

Financial markets survey

12 November 2018

THE IRANIAN FACTOR

WEEKLY ISSUE

The FRS meeting brought no surprises
The State Statistics Service estimated inflation
The hryvnia is not yielding

GLOBAL MARKET

In the course of the previous week, the American stock indices changed insignificantly and in different directions, while investors were waiting for results of the FRS meeting. Also, investors focused their attention on the budget conflict in Italy and a slowdown of the Chinese economy.

On Monday, 5 November, the US sanctions against Iran, which had been in effect before the Joint Comprehensive Plan of Action, an agreement on the nuclear program of Iran, was signed in 2015, came into force again. The sanctions are designed to target Iran's petroleum industry, banking structure, shipbuilding, sea shipping, and a number of other economic branches. Sanctions are aimed not only at Teheran, but also at countries and companies supporting business connections with Iranian partners.

Based on the results of its meeting that took place over 7-8 November, the FRS made a decision to keep the federal funds rate at 2.00-2.25% per annum. Markets showed practically no reaction to the publication of the FRS meeting results, since they were absolutely expectable. The lack of new signals from the FRS made investors confident in the opinion that, as they thought before, the central bank intended to raise the federal funds rate in December. The next FRS meeting is scheduled for 18-19 December.

On Wednesday, 7 November, the world was witnessing active growth of the American stock indices thanks to the lack of surprises at the mid-term elections to the US Congress: Republicans managed to keep the majority in the Senate taking 51 seats out of 100 against 45 seats scored by Democrats. Meanwhile, Democrats secured 219 seats in the Lower Chamber of the US Congress with 218 seats needed for the majority. Thus, Democrats gained control over the US House of Representatives for the first time over the last eight years. These events made the US dollar depreciate against the majority of key global currencies.

The European stock indices finished the previous week with a drop spurred by the conflict between the EC authorities and the Italian Government as regards the country's budget for 2019, weak financial statements submitted by a number of companies, as well as growing concerns related to the Chinese economy and measures undertaken by the Chinese government to support it. The Chinese authorities made an unprecedented step to support private companies by setting target indicators for banks to provide lending resources businesses.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1325-1.1500/EUR. On Friday, 09 November, trading closed at USD 1.1346/EUR.

www.pumb.ua

Department of Investment Business
Andriivska St., 4, Kiev, Ukraine 04070
tel. +38 044 231 7380

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1346	-0.6	-0.8	-5.4
GBP/USD	1.2972	0.0	-1.3	-4.0
USD/RUB	66.2155	0.9	-1.1	15.0
USD/UAH	27.8916	-0.9	-0.7	-0.6

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2781.0	2.1	-3.4	4.0
FTSE 100 (UK)	7105.3	0.2	-1.8	-7.6
MXME (East. Eur.)	156.2	0.3	-1.7	-5.7
UX (Ukraine)	595.8	3.6	8.6	89.1
RTS (Russia)	1121.4	-1.2	-3.3	-2.9

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	3.144	1.3	6.1	49.2
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

MACROECONOMICS

Consumer prices

According to information of the State Statistics Service, consumer prices grew 1.7% in October 2018. Since the beginning of the current year, consumer prices rose 7.4%. Consumer inflation landed at 9.5% in October 2018 compared to October 2017.

In October 2018, core inflation landed at 1.3% compared to the previous month and at 6.9% 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 1.4% in October 2018. Prices for vegetables leapt the most – 8.8%. Prices for lard, milk and dairy products, bread, eggs, pasta, products made from grain crops, butter, rice, and fish and fish products went up 4.4-1.1%. At the same time, the country registered prices for fruits and sugar shrinking 4.6% and 2.3 respectively.

Prices for clothes and footwear grew 2.6% over the previous month.

Prices for alcoholic beverages and tobacco products grew 2.3% over the previous month, including 3.2% for tobacco products and 1.6% for alcoholic beverages.

In October 2018, transport prices went up 3.1% on the whole in connection with prices for fuel, oils and lubricants rising 6.0%, as well as transportation rates growing 2.4%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel inched up 0.6% in October, which was mainly the result of higher rates for sewage (+5.2%), water supply (+4.8%) and maintenance of houses and adjoining territories (+1.4%).

Prices for communication services grew 3.1% in October 2018, which is connected with rates for postal services leaping 9.4% and rates for mobile communication services jumping 6.9%.

Prices for education services inched up 0.1% over the previous month. Prices in hotels and restaurants grew 2.3%. Prices for various goods and services went up 0.8%, while expenses on rest and cultural services increased 0.8%.

Producer prices

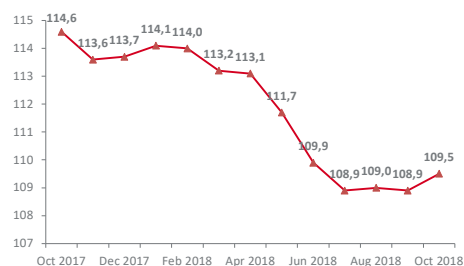
In October 2018, producer prices inched up 0.3% compared to the previous month. In annual terms, inflation of producer prices slowed down and landed at 16.6%.

