

Financial markets survey

09 July 2018

EXCHANGING SANCTIONS

WEEKLY ISSUE

The US trade relations are the focus of attention
Inflation continues slowing down
The Hryvnia is demonstrating growth

GLOBAL MARKET

During the previous week, the key American stock indices changed in various directions. However, by the end of the previous week, they registered serious growth.

Investors focused their attention on evaluating statistical data on the US labor market, as well as new signals related to the trade dispute between Washington and Beijing.

The number of jobs in the US economy grew 213,000 in June 2018, while experts expected a less serious growth – 190,000. The rate of unemployment in the US grew to 4.0% in June 2018 from 3.8% in May, which was equivalent to the indicator registered in April 2000 – a record-low since 1969. In June 2018, the average hourly pay in the US grew 2.7% in annual terms, which was a more sluggish pace than expected (2.8%).

The market is taking slower growth of wages as a signal of weaker inflation in the US, which can restrict further toughening of the FRS monetary policy.

On Friday, 6 July, duties on more than 800 types of Chinese goods imported into the US for the total of USD 34.0 billion a year came into force. Also, on Friday, Beijing announced that retaliatory duties that China imposed on American goods imported into the country became effective.

At the same time, the US may reject new duties on vehicles and vehicle component parts imported from the European Union countries, if the EU lowers the already existent import duties on products of the US automotive industry down to zero.

Given this background, the US dollar exchange rate against the Euro depreciated at a more rapid pace, while the US Treasuries' yields went down.

In the course of the previous week, the information that the ruling coalition in Germany managed to reach an agreement on migration policy helped support the Euro.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1589-1.1767/EUR. On Friday, 06 July, trading closed at USD 1.1724/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1724	0.6	-0.3	-2.2
GBP/USD	1.3283	0.6	-1.0	-1.7
USD/RUB	63.2604	0.0	2.1	9.8
USD/UAH	26.3160	0.0	0.6	-6.2

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2759.8	1.5	-0.5	3.2
FTSE 100 (UK)	7617.7	-0.3	-1.2	-0.9
MXME (East. Eur.)	159.6	1.8	-1.9	-3.6
UX (Ukraine)	1552.8	-1.7	-5.1	13.9
RTS (Russia)	1173.5	1.7	-0.4	1.6

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.764	-0.5	2.1	31.2
FRS, % per annum	2.000	0.0	11.4	30.0
ECB, % per annum	0.000	0.0	0.0	0.0
NBU, % per annum	17.000	0.0	0.0	17.2
CB RF, % per annum	7.250	0.0	0.0	-6.5

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices did not change in June 2018 and remained at the level registered over the previous month. However, since the beginning of the current year, consumer prices rose 4.4%. Consumer inflation landed at 9.9% in June 2018 compared to June 2017.

In June 2018, core inflation landed at 0.0% compared to the previous month and at 3.5% 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 0.5% in June. Prices for eggs (-9.8%) and fruits (-2.1%) dropped the most. Prices for milk and dairy products, lard, vegetables, sugar, rice, pork, and beef went down 0.2-1.7%. At the same time, the country registered prices for bread, pasta, products made from grain crops and non-alcoholic beverages growing 0.4-0.7%.

Prices for alcoholic beverages and tobacco products grew 1.6% over the previous month, including 2.6% for tobacco products and 0.4% for alcoholic beverages.

Transport prices went up 0.6% over the previous month in connection with prices for passenger rail transportation rates growing 10.4%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel inched up 0.3% in June, which was mainly the result of higher rates for maintenance of houses and adjoining territories (+2.1%) and higher costs of housing rentals (+0.9%).

Expenses on communication services went up 0.3% over the previous month. Prices in hotels and restaurants grew 1.1%. Prices for various goods and services also inched up 0.4%. For the first time over a long period, prices for education services went up 0.5%. However, expenses on rest and cultural services went down 0.2%.

Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 8,725.00 in May 2018, which constitutes approximately 230.0% of the minimum wage (UAH 3,723.00).

