

Financial markets survey

17 September 2018

OPTIMISTIC, BUT CAREFUL

WEEKLY ISSUE

Positive signals for developing markets
Wages continue growing
Freely circulating hryvnia is shrinking

GLOBAL MARKET

During the previous week, the US markets demonstrated positive dynamics – investors were inspired by a statement saying that the US was prepared for carry out negotiations with China one more time in order to avoid the institution of increased import duties. Market participants also were evaluating decisions of the European Central Bank and central banks of some other countries, as well as statistical data published in the US.

The S&P 500 Index closed trading with a symbolic growth on Friday, 14 September. However, it did not manage to break the August record-high.

Retail sales in the US inched up 0.1% in August 2018 compared to July, which was a record-slow pace for the last six months, given shrinking demand for vehicles and clothes.

In August, industrial output in the US outpaced forecasts and grew 0.4% compared to the previous months. Analysts expected this indicator to rise 0.3%.

The Producer Price Index in the US inched down 0.1% in August compared to the previous month. This is the first drop of this indicator over the last eighteen months – since February 2017.

The Consumer Confidence Index in the US grew to 100.8 points in September 2018, which is a record-high for the last six months.

After the ECB meeting, monetary policy parameters remained in compliance with earlier statements. ECB President Mario Draghi mentioned growing risks connected with protectionism and developing markets.

The Bank of England refrained from changing the base interest rate, leaving it at 0.75% per annum based on the results of its September meeting.

Following the results of its meeting on 13 September, the Central Bank of the Republic of Turkey raised the interest rate from 17.75% per annum to 24.00% per annum, whereas markets expected 22.00% per annum. This measure resulted in rapid appreciation of the Turkish lira and currencies of other developing countries against the US dollar.

During the previous week, trading in the “EUR/USD” pair ranged within the limits of USD 1.1524-1.1721/EUR. On Friday, 14 September, trading closed at USD 1.1689/EUR.

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EXCHANGE RATES

| Foreign currency | last | week ch.. % | mon. ch.. % | YTD. % |
|------------------|---------|-------------|-------------|--------|
| EUR/USD | 1.1689 | 0.6 | 2.5 | -2.5 |
| GBP/USD | 1.3068 | 1.1 | 2.7 | -3.3 |
| USD/RUB | 68.6370 | 0.6 | 0.6 | 19.2 |
| USD/UAH | 28.1521 | -0.4 | 2.5 | 0.3 |

Source: Bloomberg

STOCK MARKETS

| Index | last | week ch.. % | mon. ch.. % | YTD. % |
|-------------------|--------|-------------|-------------|--------|
| S&P 500 (US) | 2905.0 | 1.2 | 2.3 | 8.7 |
| FTSE 100 (UK) | 7304.0 | 0.4 | -4.0 | -5.0 |
| MXME (East. Eur.) | 153.6 | 2.8 | 1.3 | -7.2 |
| UX (Ukraine) | 531.3 | 0.4 | 4.7 | 68.6 |
| RTS (Russia) | 1094.7 | 4.2 | 1.2 | -5.2 |

Source: Bloomberg

KEY RATES

| Ставка | last | week ch.. % | mon. ch.. % | YTD. % |
|-----------------------|--------|-------------|-------------|--------|
| Libor 1Y, % per annum | 2.880 | 1.2 | 2.4 | 36.7 |
| 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 | 18.000 | 0.0 | 2.9 | 24.1 |
| CB RF, % per annum | 7.500 | 3.4 | 3.4 | -3.2 |

Source: Bloomberg

MACROECONOMICS

Inflation (producer prices)

In August 2018, producer prices grew 1.3% compared to the previous month. In annual terms, inflation of producer prices accelerated and landed at 19.3%.

In August, producer prices grew in mining industry (+0.2%), in processing industry (+1.6%) and in deliveries of electric energy, gas and vapor (+1.2%).

Prices in black coal production rose 2.6% in August 2018. Prices in the production of crude oil and natural gas inched up 0.6%. At the same time, prices in the production of iron ores shrank 1.1%.

