

# Financial markets survey

06 August 2018

## MARKETS FEEL THE PRESSURE

WEEKLY ISSUE

**China is threatening the US with countersanctions**  
**The State Budget continues to register a deficit**  
**The Hryvnia is depreciating**

### GLOBAL MARKET

During the previous week, American stock indices traded without any dynamics whatsoever. However, they demonstrated growth by closing time on a daily basis. Investors focused their attention on the ongoing season of corporate reports, as well as on new statements of the US government regarding duties on imported Chinese goods.

US Trade Representative Robert Lighthizer confirmed that US President Donald Trump was considering the possibility of introducing higher duties on Chinese goods for the total of USD 200.0 billion – at the rate of 25.00% instead of the earlier planned 10.00%. There are fears that the trade war between the US and China can undermine growth of global economy.

Based on the results of its meeting over 31 July – 1 August, the US Federal Reserve System (FRS) made a decision to keep the federal funds rate at 1.75-2.00% per annum. The FRS forecast for 2018 provides for two more increases of the federal funds rate. Three increases are scheduled for 2019, and one more increase is expected in 2020.

Information received after the June meeting of the Federal Open Market Committee indicates that the labor market continues growing stronger and business activity is picking up at a rapid pace. However, the expected statistical data on the US labor market turned out to be ambiguous: the number of jobs outside the agricultural sector did not meet the expectations, although the rate of unemployment confirmed the expected decline down to 3.9% in June. In addition, the market ignored weaker indicators of business activity indices in services and in non-manufacturing sector in the US.

European stock indicators demonstrated a positive dynamics over the previous week. Investors preferred not to notice business activity indices in services and retail sales in the European Union, which were published during the previous week and turned out to be worse than forecast.

In the course of the previous week, the US Dollar was demonstrating an upturn against most currencies of developed and developing countries. During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1558-1.1745/EUR. On Friday, 03 August, trading closed at USD 1.1588/EUR.

### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1588	-0.3	-0.7	-3.4
GBP/USD	1.3001	-0.8	-1.5	-3.8
USD/RUB	63.1358	0.3	0.0	9.6
USD/UAH	27.0927	1.2	3.0	-3.5

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2840.4	0.8	4.7	6.2
FTSE 100 (UK)	7659.1	-0.5	0.9	-0.4
MXME (East. Eur.)	159.9	-0.1	2.3	-3.5
UX (Ukraine)	1552.8	0.0	-2.7	13.9
RTS (Russia)	1145.1	-0.6	-0.2	-0.8

Source: Bloomberg

### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.827	0.2	2.0	34.2
FRS, % per annum	2.000	0.0	0.0	30.0
ECB, % per annum	0.000	0.0	0.0	0.0
NBU, % per annum	17.500	0.0	2.9	20.7
CB RF, % per annum	7.250	0.0	0.0	-6.5

Source: Bloomberg

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## MACROECONOMICS

### Balance of payments

In June 2018, deficit of Ukraine's current account reached USD 125.0 million or 1.2% of GDP against a surplus of USD 23.0 million or 0.3% of GDP registered in June 2017.

In June 2018, Ukraine registered an increase in both exports of goods – 11.5% (13.5% in May) and imports of goods – 9.9% (16.1% in May).

Over January-June 2018, the country's current account deficit totaled USD 613.0 million or 1.1% of GDP compared to USD 285.0 million or 0.6% of GDP registered over the same period in 2017.

Exports of goods reached USD 3.4 billion in June 2018. Exports grew thanks to rising exports of ferrous and non-ferrous metals (+35.2%), chemical products (+22.6%), wood and timber (+18.6%), and mineral products, including ores (+11.5%). At the same time, exports of food products (including grain) inched down 0.4%.

