

# Financial markets survey

16 October 2018

## INVESTORS ARE WAITING FOR SIGNALS

WEEKLY ISSUE

**The risk of adjustment has escalated**  
**Consumer prices are growing**  
**The Ministry of Finance is getting ready for payoffs**

### GLOBAL MARKET

The previous week ended on a negative note for the US market and other global platforms. Volatility returned to markets. The peak of sales was on Wednesday and Thursday, 10 and 11 October. Notwithstanding sharp growth of quotations on Friday, 12 October, the key American stock indices finished the previous week with the most significant fall since March 2018.

Investors channeled their attention to the situation on the US Treasuries market, since growth of interest rates for the US Treasuries is considered to be the catalyst of the recent stock market fall. During the previous week, the earning rate for the US Treasuries maturing in ten years rose record-high for the last seven years – to 3.26% per annum. Interest rates for short-term issues are on the level of 2008, which was the crisis year.

Higher interest rates for the US Treasuries mean that market interest rates will increase and financial conditions will get tougher. Mortgage rates are also growing along with the US Treasuries interest rates, which has already had a negative impact on the American real estate market. In its report for the third quarter of 2018, Wells Fargo, the leader on the US mortgage market, indicated that mortgage applications fell 22% compared to the second quarter and are now record-low since the financial crisis in 2008.

US President Donald Trump threatened with new duties on Chinese imports, accusing China of annually stealing US 500.0 billion from the US. President Trump stated that it seemed that China was not prepared for a deal with the US so far.

The International Monetary Fund (IMF) reported that the consequences of trade wars would find their reflection in global economy during the next year. Estimate of global GDP growth for 2018 and 2019 was downgraded from 3.9% to 3.7%.

Over the previous weekend, the UK and the EU did not manage to reach a principal agreement on Brexit conditions. The prospects of further negotiations between the parties continue to stay vague.

During the previous week, trading in the “EUR/USD” pair ranged within the limits of USD 1.1429-1.1610/EUR. On Friday, 12 October, trading closed at USD 1.1574/EUR.

### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1574	0.6	-0.1	-3.5
GBP/USD	1.3153	0.3	0.8	-2.7
USD/RUB	66.7727	0.8	-4.6	15.9
USD/UAH	27.9282	-0.6	-0.3	-0.5

Source: Bloomberg

### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2,767.1	-4.1	-4.2	3.5
FTSE 100 (UK)	6,995.9	-4.4	-4.3	-9.0
MSCI (East.Europe)	156.6	-1.9	4.1	-5.4
PFTS (Ukraine)*	554.0	1.2	4.7	75.8
RTS (Russia)	1,141.4	-1.6	6.5	-1.1

Source: Bloomberg

### KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	2.963	0.2	3.4	40.6
FRS, % per annum	2.250	0.0	12.8	46.7
ECB, % per annum	0.000	0.0	0.0	0.0
NBU, % per annum	18.000	0.0	0.0	24.1
CB RF, % per annum	7.500	0.0	3.4	-3.2

Source: Bloomberg

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## MACROECONOMICS

### Consumer prices

According to information of the State Statistics Service, consumer prices in September 2018 grew 1.9%. Since the beginning of the current year, consumer prices rose 5.6%. Consumer inflation landed at 8.9% in September 2018 compared to September 2017.

In September 2018, core inflation landed at 1.9% compared to the previous month and at 5.5% since the beginning of the current year.

The consumer market registered that prices for the entire group of food products and non-alcoholic beverages grew 1.6% in September. Prices for eggs leapt the most – 14.1%. Prices for bread, lard, products made from grain crops, meat and meat products, milk and dairy products, pasta, rice, and butter went up 3.3-1.4%. At the same time, the country registered prices for fruits, vegetables and sugar shrinking 2.9-0.2%.

Prices for clothes and footwear grew 8.6% over the previous month, in particular, prices for footwear rose 9.9%, while prices for clothes increased 7.9%.

Prices for alcoholic beverages and tobacco products grew 0.8% over the previous month, including 1.1% for tobacco products and 0.4% for alcoholic beverages.

In September 2018, transport prices went up 2.8% on the whole in connection with prices for fuel, petroleum, oils and lubricants rising 5.4%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel inched up 0.2% in September, which was mainly the result of higher rates for water supply (+1.1%) and sewage (+0.9%).

Prices for communication services grew 2.1% in September 2018, which is connected with rates for postal services leaping 28.0%.

Prices for education services jumped 10.0% over the previous month. Prices in hotels and restaurants grew 0.5%. Prices for various goods and services went up 1.3%, while expenses on rest and cultural services increased 0.6%.