In August 2018, the country registered prices in coke production and oil refining growing 7.7%, in food products, beverages and tobacco products – 1.4%, in machine-building – 1.2%, in steel industry – 0.9%, in wood and timber products, paper products and printing industry – 1.5%, in chemicals and chemical products – 0.8%, in key pharmaceuticals and pharmaceutical products – 0.4%.

Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 9,170.00 in July 2018, which constitutes approximately 250.0% of the minimum wage (UAH 3,723.00).

The average nominal wage was registered at 100.3% compared to June 2018 and at 124.9% compared to July 2017.

In July 2018, the index of real wages reached 101.0% compared to June 2018 and 114.7% compared to July 2017.

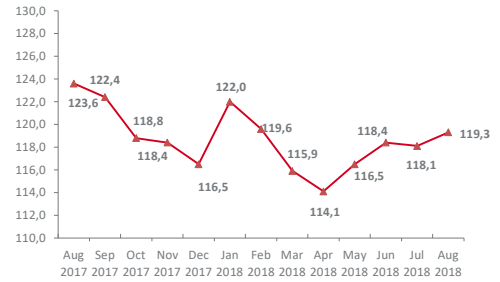
In July 2018, the highest wages were observed in the city of Kyiv (UAH 13,836.00), Donetsk oblast (UAH 9,764.00), Kyiv oblast (UAH 9,410.00), and Dnipropetrovsk oblast (UAH 6,268.00). The lowest wages were registered in Chernivtsi oblast (UAH 7,168.00), Kherson oblast (UAH 7,262.00) and Chernihiv oblast (UAH 7,264.00).

The highest average wages were registered in finance and insurance (UAH 16,147.00), public administration and defense (UAH 14,088.00), as well as in information and telecommunications (UAH 14,058.00).

As of 1 August 2018, total wage arrears were registered at UAH 2,733.6 million or 100.4% compared to total wage arrears registered as of 1 July 2018.

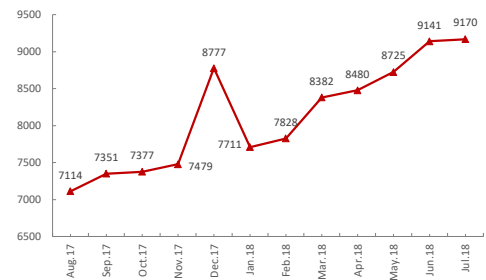
Wage arrears of economically active companies reached UAH 1,564.3 million as of 1 August 2018 (99.9% as compared to 1 July 2018).

PRODUCER 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

After the NBU raised its discount rate, a scheduled tender of the Ministry of Finance for primary placement of internal government bonds held on 11 September predictably registered growing activity of market participants simultaneously with growing rates for hryvnia instruments, which went up 0.50% per annum on the average.

Bonds maturing in 3 months enjoyed the highest demand both in terms of the number of bids and the total sum of bids. 14 bids for the total of UAH 1.8 billion were submitted for purchasing the above-mentioned bonds. The requested interest rates ranged within the limits of 18.50-20.75% p.a. The Ministry of Finance abstained from increasing the cost of raising hryvnia resources too much and set the cut-off rate at 18.50% p.a. All bids requesting higher rates were rejected.

Eight bids for the total of UAH 22.4 million were submitted for purchasing bonds maturing on 27 March 2019. The requested interest rates ranged within the limits of 18.50-18.70% p.a. For this placement, the Ministry of Finance also abstained from raising the cut-off rate above 18.50% p.a. and rejected one bid requesting a higher rate.

Demand for bonds maturing in 12 months also was not high – only 3 bids for the total of UAH 20.5 million. The requested interest rates ranged within the limits of 18.50-19.00% p.a. For this placement, the cut-off rate was also set at 18.50% p.a. As a result, one bid was rejected.

Only one bid for the total of UAH 17.0 million and requesting an interest rate of 17.25% p.a. was submitted for purchasing bonds maturing in three years. However, it was also rejected.