Over January-June 2018, exports to the EU countries grew the most in nominal terms (USD 1.2 billion or 17.5%). The share of the EU countries in total exports landed at 36.6% (34.8% over January-June 2017). Exports to Asian countries grew USD 630.0 million or 10.4%, whereas the share of Asian countries in total exports shrank to 31.6% (31.9% over January-June 2017). Exports to Russia dropped USD 127.0 million, while the Russian share in total exports stood at 7.2% (8.7% over January-June 2017).

Imports of goods landed at USD 4.3 billion in June 2018. Energy imports grew 32.7%, mainly thanks to imports of petroleum products. At the same time, non-energy imports grew a mere 3.2% thanks to imports of food products rising 22.5%, manufactured goods – 3.4%, ferrous and non-ferrous metals – 1.4%. Imports of machine-building products inched down 0.1%, while imports of chemical products dropped 1.9%.

Over January-June 2018, imports from the EU countries grew the most in nominal terms (USD 1.0 billion or 12.3%). The share of the EU countries in total imports shrank to 36.9%. Imports from Asian countries and Russia grew USD 823.0 million or 18.4% and USD 764.0 million or 25.7% respectively. The share of Asian imports in total imports grew to 20.8%, while the share of imports from Russia rose to 14.6%.

Net lending resources provided from abroad reached USD 125.0 million in June 2018, while the same indicator was registered at USD 24.0 million in June 2017.

Net inflows under the financial account landed at USD 148.0 million in June 2018 against USD 282.0 million registered in June 2017 and were mainly the result of inflows under private sector transactions.

Net inflows of foreign direct investment in June 2018 were estimated at USD 462.0 million, while 67.0% of them accounted for transforming banking sector debts into authorized capital.

Surplus of Ukraine's consolidated balance of payments landed at USD 23.0 million in June 2018 (a surplus of USD 306.0 million was registered in June 2017). The IMF debt repayment reached USD 162.0 million.

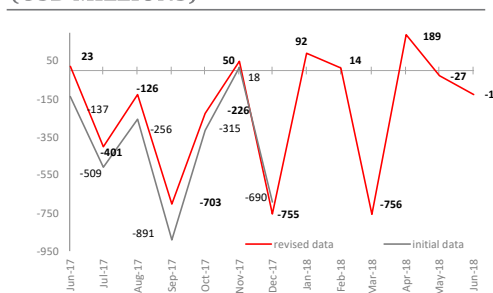
As of 01 July 2018, Ukraine's total stocks of international reserves were registered at USD 18.0 billion.

### LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in June 2018, USD millions	-125.0

Source: the National Bank of Ukraine

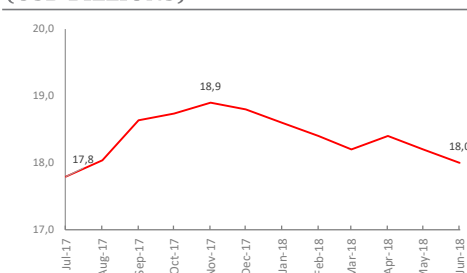
### CURRENT ACCOUNT BALANCE (USD MILLIONS)\*



Source: the National Bank of Ukraine

\* Data for 2017 have been revised in March 2018 with due consideration for mirror statistical data of specific countries regarding private transfers, data for 2018 is being updated on a monthly basis.

### INTERNATIONAL RESERVES (USD BILLIONS)



Source: the National Bank of Ukraine

## BOND MARKET

During the previous week, the Ministry of Finance of Ukraine held two tenders to place internal government bonds: one scheduled tender was held on 31 July and one unscheduled tender was held on 02 August.

At a scheduled tender held on 31 July, the Ministry of Finance of Ukraine placed bonds maturing in six months, satisfying three bids submitted for the total of UAH 1.1 billion (at face-value). The interest rate landed at 18.00% per annum.

Also, three bids for the total of UAH 37.4 million were submitted for purchasing bonds maturing in three years. However, the Ministry of Finance satisfied only two them and rejected one bid requesting 18.00% per annum. The cut-off rate for the above-mentioned bonds landed at 16.82% per annum.