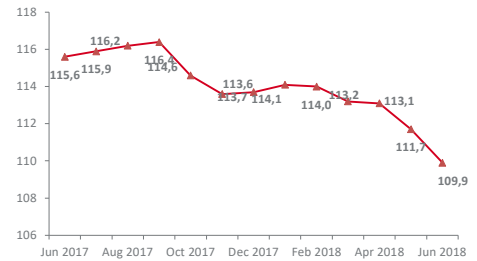
The average nominal wage was registered at 102.9% compared to April 2018 and 114.1% compared to May 2017.

In May 2018, the index of real wages reached 100.4% compared to March 2018 and 112.5% compared to April 2017.

In May 2018, the highest wages were observed in the city of Kyiv (UAH 13,286.00), Donetsk oblast (UAH 10,166.00) and Kyiv oblast (UAH 8,783.00). The lowest wages were registered in Ternopil oblast (UAH 6,870.00) and Chernivtsi oblast (UAH 6,775.00) again.

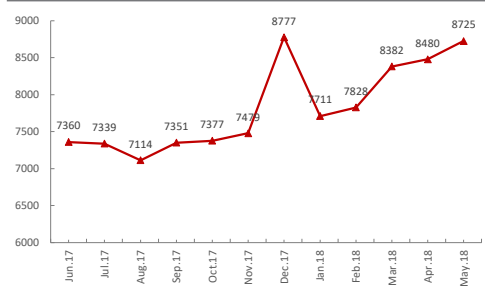
The highest average wages were registered among those employed in finances and insurance (UAH 15,639.00) and also among those employed in information and communications sector (UAH 13,939.00).

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

At a scheduled tender for primary placement of internal government bonds, held on 03 July, the Ministry of Finance of Ukraine offered three types of medium-term internal government bonds maturing in eighteen months, two years and three years. Same as at previous tenders, bonds with such maturity periods did not enjoy any serious demand.

Three bids for the total of UAH 81.7 million were submitted for purchasing bonds maturing in eighteen months. The requested interest rates stood at 16.50% per annum. The Ministry of Finance rejected all bids submitted, because it was unwilling to raise the costs of borrowing.

Only one market participant was prepared to purchase bonds maturing in two years for the total of UAH 50.0 million. The requested interest rates stood at 16.45% per annum. The Ministry of Finance rejected this bid as well.

Three bids for the total of UAH 250.8 million were submitted for purchasing bonds maturing in three years. The Ministry of Finance satisfied only two bids for the total of UAH 200.0 million requesting an interest rate of 16.15% per annum and rejected one bid for the total of UAH 50.0 million requesting an interest rate of 16.40% per annum.

As a result of the above-mentioned tender held on 03 July, the Ministry of Finance managed to raise UAH 0.2 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding internal government bonds shrank UAH 1.3 billion and, as of 06 July 2018, totaled UAH 743.5 billion (according to the total principal).

NBU OPERATIONS

During the previous week, the country registered that banks were much more active at tenders of the National Bank of Ukraine to place deposit certificates. Over the previous week, banks purchased NBU deposit certificates for the total of UAH 100.1 billion, including overnight certificates of deposit for the total of UAH 53.9 billion.

On Tuesday, 03 July, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 17.4 billion. On Friday, 06 July, the total sum of placement reached UAH 28.8 billion.

The interest rate for overnight certificates of deposit stood at 15.00% per annum. The earning rate for deposit certificates maturing in fourteen days landed at 17.00% per annum.

At a scheduled NBU quantity tender announced on 06 July to support liquidity of banks, one bid of a bank for the total of UAH 370.0 million was satisfied. The interest rate reached 19.00% per annum, and the resources were provided for the period of fourteen days.

In the course of the previous week, one bank used the standing NBU refinancing line (overnight loans) for the total of UAH 5.0 million, and the interest rate stood at 19.00% per annum.

A positive balance of the State Treasury transactions reached UAH 0.8 billion over 02-06 July.

The banking system liquidity continues to be high and is traditionally concentrated in NBU deposit certificates and on correspondent accounts of banks with the National Bank.