For bonds denominated in foreign currency, the Ministry of Finance did not increase the cost of raising resources at all. 16 bids for the total of USD 4.4 million were submitted for purchasing bonds denominated in US dollars and maturing in nine months. The requested interest rates ranged within the limits of 5.95-6.20% p.a. The Ministry of Finance set the cut-off rate at 5.95% p.a. and satisfied fifteen bids.

Demand for bonds denominated in US dollars and maturing in two years scored thirteen bids for the total of USD 11.3 million. The requested interest rates ranged within the limits of 5.95-6.50% p.a. The cut-off rate remained unchanged compared to the previous placement – at 5.95% p.a. As a result, three bids were rejected.

As a result of the tender held on 11 September, the Ministry of Finance managed to raise UAH 425.3 million to the State Budget of Ukraine (according to the NBU exchange rate).

Over the previous week, the volume of outstanding internal government bonds shrank UAH 2.9 billion and, as of 14 September 2018, totaled UAH 749.7 billion (according to the total principal).

NBU OPERATIONS

Despite increased rates for NBU instruments, banks were rather inactive at NBU tenders for placing deposit certificates in the course of the previous week. Over the previous week, banks purchased NBU deposit certificates for the total of UAH 28.2 billion, including overnight certificates of deposit for the total of UAH 15.4 billion.

On Tuesday, 11 September, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 5.5 billion. On Friday, 14 September, the total sum of placement reached UAH 7.3 billion.

The interest rate for O/N certificates of deposit stood at 16.00% p.a., for deposit certificates maturing in 14 days - at 18.00% p.a.

In the course of the previous week, banks used the standing NBU refinancing line (overnight loans) for the total of UAH 11.8 billion. The interest rate stood at 20.00% p.a.

As before, the banking system liquidity continues to stay at a low level and is 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 |
|-------------------|-----------------------------------|-----------------------|------------------------|----------------------------|
| 11 Sept. | 98 days | 18.50% | 14/8 | 110.46 |
| 11 Sept. | 196 days | 18.50% | 8/7 | 15.33 |
| 11 Sept. | 357 days | 18.50% | 3/2 | 8.85 |
| 11 Sept. | 280 days denom USD | 5.95% | 16/15 | 4.15* |
| 11 Sept. | 679 days denom USD | 5.95% | 13/10 | 6.16* |

* - USD millions

Source: the Ministry of Finance of Ukraine

OWNERS OF INTERNAL GOVERNMENT BONDS

| Owner | last value, UAH billion | week ch.. % | mon. ch.. % | YTD. % |
|------------------|-------------------------|-------------|-------------|--------|
| NBU | 348.1 | 0.0 | -0.4 | -3.5 |
| Banks | 369.5 | -0.8 | -1.4 | 2.4 |
| Legal entities | 20.0 | -0.7 | -12.1 | -9.8 |
| Private individ. | 4.6 | 2.0 | 6.0 | 212.8 |
| Non-residents | 7.5 | 1.2 | -4.6 | 42.9 |

Source: the National Bank of Ukraine

MARKET INDICATORS

| Indicator | last | week ch.. % | mon. ch.. % | YTD. % | |
|----------------------------------|---------------------|-------------|-------------|--------|-------|
| The balance on c/a, UAH billions | 56.6 | 39.1 | 7.7 | 51.1 | |
| NBU refinancing, UAH billions | 55.9 | 5.4 | 8.0 | -9.5 | |
| NBU deposit certificates | O/N, UAH billions | 2.4 | -77.8 | -22.2 | -86.1 |
| | Total, UAH billions | 19.1 | -35.8 | -54.7 | -67.2 |

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

In the environment of reduced banking system liquidity, rates on the interbank lending market grew a little. Currently, rates for overnight, weekly and monthly hryvnia loans are ranging within the limits of 16.00-18.50% per annum.

