ПУМБ First Ukrainian International Bank

Financial markets survey

05 November 2018

MARKET MOODS ARE IMPROVING

WEEKLY ISSUE

Growing wages mean additional risks
Current account deficit has expanded
Liquidity returned to the banking system

GLOBAL MARKET

The previous week was rather ambiguous for the American stock market. Volatility was in full swing – on Monday, 29 October, the key S&P 500 Index set a new record-low for many months. Over Tuesday-Thursday, the US stock market was demonstrating significant growth thanks to strong financial statements of large companies, which was followed by a new wave of sales on Friday, 02 November.

The key report on the US labor market published on Friday demonstrated that the number of jobs in the US economy grew 250,000 in October 2018 compared to September, while the rate of unemployment remained at 3.7%, which is below the so called "full employment rate" – non-accelerating inflation rate of unemployment (NAIRU), which stands at 4.5% – and is a record-low since 1969.

Wages in the US grew at a more rapid pace in October 2018 accelerating to a record-high over the last nine years – 3.1% in annual terms against 2.8% in September. Formally, these data are positive. However, they triggered growing yields of the US treasuries. A growing inflationary component – the dynamics of wages – creates additional risks. Once again, the Federal Reserve got convinced of the need to further increase the federal funds rate.

Deficit of the US foreign trade balance rose 1.3% in September 2018, to USD 54.0 billion, which is a record-high for the last seven months.

A positive factor for the market was the news that US President Donald Trump had a long and very good conversation with Chinese President Xi Jinping before a meeting, which is expected to take place in late November 2018. According to information provided by Bloomberg, President Trump wants to strike a trade agreement with China. According to the news agency, after this telephone conversation with Xi Jinping, US President Trump asked government officials to start developing potential terms and conditions of such an agreement.

The US is prepared to allow eight countries to continue purchasing Iranian petroleum after the restrictions come into force on 4 November. Waivers from sanctions were provided in order to escape price hikes for crude oil.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1302-1.1456/EUR. On Friday, 02 November, trading closed at USD 1.1417/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1417	0.6	-1.1	-4.8
GBP/USD	1.2970	1.1	-0.1	-4.0
USD/RUB	65.6517	-0.1	0.1	14.0
USD/UAH	28.1328	-0.5	-0.5	0.2

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2723.1	2.4	-6.9	1.8
FTSE 100 (UK)	7094.1	2.2	-5.1	-7.7
MXME (East. Eur.)	155.8	4.1	-3.9	-5.9
UX (Ukraine)	575.0	2.5	7.1	82.5
RTS (Russia)	1134.8	3.3	-4.0	-1.7

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	3.105	1.6	6.2	47.4
FRS, % per annum	2.250	0.0	0.0	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	0.0	-3.2

Source: Bloomberg

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MACROECONOMICS

Balance of payments

In September 2018, deficit of Ukraine's current account reached USD 1.7 billion or 14.3% of GDP against a deficit of USD 688.0 million or 6.6% of GDP registered in September 2017.

In September 2018, Ukraine's imports of goods grew 17.3% compared to indicators registered over the same period last year (17.2% in August 2018); while exports shrank 3.6% (an 11.0% growth was registered in August). Compared to August 2018, imports of goods rose 1.9%, whereas exports of goods dropped 11.1%.

Over January-September 2018, the country's current account deficit totaled USD 3.9 billion or 4.2% of GDP compared to USD 1.5 billion or 1.9% of GDP registered over the same period in 2017.

Exports of goods reached USD 3.3 billion in September 2018. Exports declined because of shrinking exports in those key commodity groups which registered serious growth over the previous month. Exports of food products, including grain, dropped 9.8%, exports of mineral products (including ores) fell 9.2%, and exports of machine-building products slipped 1.8%.

At the same time, the country registered growing exports, although not as fast as in August, of ferrous and non-ferrous metals (+8.3%) and of chemical products (+4.8%).

Imports of goods landed at USD 5.1 billion in September 2018. Energy imports leapt 25.9%, mainly thanks to imports of petroleum products and gas. Non-energy imports grew 14.5% thanks to rising imports of machine-building products (+22.6%), manufactured goods (+36.3%), chemical products (+5.4%), and ferrous and non-ferrous metals (+7.7%).

Net lending resources provided from abroad reached USD 1.7 billion in September 2018, while the same indicator was registered at USD 0.7 billion in September 2017.

