

# Financial markets survey

13 August 2018

## TURKISH FEARS

WEEKLY ISSUE

**The trade conflict is picking up speed**  
**Inflation in Ukraine declined to 8.9%**  
**The hryvnia is expecting support**

### GLOBAL MARKET

At the beginning of the previous week, the S&P 500 Index – the key stock index – was close to a historical record-high: strong corporate reports were pushing the index upwards. However, on Wednesday, 8 August, quotations began going down because of new trade sanctions that China and the US are instituting against each other. Later, accelerating depreciation of the Turkish lira and fears that the exchange rate crisis in Turkey can spread to other markets added even more to negative moods.

Starting from 23 August, the volume of Chinese goods exported to the US to be subjected to a 25% import duty will be increased to USD 50.0 billion. Subject to additional sanctions are such goods imported from China as motorcycles, tractors, wireless chips and circuits, engines, and agricultural equipment. In response, China announced about mirror measures: China will institute a 25% import duty on American goods exported to China for the total of USD 16 billion also starting from 23 August. China's list of goods to be subjected to a higher import duty includes coal, petroleum, chemical products, and some types of medical equipment.

Statistical data published on Friday, pointed to stronger core inflation in the US. The Consumer Price Index in the US inched up 0.2% in July 2018 compared to June 2018 and grew 2.9% compared to July 2017. The Core CPI (excluding energy and food prices) rose 0.2% in July 2018 as compared to June 2018 and 2.4% as compared to July of the previous year. In annual terms, the Core CPI grew record-high for the last five years.

The European Central Bank is concerned about the susceptibility of some large euro-area banks to risks connected with Turkey given the Turkish lira depreciation to a record-low level. Since the beginning of 2018, the lira depreciated more than 38% against the US dollar. On Friday, 10 August, the lira exchange rate fell 13.5%.

Given such a background, the US dollar set new annual record-highs against the euro, while yields of the US Treasuries went down.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1412-1.1628/EUR. On Friday, 10 August, trading closed at USD 1.1456/EUR.

### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1456	-1.1	-2.2	-4.5
GBP/USD	1.2758	-1.9	-3.9	-5.6
USD/RUB	66.2856	5.0	5.5	15.1
USD/UAH	27.2456	0.6	4.0	-2.9

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2833.3	-0.2	1.4	6.0
FTSE 100 (UK)	7667.0	0.1	-0.3	-0.3
MXME (East. Eur.)	150.4	-6.0	-7.6	-9.2
PFTS (Ukraine)*	507.0	-1.0	4.0	60.9
RTS (Russia)	1056.9	-7.7	-12.1	-8.4

Source: Bloomberg

### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.816	-0.4	1.2	33.6
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

### Inflation

According to information of the State Statistics Service, consumer prices went down 0.7% in July 2018 compared to the previous month. Since the beginning of the current year, consumer prices rose 3.6%. Consumer inflation landed at 8.9% in July 2018 compared to July 2017.

In July 2018, core inflation landed at -0.1% compared to the previous month and at 3.4% 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 1.9% in July. Prices for vegetables (-12.4%) and fruits (-11.1%), as well as eggs (-7.6%) dropped the most. Prices for milk and dairy products, lard, butter, and pork went down 0.2-1.1%. At the same time, the country registered prices for sugar, products made from grain crops, bread, rice, poultry, pasta, fish and fish products growing 0.7-1.9%.

Prices for alcoholic beverages and tobacco products grew 1.8% over the previous month, including 2.6% for tobacco products and 0.8% for alcoholic beverages.

Transport prices went up 0.7% over the previous month in connection with fare for passenger rail transportation growing 3.6%. At the same time, prices for petroleum, oils and lubricants inched down 0.3%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel went up 0.5% in July, which was mainly the result of higher rates for maintenance of houses and adjoining territories (+4.2%), sewage (+2.8%) and water supply (+2.2%).

Expenses on communication services inched down 0.2% over the previous month. Prices in hotels and restaurants grew 1.0%. Prices for various goods and services also went up 0.8%, while prices for education services, same as expenses on rest and cultural services, increased 0.2%.

In July 2018, producer prices grew 1.6% compared to the previous month. In annual terms, inflation of producer prices slowed down a little and landed at 18.1%.

Producer prices grew at a more rapid pace in July 2018 due to growing prices in mining industry (+0.9%) and in deliveries of electric energy, gas and vapor (+5.8%). At the same time, prices in processing industry inched down 0.2% in July 2018.

