.9% increase in sewerage charges and 12.0% increase in water supply charges.

Transport prices went up 1.3%, which is primarily due to a 2.9% rise in railway fares and a 2.6% rise in the price of fuel and lubricants.

Prices for communication services went up 1.1%, which is due to a 13.6% increase in landline charges.

The 1.6% increase in the price for educational services is mainly caused by a 23.3% increase in the cost of providing services for children in preschool institutions.

Prices for healthcare services rose by 0.5%, while prices in restaurants and hotels rose by 0.9%. Prices for recreational and cultural services remained at the same level as previous month.

Producer prices

According to the State Statistics Service, producer prices in January 2022 went up 9.6% compared to December 2021 and 69.1% compared to January 2021.

Compared to December, producer prices in mining and quarrying in January went up 6.4%. Metal ores output prices grew 17.4%. At the same time, crude oil and natural gas output prices went down 0.1%, while black and brown coal output prices remained at the same level as in December 2021.

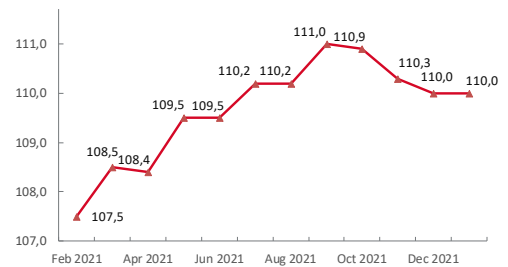
Prices in process manufacturing went up 1.6% in January 2022 compared to December 2021. The country registered that the cost of production of food, beverages, and tobacco products went up 1.8%. At the same time, the cost of manufacture of wood and paper products increased by 2.3%, the cost of production of chemicals and chemical products increased by 4.0%, the cost of production of key pharmaceutical products and preparations went up 1.5%, the cost of metallurgical production increased by 1.7%, and the cost of mechanical engineering went up 3.7%. At the same time, the cost of coke production and oil refining went down 6.7%.

The price of electricity, gas, and steam supply rose by 26.8%.

Prices went up 4.7 % in January in the production of intermediate goods, 3.1 % in the production of investment goods, 2.0 % in the production of non-durable consumer goods, and 1.9% in the production of durable consumer goods. At the same time, prices in energy generation jumped 18.0%

CONSUMER PRICE INDEX

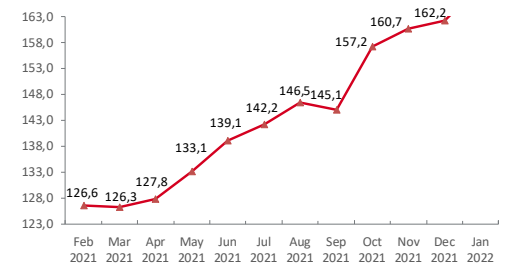
(month-on-month of the previous year, %)



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 placing domestic government bonds, which was held by the Ministry of Finance (MoF) on February 07, seven issues of domestic government bonds were placed. The highest demand was for short-term bonds. Despite the fact that the revenue from this auction was much higher than from the previous one, it was still low.

Bonds maturing in three months collected 28 bids for the total of UAH 1.7 billion (at par value). The requested yield ranged within the limits of 11.49 - 11.50% p.a. The accepted yield was at 11.50% p.a. MoF satisfied the demand in full.

The demand for bonds maturing in one year consisted of 16 bids for the total of UAH 322.8 million (at par value). The requested yield ranged within the limits of 11.90 - 12.49% p.a. The accepted yield was at 12.00% p.a. MoF rejected 2 bids.

Bonds maturing in a year and a half collected 11 bids for the total of UAH 20.7 million (at par value). The single requested yield stood at 12.00% p.a. The accepted yield - at 12.00% p.a. MoF satisfied the demand in full.

The demand for bonds maturing in two years consisted of 10 bids for the total of UAH 65.3 million (at par value). The single requested yield stood at 13.00% p.a. The accepted yield was at 13.00% p.a. MoF satisfied the demand in full.

The demand for bonds maturing in three years consisted of 2 non-competitive bids for the total of UAH 1.4 million (at par value). The demand for bonds maturing in five years consisted of 1 non-competitive bid for the total of UAH 2.7 million (at par value). The accepted yield was at 12.95% and 13.25% p.a. respectively. MoF satisfied the demand in full.