Only one bid for the total of UAH 6.7 million was submitted for purchasing bonds maturing in twelve months. However, it turned out to be uncompetitive.

As a result of the above-mentioned tender held on 31 July, the Ministry of Finance managed to raise UAH 1.0 billion to the State Budget of Ukraine.

On 02 August, the Ministry of Finance placed short-term bonds – those maturing in three and six months. Despite a disastrous shortage of resources, the Ministry of Finance abstained from raising its borrowing rates, leaving them at the level registered during the previous tender.

Eleven bids for the total of USD 2.2 billion were submitted for purchasing bonds maturing in three months. The requested interest rates ranged within the limits of 18.00-18.50% per annum. The Ministry of Finance set the cut-off rate at 18.00% per annum and rejected six bids requesting rates above this level.

Four bids for the total of USD 101.0 million were submitted for purchasing bonds maturing in six months. The requested interest rates ranged within 18.00-18.10% per annum. The Ministry of Finance rejected two bids for the total of UAH 20.0 million. The cut-off rate for this placement also landed at 18.00% per annum.

As a result of the above-mentioned tender held on 02 August, the Ministry of Finance managed to raise UAH 2.2 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding internal government bonds grew UAH 1.5 billion and, as of 03 August 2018, totaled UAH 743.7 billion (according to the total principal).

## NBU OPERATIONS

During the previous week, banks purchased NBU deposit certificates for the total of UAH 66.4 billion, including overnight certificates of deposit for the total of UAH 40.1 billion.

On Tuesday, 31 July, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 16.2 billion, satisfying bids of forty-six banks. On Friday, 03 August, the total sum of placement reached UAH 10.1 billion, and the National Bank satisfied bids of thirty-eight banks.

The interest rate for overnight certificates of deposit stood at 15.50% per annum. The earning rate for deposit certificates maturing in fourteen days landed at 17.50% per annum.

At a scheduled NBU quantity tender announced on 03 August to support liquidity of banks for the period of fourteen days, one bid of a bank for the total of UAH 370.0 million was satisfied. The interest rate reached 19.50% per annum. In the course of the previous week, banks did not use the standing NBU refinancing line (overnight loans).

The banking system liquidity went slightly down, but continues to be rather high and is distributed between correspondent accounts of banks with the National Bank and 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
31 July	182 days	18.00%	3/3	1002.11
31 July	1036 days	16.82%	3/2	12.73
02 Aug.	96 days	18.00%	11/5	2038.95
02 Aug.	187 days	18.00%	4/2	74.16

Source: the Ministry of Finance of Ukraine

## OWNERS OF INTERNAL GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	349.4	-0.3	-0.3	-3.1
Banks	359.0	0.6	0.1	-0.5
Legal entities	22.5	1.6	-2.9	1.2
Private individ.	4.0	3.3	25.5	175.6
Non-residents	8.8	0.3	-12.5	68.4

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		44.7	-11.9	-5.7	19.2
NBU refi- nancing	O/N UAH billions	0.0	0.0	0.0	0.0
	Total, UAH billions	51.8	-0.1	-0.2	-16.2
NBU deposit certi- ficates	O/N, UAH billions	7.9	60.9	-26.4	-53.9
	Total, UAH billions	58.1	-5.4	-8.2	-0.1

Source: the National Bank of Ukraine

## INTERBANK LENDING MARKET

The interbank lending market continues demonstrating stability. Rates for overnight resources, as well as weekly and monthly loans on the interbank lending market remained unchanged and are ranging within the limits of 14.50-16.50% per annum.

## FOREIGN EXCHANGE MARKET

On 1 August, changes to the National Bank's methods for calculating and making public the official exchange rate of the Hryvnia against the US Dollar came into force. From now on, the exchange rate is calculated using the information on all US Dollar purchase and sale transactions on TOD, TOM and SPOT terms, which were carried out by banks with other banks and the National Bank on the interbank foreign exchange market on the day when the official exchange rate is calculated.