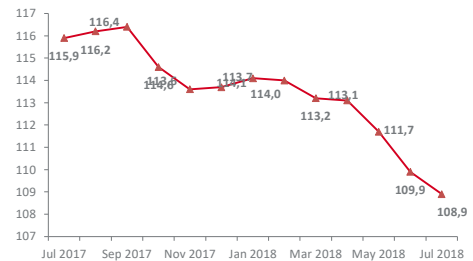
Prices in the production of iron ores rose 1.1% in July 2018. Prices in the production of crude oil and natural gas inched up 0.5%. Prices in black coal production declined 0.3%.

In July 2018, the country registered prices in key pharmaceuticals and pharmaceutical products growing 0.5%, machine-building – 0.6%, chemicals and chemical products – 0.5%, wood and timber products, paper products and printing industry – 0.8%.

Prices in food products, beverages and tobacco products registered no changes in July 2018 compared to June 2018.

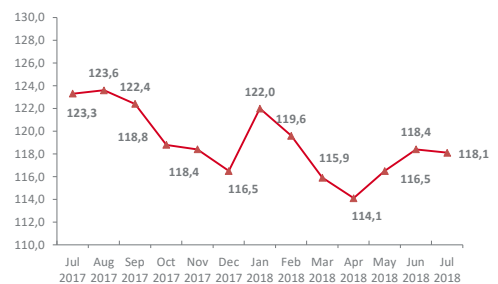
In July 2018, the country registered shrinking prices in coke production and oil refining (-2.7%) and in steel industry (-0.5%).

### 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

During the previous week, the Ministry of Finance of Ukraine held two tenders to place internal government bonds again – on 7 and 9 August. The Ministry of Finance satisfied almost all bids submitted at these tenders both for purchasing bonds denominated in hryvnia and for purchasing bonds denominated in foreign currencies.

At a scheduled tender held on 7 August, the main resources to the State Budget were raised from placing short-term bonds denominated in hryvnia, as well as bonds denominated in US dollars (maturing in three and seven months) and bonds denominated in euro and maturing in 77 days.

Rates for placing bonds denominated in hryvnia and maturing in three and six months remained at the level of previous tenders – 18.00% per annum, while the cut-off rate for bonds maturing in twelve months was raised to 17.90% per annum. The need to make payments under the country's external national debt contributed to higher rates for bonds denominated in foreign currencies: the cut-off rates were raised to 5.55% per annum for bonds maturing in three months and to 5.95% per annum for bonds maturing in seven months. The cut-off rate for bonds denominated in euro was established at 4.50% per annum. Earlier, the Ministry of Finance had already placed bonds denominated in euro at such a rate, but for a longer period of time.

At a scheduled tender held on 9 August, the Ministry of Finance placed more bonds denominated in hryvnia and maturing in three months, satisfying two submitted bids in full (the cut-off rate landed at the already habitual 18.00% per annum), as well as bonds denominated in US dollars and maturing in seven months. Same as at the previous tender, the cut-off rate reached 5.95% per annum, while one bid for the total of USD 5.0 million and requesting 6.50% per annum was rejected.

As a result of the tender held on 7 August, the Ministry of Finance managed to raise UAH 10.0 billion to the State Budget of Ukraine (according to the NBU exchange rate). As a result of the tender held on 9 August, the Ministry of Finance managed to raise UAH 2.6 billion to the State Budget of Ukraine (according to the NBU exchange rate).

Over the previous week, the volume of outstanding internal government bonds grew UAH 11.9 billion and, as of 10 August 2018, totaled UAH 755.6 billion (according to the total principal).

## NBU OPERATIONS

During the previous week, participants in NBU tenders purchased NBU deposit certificates for the total of UAH 57.0 billion, including overnight certificates of deposit for the total of UAH 44.3 billion. A relatively low activity of banks is explained by the fact that there is a more attractive instrument on the market – short-term internal government bonds denominated in hryvnia.

On Tuesday, 7 August, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 4.9 billion. On Friday, 10 August, the total sum of placement reached UAH 7.9 billion.

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.

A scheduled NBU quantity tender announced on 10 August to support liquidity of banks failed to take place. In the course of the previous week, banks did not use the standing NBU refinancing line (overnight loans).

The banking system liquidity continues to be rather 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
07 Aug.	91 days	18.00%	7/7	1745.48
07 Aug.	175 days	18.00%	4/4	1038.09
07 Aug.	329 days	17.80%	8/7	11.75
07 Aug.	672 days	16.80%	3/3	1.73
07 Aug.	105 days, denom USD	5.52%	16/16	130.78*
07 Aug.	203 days, denom USD	5.89%	9/9	56.46*
07 Aug.	77 days, denom EUR	4.39%	10/10	69.01**
09 Aug.	89 days.	18.00%	2/2	959.34
09 Aug.	201 days, denom USD	5.95%	6/5	59.15*