The demand for instruments denominated in US dollars consisted of 20 bids for the total of USD 12.1 million (at par value). The single requested yield stood at 3.90% p.a. The accepted yield was at 3.90% p.a. MoF satisfied the demand in full.

Funds raised to the state budget from the sale of instruments on February 07 - UAH 2.1 billion (according to the NBU exchange rate).

Over the previous week, the volume of outstanding domestic government bonds went up UAH 1.6 billion, and as of February 11, 2022, totaled UAH 1,037.1 billion (according to the total principal).

This week MoF will have to pay out a one-year issue of domestic government bonds for the total of EUR 349.2 million (due on February 17).

NBU TRANSACTIONS

Over the last week, market participants purchased NBU deposit certificates for the total of UAH 358.3 billion, including overnight certificates for the total of UAH 326.3 billion (the interest rate - at 9.00% p.a).

As a result of the NBU quantitative liquidity-providing tender to refinance banks, which was held on February 11, bids of five banks for the total of UAH 1,045.0 million were satisfied. The interest rate reached 11.00% p.a. The loans were provided for the period of up to 28 days.

On Friday, February 11, the NBU placed deposit certificates maturing in two weeks for the total of UAH 32.0 billion. The interest rate stood at 10.00% p.a.

Banks received UAH 50.0 million (at 11.00% p.a) through the standing NBU refinancing line (overnight loans) over February 7 - 11.

The balance of the State Treasury transactions landed at UAH 8.3 billion over February 7 - 11.

THE RESULTS OF PLACING DOMESTIC BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
07 Feb.	105 days	11.50%	28/28	1634.29
07 Feb.	343 days	11.93%	16/14	22.84
07 Feb.	434 days	12.00%	11/11	22.60
07 Feb.	735 days	13.00%	10/10	69.27
07 Feb.	994 days	12.95%	2/2	1.40
07 Feb.	1932 days	13.25%	1/1	2.37
07 Feb.	603 days	3.90%	20/20	12.25*

* USD millions

Source: the Ministry of Finance of Ukraine

HOLDERS OF DOMESTIC BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	310.1	0.0	-0.8	-0.8
Banks	542.0	0.2	-0.1	-0.9
Legal entities	80.8	0.0	-1.4	-2.8
Territorial	0.2	0.0	0.0	132.9
Private individ.	25.2	2.9	-0.6	0.2
Non-residents	78.8	-0.5	-10.8	-15.0

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions		69.5	54.3	20.7	99.4
NBU refinancing. UAH billions		124.4	-0.2	0.5	-3.1
NBU deposit certi- ficates	O/N. UAH billions	42.8	-37.9	-29.9	-61.8
	Total. UAH billions	138.2	-12.5	-27.4	-35.1

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

Rates for overnight lending loans in the national currency are ranging within the limits of 8.50 - 9.50% p.a. on the interbank lending market, while the Ukrainian OverNight Index Average (UONIA) stood at: 9.0065 % p.a. on February 07; 9.0000% p.a. on February 08; 9.0054% p.a. on February 09; 9.0387% p.a. on February 10; 9.0988% p.a. on February 11.

FOREIGN EXCHANGE MARKET

In the previous week, the supply of foreign currency mostly exceeded the demand therefor on the Ukrainian interbank FX market, which contributed to the strengthening of the Ukrainian hryvnia. From time to time, the NBU was able to buy back the excess supply of foreign currency in order to replenish international reserves. There were mostly market mechanisms. The demand for the currency was generated by energy importers and large retail chains selling consumer goods, whereas supply, traditionally, was generated by iron and steel companies and – partly – agricultural enterprises. As a result, on Friday, February 11, the weighted average exchange rate on the interbank FX market was registered at UAH 28.0346 /USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.98-28.06/USD on Monday, February 07, UAH 27.91-28.01/USD on Tuesday, February 08, UAH 27.95-28.03/USD on Wednesday, February 09, UAH 27.84 -27.92/USD on Thursday, February 10, UAH 27.97-28.07/USD on Friday, February 11.