FOREIGN EXCHANGE MARKET

The previous week was relatively quiet for the Ukrainian hryvnia. The situation on external markets got stabilized. Also, the arrival of the IMF Mission to Ukraine had a positive impact on the exchange rate. After all, the psychological component does play an important part in the foreign exchange market behavior. In the course of the previous week, the hryvnia demonstrated an appreciating trend and, on Friday, 14 September, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 28.1521/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.13-28.27/USD on Monday, 10 September, UAH 28.06-28.17/USD on Tuesday, 11 September, UAH 28.00-28.10/USD on Wednesday, 12 September, UAH 28.05-28.20/USD on Thursday, 13 September, and UAH 28.05-28.18/USD on Friday, 14 September.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.0 billion.

Over 10-14 September, the National Bank purchased USD 62.0 million by way of foreign exchange interventions in the form of matching.

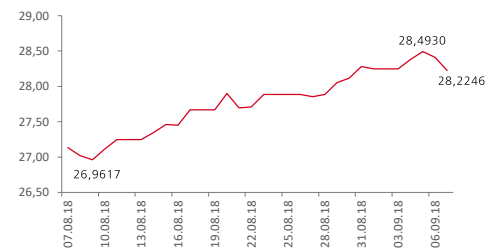
COMMODITY MARKETS

Prices for benchmark crudes demonstrated multidirectional changes in the course of trading during the previous week. However, they registered a moderate growth by the end of the previous week.

As before, the market is driven by contradictory expectations: shrinking petroleum deliveries from Iran and Venezuela, growing crude output in Saudi Arabia, Russia and the US, as well as risks of weakening demand across the world on the whole, especially in developing countries.

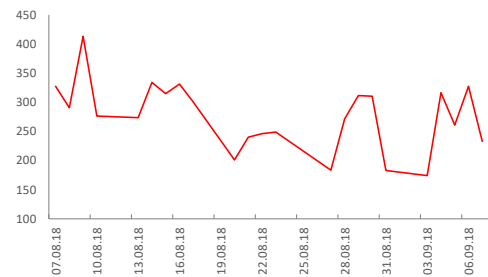
The US, Canada, Kazakhstan, the UK, and Brazil will remain the main growth drivers, while Mexico and Norway will demonstrate the deepest fall.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

| Commodity | last | week ch. % | mon. ch. % | YTD. % |
|-------------------------|--------|------------|------------|--------|
| Wheat. USD/ton | 202.0 | 0.0 | -2.7 | 12.5 |
| Brent crude. USD/barrel | 78.1 | 1.6 | 7.3 | 22.0 |
| WTI crude. USD/barrel | 69.0 | 1.8 | 4.0 | 17.5 |
| Gold. USD/ounce | 1202.0 | 0.3 | 0.4 | -6.9 |

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

| Indicator | 2015 | 2016 | 2017 | 2018 |
|--|-------|------------------------|-------------------------|--|
| GDP. % | -9.8 | 2.3 | 2.5 | 3.6 (second quarter) |
| Industrial output. % | -13.4 | 2.4 | -0.1 | 2.3 (July) |
| Consumer price growth. % year-on-year | 43.3 | 12.4 | 13.7 | 9.0 (August) |
| Producer price growth. % year-on-year | 25.4 | 35.7 | 16.5 | 19.3 (August) |
| Balance of payments (consolidated). USD billions | 0.8 | 1.3 | 2.6 | -0.2 (July, preliminary estimate) |
| Current account balance. USD billions | -0.2 | -1.3 (revised data) | -2.1 (revised data) | -1.1 (July, preliminary estimate) |
| Balance of trade. USD billions | -1.7 | -6.5 (revised data) | -8.61 (revised data) | -5.5 (January-July, preliminary estimate) |
| International reserves. USD billions | 13.3 | 15.5 | 18.8 | 17.2 (August, 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 | -1.4 (July) |
| Exchange rate. by year end. UAH/USD | 24.00 | 27.19 | 28.07 | 28.25 (August) |
| Exchange rate. annual average. UAH/USD | 21.85 | 25.55 | 26.60 | 26.80 (January-August) |

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 | FRTSIS 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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