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
03 July	1064 days	16.15%	3/2	206.00

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	350.3	0.0	0.0	-2.8
Banks	357.9	0.0	1.0	-0.8
Legal entities	22.1	-5.9	-10.9	-0.4
Private individ.	3.2	-0.8	7.3	116.8
Non-residents	10.0	0.5	-6.9	92.5

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	46.9	1.2	-4.0	25.1
NBU refinancing	O/N UAH billions	0.0	0.0	0.0
	Total, UAH billions	51.8	-0.1	-0.8
NBU deposit certificates	O/N, UAH billions	17.5	64.1	59.6
	Total, UAH billions	63.7	0.7	-2.7

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The interbank lending market continues to register no changes. The cost of overnight resources was registered at 14.00-16.00% per annum. Rates for weekly and monthly loans showed practically no difference and stood at the same level.

FOREIGN EXCHANGE MARKET

The beginning of July turned out to be a little stressed on the foreign exchange market. Foreign exchange supply on the interbank foreign exchange market dropped a little due to the deteriorating situation with prices for Ukrainian goods on global markets and, respectively, shrinking export proceeds. Foreign exchange demand outpacing supply resulted in a short-term depreciation of the national currency exchange rate. By the end of the previous week, the situation stabilized with the help of the regulator, and on Friday, 06 July, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.3160/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.20-26.30/USD on Monday, 02 July, UAH 26.27-26.35/USD on Tuesday, 03 July, UAH 26.37-26.47/USD on Wednesday, 04 July, UAH 26.37-26.50/USD on Thursday, 05 July, and UAH 26.28-26.36/USD on Friday, 06 July. The maximum foreign exchange sales volumes were registered on Thursday, 05 July: USD 260.9 million (all currencies), including sales of the American currency alone for the total of USD 221.2 million.

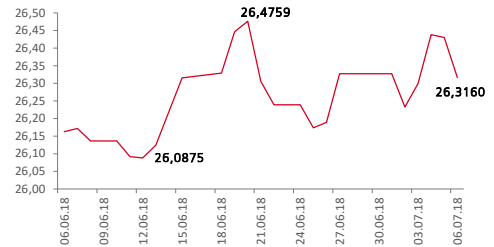
The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.2 billion over 02-06 July.

COMMODITY MARKETS

During the previous week, petroleum prices registered a fall, which accelerated by the end of the previous week in connection with the data of the United States Department of Energy regarding petroleum inventories. According to this data, petroleum inventories grew 1.245 million barrels over the previous week, whereas experts forecast them to drop 5.0 million barrels.

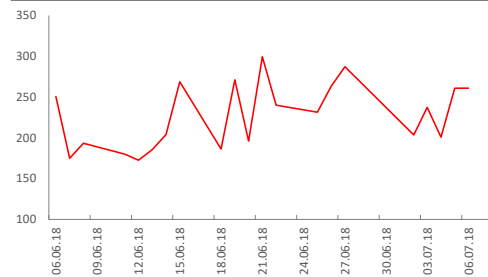
In June 2018, Saudi Arabia increased crude output 458,000 barrels per day up to 10.488 million barrels per day in response to the current situation with a shortage of deliveries. Iran started negotiations with countries that are consumers of its crude for the purpose of organizing barter deliveries in order to escape shrinking exports because of the American sanctions. However, not all suppliers will be prepared to use such a scheme. South Korea has already refused to purchase crude in Iran in July.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	187.0	-0.3	-5.3	4.2
Brent crude, USD/barrel	77.1	-2.7	2.9	19.1
WTI crude, USD/barrel	73.8	-0.5	14.1	24.2
Gold, USD/ounce	1255.4	0.4	-3.4	-2.8

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018
GDP. %	-9.8	2.3	2.5	3.1 (first quarter)
Industrial output. %	-13.4	2.4	-0.1	2.9 (May)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.9 (June)
Producer price growth. % year-on-year	25.4	35.7	16.5	16.5 (May)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	0.3 (May, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	0.0 (May, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-2.9 (January-May, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	18.0 (June, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	116.3 (first quarter)
Banking system assets. % of growth	4.7	0.2	6.4	-1.8 (May)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	26.33 (June)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	26.75 (January-June)

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
UX Index	The Ukrainian Equities Index is an indicator calculated by the Ukrainian 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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