### Producer prices

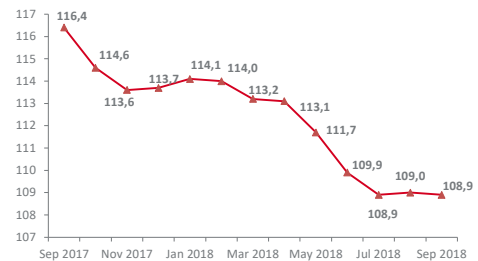
In September 2018, producer prices grew 1.2% compared to the previous month. In annual terms, inflation of producer prices landed at 18.9%.

In September, producer prices grew in mining industry (+2.0%) and in processing industry (+1.8%). Prices in deliveries of electric energy, gas and vapor went down 0.6% over the previous month.

Prices in the production of crude oil and natural gas went up 3.1% in September 2018. Prices in the production of iron ores increased 1.9%.

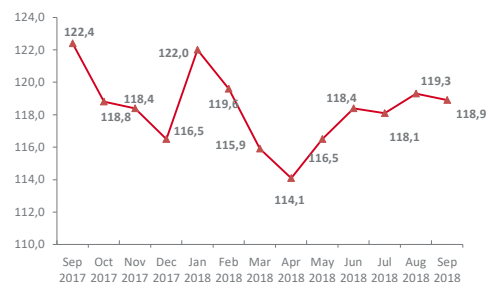
In September 2018, the country registered prices in coke production and oil refining growing 3.3%, in food products, beverages and tobacco products – 2.2%, in machine-building – 0.9%, in steel industry – 1.6%, in wood and timber products, paper products and printing industry – 1.6%, in chemicals and chemical products – 1.0%, and in key pharmaceuticals and pharmaceutical products – 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 held two tenders – a scheduled one on 09 October and a non-scheduled one on 11 October. The Ministry of Finance offered bonds denominated in hryvnia, in US dollars and in Euros. With due consideration for positive trends witnessed at the previous tender, the Ministry of Finance raised rates for a number of instruments and, expectedly, raised more serious resources.

On 9 October, bonds maturing in two months enjoyed the highest demand among bonds denominated in hryvnia. Sixteen bids for the total of UAH 1.6 billion were submitted for purchasing the above-mentioned bonds. The requested interest rates ranged within 19.00-19.50% p.a. The Ministry of Finance rejected only one bid and set the cut-off rate at 19.00% p.a.

Among internal government bonds denominated in foreign currency, bonds denominated in US dollars and maturing in June 2019 turned out to be the most popular in terms of the number of bids. Eighteen bids for the total of USD 29.6 million were submitted for purchasing the above-mentioned bonds. The requested interest rates ranged within 7.00-8.00% p.a. The Ministry of Finance set the cut-off rate at 7.00% p.a. and satisfied fifteen bids.

The Ministry of Finance raised the largest amount of resources by way of placing bonds denominated in US dollars and maturing in fifteen months. Out of eight bids submitted, the Ministry satisfied seven bids and raised USD 54.7 million. The earning rate was established at 7.50% p.a.

As a result of the tender held on 09 October, the Ministry of Finance managed to raise UAH 6.0 billion to the State Budget of Ukraine (according to the NBU exchange rate).

At a tender held on 11 October, the Ministry of Finance offered three types of bonds denominated in US dollars and one type of bonds denominated in hryvnia. The cut-off rates remained at the level of the previous tender, while the amounts of resources raised went up.

Bonds denominated in US dollars and maturing in sixteen months enjoyed the highest demand (in terms of resources raised). Out of four bids submitted, the Ministry of Finance satisfied three bids and raised USD 101.6 million. The earning rate was established at 7.50% p.a.

As a result of the tender held on 11 October, the Ministry of Finance managed to raise UAH 5.0 billion to the State Budget of Ukraine (according to the NBU exchange rate).

Over the previous week, the volume of outstanding internal government bonds went up UAH 3.1 billion and, as of 12 October 2018, totaled UAH 751.7 billion (according to the total principal)

## NBU OPERATIONS

During the previous week, banks became a little bit more active at the National Bank tenders for placing deposit certificates. Over the previous week, banks purchased NBU deposit certificates for the total of UAH 42.3 billion, including overnight certificates of deposit for the total of UAH 17.6 billion.

On Tuesday, 09 October, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 9.0 billion. On Friday, 12 October, the total sum of placement reached UAH 6.2 billion.

At a scheduled NBU quantity tender announced on 12 October to refinance banks, bids of two banks for the total of UAH 3.0 billion were satisfied. The interest rate reached 20.00% per annum. The resources were provided for the period of fourteen days. In the course of the previous week, banks used the standing NBU refinancing line (overnight loans) for the total of UAH 5.5 billion. The interest rate stood at 20.00% per annum.