Also, starting from 1 August, the National Bank cancelled the requirement for banks to provide mandatory confirmation of all foreign exchange purchase and sale transactions on the interbank foreign exchange market in the transaction confirmation system (ValKli) and stopped publishing updates on the interbank foreign exchange market standing.

Exchange rate fluctuations witnessed during the previous week were caused by a number of reasons. In particular, these reasons include active transfer of corporate dividends abroad and non-residents' withdrawal from internal government bonds. The exchange rate dynamics was also influenced by significant VAT refunds at the end of the month, which had a negative impact on free sale, as well as growing demand on cash foreign exchange, in particular, on the part of the agrarian sector due to the beginning of the harvesting season. Trying to stabilize the situation and keep the Hryvnia from further depreciation, the National Bank was an active participant in the interbank foreign exchange market. As a result, on Friday, 03 August, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.0927/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.72-26.78/USD on Monday, 30 July, UAH 26.82-26.92/USD on Tuesday, 31 July, UAH 26.92-26.99/USD on Wednesday, 01 August, UAH 26.97-27.05/USD on Thursday, 02 August, and UAH 27.05-27.15/USD on Friday, 03 August.

Over 30 July – 03 August, the National Bank sold USD 240.55 million: USD 60.95 – by way of foreign exchange interventions in the form of matching, USD 1.50 million – by way of foreign exchange interventions in the form of a single exchange rate, USD 178.10 million – by way of foreign exchange tenders (USD 8.1 million on 31 July and the weighted average exchange rate stood at UAH 26.8611/USD, USD 100.0 million on 02 August and the weighted average exchange rate stood at UAH 27.0062/USD, USD 50.0 million on 03 August and the weighted average exchange rate stood at UAH 27.0886/USD).

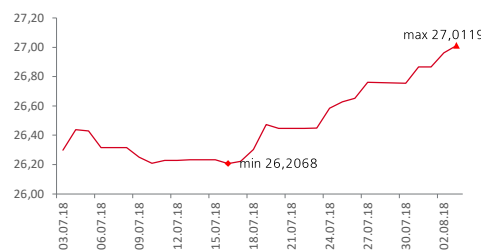
The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.5 billion

## COMMODITY MARKETS

For the entire previous week, petroleum price have been consolidating. However, they finished the week with a fall.

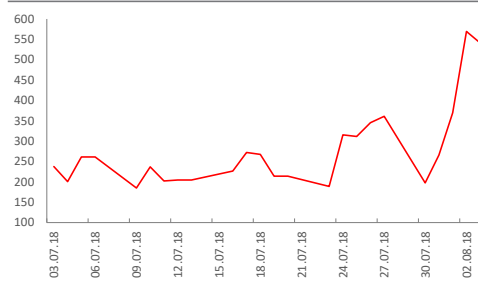
Petroleum prices felt the pressure of information that the list of American goods to be subjected to a 25% import duty in China includes liquefied natural gas, which reinforced the fears regarding Beijing's possible institution of import duties on petroleum. Support to quotations was provided by shrinking numbers of derricks in American petroleum deposits.

## EXCHANGE RATE (UAH/USD)



Source: NBU

## TRADING VOLUMES (MILLIONS USD)



Source: NBU

## COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	200.0	5.8	7.0	11.4
Brent crude, USD/barrel	73.2	-2.1	-5.4	13.7
WTI crude, USD/barrel	68.5	-0.3	-4.3	15.9
Gold, USD/ounce	1216.3	-0.6	-2.8	-5.8

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	2.5 (June)
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	18.4 (June)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	0.0 (June, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-0.1 (June, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-3.8 (January-June, 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	-2.8 (June)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	26.76 (July)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	26.70 (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
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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