Over 07 - 11 February, the National Bank of Ukraine purchased USD 253.20 million from banks (USD 80.0 million by way of the best exchange rate interventions and USD 173.20 million by way of the single exchange rate interventions) and sold USD 50.00 million to banks by way of the single exchange rate interventions.

The overall foreign currency sales on the interbank foreign exchange market reached USD 2.9 billion over the previous week.

FINANCIAL MARKET

The PFTS index went down 0.6% compared to the previous week and reached 518.77. The volume of trade on February 7 - 11 totaled UAH 5.1 billion, of which UAH 4.5 billion were domestic government bonds, UAH 0.6 billion were external government bonds, and UAH 26.8 million were corporate bonds.

The volume of trade on Perspektyva Stock Exchange on February 7 - 11 totaled UAH 6.6 billion, of which UAH 3.3 billion were domestic government bonds, UAH 0.1 billion were external government bonds, and UAH 3.1 million were corporate bonds.

Mobile operator Vodafone Ukraine has announced the completion of the second round of bond purchases for the total of USD 45.0 million in the principal of their bonds in 2025.

Together with the first round of purchases for the total of USD 49.0 million, purchased and canceled bonds totaled USD 94.0 million.

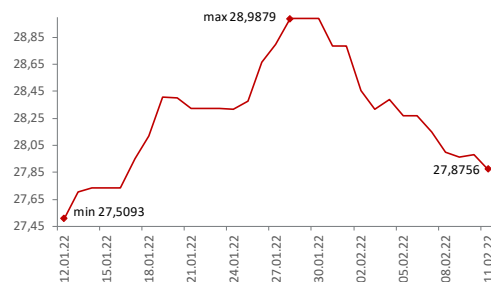
Vodafone Ukraine emphasized that the company seeks to maintain a stable liquidity position and a stable debt profile.

TRADING VOLUMES (USD MILLIONS)



Source: NBU

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINIAN EMITENTS ON INTERNATIONAL MARKET

Ukrainian bonds traded at stress levels have become one of the favorites of investors in emerging markets, Citigroup, Ashmore Group and William Blair International due to comparative cost and expectations that the conflict with Russia can be resolved through diplomacy. Additional premium for the risk on bonds of Ukraine has decreased by 257 basis points since January 25, when it was three times the average for EM. Traders find Ukraine's bonds cheap and are looking to profitable bets that efforts to de-escalate tensions and the threat of sanctions will help avert a full-blown conflict. Ukraine is one of 11 states whose dollar bonds are trading at stress levels, but its economic situation is better from a fundamental point of view, and the country is expected to be supported by the International Monetary Fund and the European Union.

Fitch Ratings has revised National Joint Stock Company Naftogaz of Ukraine's Outlook to Stable from Positive, while affirming company's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B'.

The Outlook revision follows a recent similar action on Ukraine's sovereign rating (B/Stable) and the application of Fitch's Government-Related Entities (GRE) Rating Criteria. Fitch equalises Naftogaz's ratings with those of the sovereign, reflecting the company's strong links with the sovereign and our assessment of the company's Standalone Credit Profile (SCP) at 'b-'.

INTERNATIONAL RELATIONSHIP

The Council of the European Union on Friday approved a decision by the European Commission (EC) to provide Ukraine with EUR 1.2 billion after the EC submitted a proposal on February 1, 2022 for additional macro-financial assistance to Ukraine. The decision will take effect after approval by the European Parliament in the near future.

Emergency macro-financial assistance is designed for 12 months and will consist of two tranches. The term of the second tranche will depend on Kyiv's fulfillment of the previous political conditions and the implementation of the IMF program.

The visit of the International Monetary Fund (IMF) mission to Ukraine for the second review of the stand-by program may take place in the first quarter of this year, as planned, subject to progress in the program, said IMF spokesman Gerry Rice (Gerry Rice) at a traditional briefing in Washington on Thursday, February 10.