The banking system liquidity is concentrated on correspondent accounts of banks with the National Bank and in 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
09 Oct	70 days	19.00%	16/15	1,435.33
09 Oct	175 days	18.50%	7/5	10.27
09 Oct	266 days	18.60%	5/5	30.19
09 Oct	546 days	18.50%	2/2	0.20
09 Oct	252 days	7.00%	18/15	21.37*
09 Oct	462 days	7.50%	8/7	54.65*
09 Oct	477 days	7.50%	5/5	51.13*
09 Oct	238 days	4.60%	2/2	30.04**
11 Oct	68 days	19.00%	3/3	50.57
11 Oct	250 days	7.00%	6/4	25.12*
11 Oct	475 days	7.50%	4/3	101.63*
11 Oct	110 days	5.77%	9/5	49.18*

\* - 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	348.1	0.0	0.0	-3.5
Banks	371.3	1.0	-0.2	2.9
Legal entities	20.2	-3.6	-0.6	-8.9
Private individ.	4.9	4.7	7.4	230.6
Non-residents	7.2	0.0	-2.0	38.7

Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a, UAH billions	52.5	8.6	-3.7	40.1	
NBU refinancing, UAH billions	54.5	4.6	3.0	-11.7	
NBU deposit certificates	O/N, UAH billions	1.7	-60.6	-84.1	-90.1
	Total, UAH billions	25.2	-1.7	-15.3	-56.7

Source: the National Bank of Ukraine

### INTERBANK LENDING MARKET

The interbank lending market was registering a slight growth of interest rates again. Rates for overnight, weekly and monthly hryvnia resources were ranging within the limits of 16.50-19.50% per annum.

### FOREIGN EXCHANGE MARKET

During the previous week, the national currency continued appreciating. Foreign exchange supply exceeded demand, and the National Bank was buying out surplus foreign exchange in order to replenish foreign currency reserves.

Despite a positive balance of the State Treasury transactions reaching UAH 7.5 billion over the previous week, limited banking system liquidity was supporting the hryvnia.

On Friday, 12 October, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.9282/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.05-28.12/USD on Monday, 08 October, UAH 28.05-28.12/USD on Tuesday, 09 October, UAH 27.98-28.05/USD on Wednesday, 10 October, UAH 27.95-28.02/USD on Thursday, 11 October, and UAH 27.90-27.97/USD on Friday, 12 October.

Over 08-12 October, the National Bank purchased USD 65.45 million from banks: USD 42.00 million by way of foreign exchange interventions in the form of matching and USD 23.45 million by way of foreign exchange interventions in form of a single exchange rate.

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

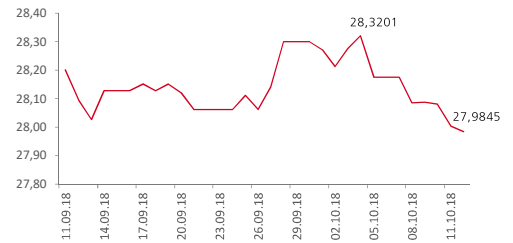
### COMMODITY MARKETS

During the previous week, prices for Brent crude were dropping down below USD 80.0 per barrel. However, they managed to recover by the end of the previous week.

A sharp decline was spurred by news that crude supply in the OPEC+ member states and in the US went up. In addition, the US published statistical data demonstrating priority growth of crude inventories, as well as growth in the number of operating derricks.

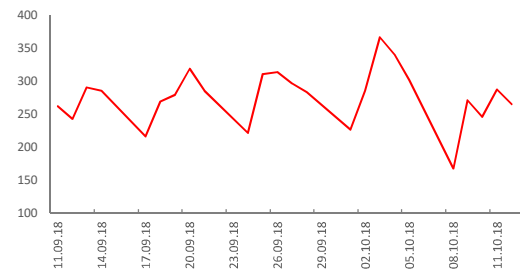
At the same time, the International Energy Agency (IEA) downgraded its forecast for petroleum demand. It is estimated that demand in 2018 and 2019 will grow 1.3 million barrels per day and 1.4 million barrels per day respectively. It is forecast that supply on the part of countries that are not OPEC member states will increase approximately 2.2 million barrels per day and 1.8 million barrels per day respectively. No shortages are expected.

### EXCHANGE RATE (UAH/USD)



Source: NBU

### TRADING VOLUMES (USD MILLIONS)



Source: NBU

### COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	211.0	0.0	4.5	17.5
Brent crude. USD/barrel	80.4	-4.4	1.4	26.4
WTI crude. USD/barrel	71.3	-4.0	1.7	22.2
Gold. USD/ounce	1,219.8	1.3	2.0	-5.5

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	-0.5 (August)
Consumer price growth. % year-on-year	43.3	12.4	13.7	8.9 (September)
Producer price growth. % year-on-year	25.4	35.7	16.5	18.9 (September)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	0.0 (August, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-0.6 (August, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-6.8 (January-August, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	16.6 (September, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	113.8 (second quarter)
Banking system assets. % of growth	4.7	0.2	6.4	0.5 (August)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	28.30 (September)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	26.95 (January-September)

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	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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