Net inflows under the financial account landed at USD 1.1 billion in September 2018 against USD 1.3 billion registered in September 2017 and were mainly the result of inflows under private sector transactions.

Net inflows of foreign direct investment in September 2018 were estimated at USD 102.0 million, while 58.0% of them were channeled to the banking sector.

Net increase of the banking system external position in portfolio and other investment reached USD 106.0 million in September 2018 and was caused by growing assets of banks under the article "foreign exchange and deposits".

Net decline of the real sector external position reached USD 1.1 billion in September 2018 and was caused by growing net external liabilities under trade loans, attraction of loans and credits, as well as shrinking foreign exchange cash outside banks.

On the whole, foreign exchange cash outside the banking system shrank USD 142.0 million in September 2018. Over January- September 2018, foreign exchange cash outside the banking system grew USD 275.0 million.

Deficit of Ukraine's consolidated balance of payments landed at USD 582.0 million in September 2018 (a surplus of USD 637.0 million was registered in September 2017).

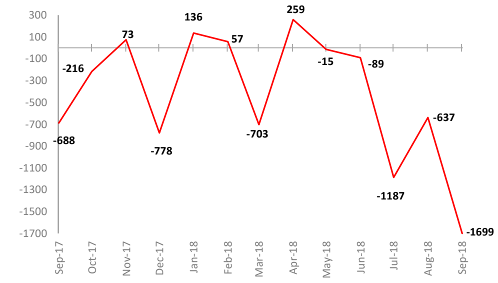
As of 01 October 2018, Ukraine's total stocks of international reserves were registered at USD 16.6 billion.

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in September 2018, USD billions	-1.7

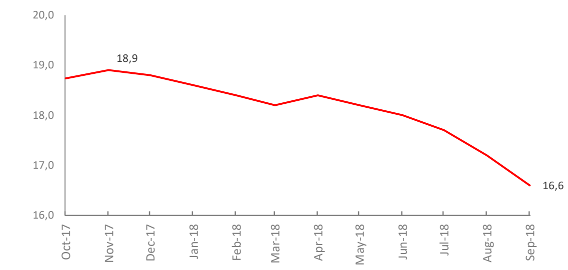
Source: the National Bank of Ukraine

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD BILLIONS)



Source: the National Bank of Ukraine

BOND MARKET

At a scheduled tender held on 30 October, the Ministry of Finance placed three types of bonds – denominated in hryvnia, in US dollars and in Euros.

Nine bids for the total of UAH 515.6 million were submitted for purchasing bonds denominated in hryvnia and maturing in three months. The requested interest rates ranged within 19.00-19.40% per annum. The Ministry of Finance left the cut-off rate at 19.00% per annum and rejected one bid requesting a high rate, regardless of the fact that this bid accounted for 97.0% of total demand.

13 bids for purchasing bonds denominated in US dollars and maturing in June 2019 were satisfied in full. Same as at a previous placement of the above-mentioned bonds, the established interest rate landed at 7.00% per annum.

Also, the Ministry of Finance fully satisfied seven bids submitted for purchasing bids denominated in Euros and maturing in thirteen months. Notwithstanding the fact that the earning rate for such bonds reached 4.07% per annum at a previous tender, the Ministry of Finance raised the cut-off rate to the level of other placements denominated in Euros and set it at 4.60% per annum.

As a result of the tender held on 30 October, the Ministry of Finance managed to raise UAH 1.2 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 0.3 billion and, as of 02 November 2018, totaled UAH 745.9 billion (according to the total principal).

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of place-ment	Type of internal govern-ment bonds	Weig-hted average rate	Submit./ satisfied bids	Funds raised, UAH mi llions
30 Oct.	98 days	19.00%	9/8	14.83
30 Oct.	231 days denom. USD.	7.00%	13/13	37.01*
30 Oct.	392 days denom. Euros	4.60%	7/7	3.05**

* - 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	365.2	0.1	-1.2	1.2
Legal entities	20.2	-0.1	-4.0	-8.9
Private individ.	5.2	-0.1	8.4	256.5
Non-residents	7.2	0.6	-0.6	38.1

Source: the National Bank of Ukraine

NBU OPERATIONS

Over the previous week, banks purchased NBU deposit certificates for the total of UAH 46.7 billion, including overnight certificates of deposit for the total of UAH 33.7 billion.