QUOTATIONS ON GLOBAL MARKETS

Name	Cou pon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2022	7.75	01.09.2022	94.86	95.91	15.95	USD
Ukraine-2023	7.75	01.09.2023	91.66	92.48	13.31	USD
Ukraine-2024	8.99	01.02.2024	91.58	92.63	13.39	USD
Ukraine-2024	7.75	01.09.2024	87.77	88.77	13.09	USD
Ukraine-2025	7.75	01.09.2025	87.08	88.08	11.98	USD
Ukraine-2026	6.75	20.06.2026	83.06	84.13	11.58	EUR
Ukraine-2026	7.75	01.09.2026	86.57	87.47	11.36	USD
Ukraine-2027	7.75	01.09.2027	86.63	87.39	10.84	USD
Ukraine- 2028	9.75	01.11.2028	92.52	93.49	11.15	USD
Ukraine- 2030	4.38	27.01.2030	75.70	76.77	8.74	EUR
Ukraine-2032	7.38	25.09.2032	81.45	82.78	10.05	USD
Ukraine-2033	7.253	15.03.2033	80.95	82.02	9.97	USD
Ukreximbank	9.63	27.04.2022	95.14	96.93	25.44	USD
Ukreximbank	7.29	09.02.2023	95.60	99.78	7.98	USD
Ukreximbank	9.75	22.01.2025	93.91	95.75	11.49	USD
Oschadbank	9.38	10.03.2023	95.72	96.14	13.37	USD
Oschadbank	7.22	19.01.2024	82.75	86.74	15.88	USD
Oschadbank	9.63	20.03.2025	91.88	92.24	12.73	USD
Metinvest BV	7.75	23.04.2023	91.10	91.45	15.99	USD
Metinvest BV	5.63	17.06.2025	87.17	89.50	9.36	EUR
Metinvest BV	8.50	23.04.2026	85.01	87.28	12.49	USD
Metinvest BV	7.65	01.10.2027	81.82	84.77	11.39	USD
Metinvest BV	7.75	17.10.2029	80.74	81.33	11.47	USD
DTEK Renew.	8.5	12.11.2024	82.02	83.99	15.93	EUR
MHP SE	7.75	10.05.2024	92.74	92.89	11.44	USD
MHP Lux SA	6.95	03.04.2026	90.25	90.65	9.75	USD
MHP Lux SA	6.25	19.09.2029	85.02	86.04	8.81	USD
Kernel Holding	6.50	17.10.2024	91.20	92.09	9.94	USD
VF Ukraine	6.20	11.02.2025	91.66	92.19	9.47	USD
Ukraine Railways	8.25	09.07.2024	89.44	90.20	13.14	USD
NAK Naftogaz	7.38	19.07.2022	92.14	92.50	27.01	USD
NAK Naftogaz	7.13	19.07.2024	75.09	76.91	19.99	EUR
NAK Naftogaz	7.625	08.11.2026	75.45	76.16	14.81	USD
NPC Ukrenergo	6.875	09.11.2026	76.89	77.25	13.54	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2017	2018	2019	2020	2021	2022
GDP. %	2.5	3.3	3.2	-4.0	5.9 (fourth quarter, preliminary estimate)	
Industrial output. %	-0.1	1.1	-0.5	4.8	1.1	
Consumer price growth. % year-on-year	13.7	9.8	4.1	5.0	10.0	10.0 (January)
Producer price growth. % year-on-year	16.5	14.2	-7.4	14.5	62.2	69.1 (January)
Balance of payments (consolidated). USD billions	2.6	2.9	6.0	2.0	0.4 (preliminary estimate)	
Current account balance. USD billions	-2.4	-4.4	-4.1	5.3	-0.4 (preliminary estimate)	
Balance of trade. USD billions	-8.6	-12.7	-12.5	-2.4	-0.8 (preliminary estimate)	
International reserves. USD billions	18.8	20.8	25.3	29.1	30.9	29.3 (January)
External debt. USD billions	116.6	114.7	121.7	125.7	125.0 (third quarter)	
Banking system assets. % of growth	6.4	2.0	9.9	18.9	12.7	
Exchange rate. by year end. UAH/USD	28.07	27.69	23.69	28.27	27.28	28.78 (January)
Exchange rate. annual average. UAH/USD	26.60	27.20	25.85	26.96	27.28	27.98 (January)

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
Gas	ICE Endex Dutch TTF Gas Spot Price. Gas for physical delivery at the Dutch Title Transfer Facility (TTF)
Wheat	GRXPUAFW AGRO. Index.Ukraine Feed Wheat FOB Black Sea Port Export Price



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