\* - USD millions, \*\* - EUR millions

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	0.0	-0.3	-3.1
Banks	371.5	3.5	4.1	3.0
Legal entities	22.6	0.5	1.9	1.7
Private individ.	4.2	4.1	24.4	186.9
Non-residents	7.9	-9.8	-21.0	51.8

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	54.9	22.8	37.6	46.4
NBU refinancing	O/N UAH billions	0.0	0.0	0.0
	Total, UAH billions	51.7	0.0	-0.2
NBU deposit certificates	O/N, UAH billions	3.1	-61.2	-82.6
	Total, UAH billions	42.1	-27.5	-34.0

Source: the National Bank of Ukraine

### INTERBANK LENDING MARKET

The interbank lending market registered no changes. 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

The situation on the foreign exchange market continues to be rather strained. The hryvnia started the previous week with appreciation and managed to stay several days in the upward trend. However, by the end of the previous week, the hryvnia depreciated sharply again.

Internal factors, such as increased demand on the part of importers and non-residents who have withdrawn from internal government bonds, were not the most important in the course of the previous week. The main pressure on the hryvnia exchange rate against the US dollar was the result of external factors – appreciation of the US dollar against the key global currencies and currencies of developing countries along with global problems in Turkey and Russia. In this situation, holders of foreign exchange were not in a hurry to release foreign exchange in free sale, while importers tried to minimize their risks buying the highest possible amounts to pay their contracts. This misbalanced foreign exchange demand and supply at the end of the previous week. On Friday, 10 August, thanks to the regulator's participation, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.2456/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.06-27.16/USD on Monday, 6 August, UAH 26.97-27.07/USD on Tuesday, 7 August, UAH 26.92-27.05/USD on Wednesday, 8 August, UAH 27.05-27.20/USD on Thursday, 9 August, and UAH 27.20-27.40/USD on Friday, 10 August. The maximum foreign exchange sales volumes were registered on Thursday, 9 August: USD 413.6 million (all currencies), including sales of the American currency alone for the total of USD 319.8 million.

Over 6-10 August, the National Bank sold USD 71.05 million by way of foreign exchange interventions in the form of matching.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.2 billion.

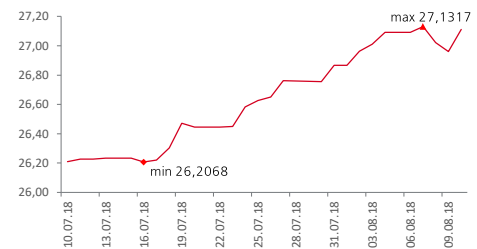
### COMMODITY MARKETS

Prices for benchmark crudes demonstrated a positive dynamics. However, they finished one more week in the red due to the prospects of deteriorating relations between the US and China.

The OPEC downgraded its forecast for growth of petroleum demand in 2018 by 20,000 barrels per day. This estimate was downgraded mainly due to lower than expected consumption in Latin-American countries and the Middle East countries.

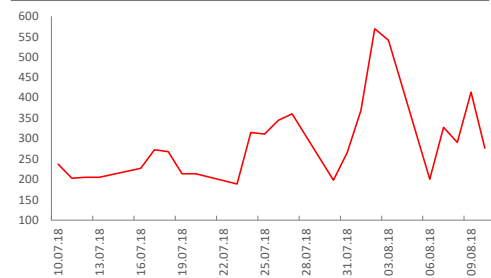
In July 2018, the OPEC, including its new member-country – the Republic of the Congo, increased petroleum output 40,700 barrels per day to 32.32 million barrels per day. Kuwait was the main OPEC member-country to provide for growing crude output at 79,000 barrels per day. Nigeria took the second place, increasing its output 71,000 barrels per day. The United Arab Emirates scored the third place, registering growth at 69,000 barrels per day. At the same time, crude production declined in Libya and Iran (-56,000 barrels per day each), Venezuela (-48,000 barrels per day), as well as Saudi Arabia (-53,700 barrels per day).

### NBU EXCHANGE RATE (UAH/USD)



Source: NBU

### TRADING VOLUMES (USD MILLIONS)



Source: NBU

### COMMODITY MARKETS

Commodity	last	week ch., %	mon. ch., %	YTD, %
Wheat, USD/ton	207.5	3.8	13.4	15.6
Brent crude, USD/barrel	72.8	-0.5	-7.4	13.1
WTI crude, USD/barrel	67.6	-1.3	-6.8	14.5
Gold, USD/ounce	1214.4	-0.2	-3.2	-5.9

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	8.9 (July)
Producer price growth. % year-on-year	25.4	35.7	16.5	18.1 (July)
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 - * Trading on the Ukrainian Exchange was suspended because its software does not meet licensing requirements
PFTS *	PFTS is a Ukrainian stock index, which is calculated daily based on the results of trading at the PFT stock exchange.
RTS	ГRTSIS 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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