On Tuesday, 30 October, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 5.3 billion, satisfying bids of thirty-one banks. On Friday, 02 November, the total sum of placement reached UAH 7.7 billion, and bids of forty-two banks were satisfied.

The interest rate for overnight certificates of deposit stood at 16.00% per annum. The earning rate for deposit certificates maturing in fourteen days was registered at 18.00% per annum.

A scheduled NBU quantity tender announced on 02 November 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).

A negative balance of the State Treasury transactions reached UAH 1.7 billion over 29 October – 02 November.

The banking system liquidity is currently at a sufficient level and is concentrated on correspondent accounts of banks with the National Bank and in NBU deposit certificates.

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		50.2	-3.4	4.4	33.8
NBU refinancing, UAH billions		55.7	-1.6	1.1	-9.7
NBU deposit certi-ficates	O/N, UAH billions	7.2	-14.4	-14.4	-57.8
	Total, UAH billions	31.4	1.4	10.1	-45.9

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, returning liquidity to the banking system entailed a slight decline of rates on the interbank lending market. Rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 16.00-18.00% per annum.

FOREIGN EXCHANGE MARKET

The previous week was rather dynamic on the foreign exchange market. Despite the fact that non-residents were actively purchasing foreign exchange to repatriate dividends, foreign exchange supply exceeded demand, and the hryvnia followed an appreciating trend. According to information of the National Bank, the national currency was supported by a seriously lower foreign exchange demand both on the part of importing companies and on the part of households, by growing foreign exchange demand on the part of agribusiness companies and by general improvement of moods spurred by the IMF assistance, as well as by the presence of the National Bank on the interbank foreign exchange market.

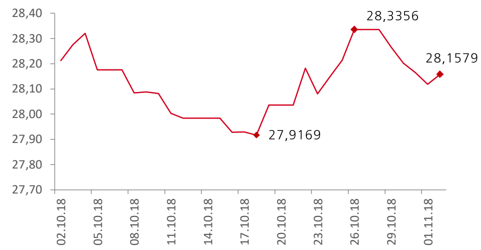
On Friday, 02 November, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 28.1328/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.15-28.25/USD on Monday, 29 October, UAH 28.12-28.30/USD on Tuesday, 30 October, UAH 28.20-28.37/USD on Wednesday, 31 October, UAH 28.15-28.28/USD on Thursday, 01 November, and UAH 28.05-28.15/USD on Friday, 02 November.

Over 29 October – 02 November, the National Bank purchased USD 85.2 million from banks: USD 36.7 million by way of foreign exchange interventions in the form of matching and USD 48.5 million by way of foreign exchange interventions in form of a single exchange rate.

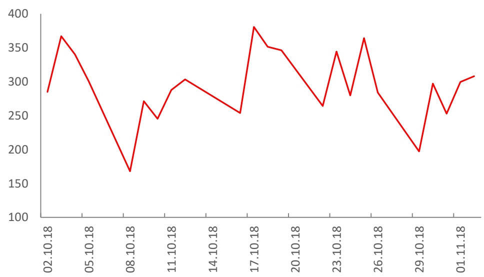
The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.4 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Prices for benchmark crudes finished the previous week with a fall, which was record-low since February of the current years and which was triggered by fears of excessive supply on the global market.

The US agreed to allow eight countries to continue purchasing Iranian crude oil after the second portion of sanctions against Iran comes into force. India, Japan and South Korea may continue purchasing Iranian oil after committing themselves to gradually curtailing their crude imports. The decision on China has not been made final so far, but negotiations go on. Another four countries have not been named yet. Thus, Iran will continue exporting serious crude volumes, although earlier there were fears that fuel deliveries from the country could go down to zero.

Waivers from sanctions were provided in order to escape price hikes for crude oil.

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	215.0	-0.9	3.6	19.8
Brent crude. USD/ barrel	72.8	-6.2	-13.7	15.0
WTI crude. USD/ barrel	63.1	-6.6	-15.9	8.7
Gold. USD/ounce	1232.1	-0.1	2.3	-4.6

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018
GDP. %	-9.8	2.3	2.5	3.8 (second quarter)
Industrial output. %	-13.4	2.4	-0.1	-0.7 (September)
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	-0.6 (September, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-1.7 (September, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-8.6 (January-September 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	1.6 (January-September)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	28.16 (October)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.07 (January-October)

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	ΓRTSI$ 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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