In October, producer prices grew in mining industry (+2.7%) and in processing industry (+1.1%). Prices in deliveries of electric energy, gas and vapor went down 2.9% over the previous month.

Prices in the production of crude oil and natural gas went up 1.7% in October 2018. Prices in the production of iron ores increased 5.2%, while prices in black coal production inched down 0.2%.

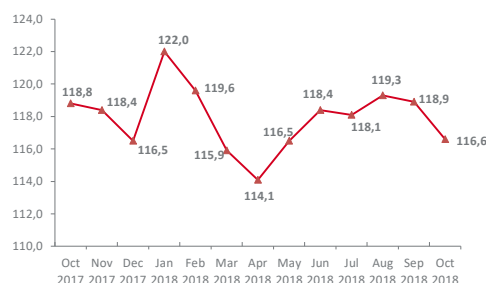
In October 2018, the country registered prices in coke production and oil refining growing 2.6%, in food products, beverages and tobacco products – 1.2%, in machine-building – 0.4%, in steel industry – 1.0%, in wood and timber products, paper products and printing industry – 0.3%, in chemicals and chemical products – 0.1%, and in key pharmaceuticals and pharmaceutical products – 2.8%.

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

At a scheduled tender held on 6 November, the Ministry of Finance offered four types of bonds denominated in hryvnia and one type of bonds denominated in US dollars.

Bonds denominated in hryvnia and maturing in three months enjoyed the highest demand. Seventeen bids for the total of UAH 552.9 million were submitted for purchasing the above-mentioned bonds. The requested interest rates ranged within 19.00-20.00% per annum. The Ministry of Finance rejected two bids, setting the cut-off rate at 19.00% per annum.

Seven bids for the total of UAH 77.7 million were submitted to purchasing bonds maturing in five months. The requested interest rates ranged within 18.50-19.00% per annum. The Ministry of Finance satisfied only three bids, while the cut-off rate landed at 18.50% per annum.

Bonds maturing in eight months scored five bids for the total of UAH 58.4 million, and the single rate requested stood at 18.50% per annum. The Ministry of Finance satisfied all bids in full.

Six bids for the total of UAH 105.3 million were submitted for purchasing internal government bonds maturing in twelve months. The requested interest rates ranged within 18.50-19.00% per annum. The Ministry of Finance also abstained from raising the cut-off rate and set it at 18.50% per annum. As a result, only one bid was rejected.

Quite a few market participants were willing to purchase bonds denominated in US dollars and maturing in January 2020. These bonds scored twenty bids for the total of USD 21.6 million. The requested interest rates ranged within 7.40-7.75% per annum. The cut-off rate landed at 7.50% per annum.

As a result of the tender held on 6 November, the Ministry of Finance managed to raise UAH 1.2 billion to the State Budget of Ukraine (according to the NBU exchange rate). Earning rates remained unchanged for bonds denominated both in hryvnia and in US dollars.

Over the previous week, the volume of outstanding internal government bonds went down UAH 5.1 billion and, as of 09 November 2018, totaled UAH 740.7 billion (according to the total principal).

NBU OPERATIONS

For the purpose of making its monetary policy more transparent, the National Bank clarified the monetary policy's operational goal which is to keep interbank rates for hryvnia resources at a level, which is close to the NBU discount rate within the limits of the interest rate range for anytime access instruments. The indicator of the rates level is the Ukrainian Index of Interbank Rates (UIIR).

During the previous week, banks demonstrated the same level of activity at NBU tenders to place deposit certificates as was registered in July 2018, when the country accumulated excessive liquidity. Over the previous week, banks purchased NBU deposit certificates for the total of UAH 63.4 billion, including overnight certificates of deposit for the total of UAH 47.6 billion.

On Tuesday, 06 November, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 6.3 billion. On Friday, 09 November, the total sum of placement reached UAH 9.5 billion.

At a scheduled NBU quantity tender announced on 09 November to refinance banks, one bid of a bank for the total of UAH 1.3 billion was 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 0.1 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
06 Nov.	91 days	19.00%	17/15	470.65
06 Nov.	147 days	18.50%	7/3	6.97
06 Nov.	238 days	18.50%	5/5	52.11
06 Nov.	364 days	18.50%	6/5	78.89
06 Nov.	434 denom in USD	7.50%	20/19	21.48*

* - 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	0.0	-3.5
Banks	360.1	-1.4	-1.9	-0.2
Legal entities	20.0	-0.9	-4.9	-9.8
Private individ.	5.4	3.3	15.3	268.1
Non-residents	7.1	-0.9	-1.3	36.9

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		45.2	-9.8	9.1	20.7
NBU refinancing, UAH billions		55.7	-0.1	6.9	-9.8
NBU deposit certificates	O/N, UAH billions	14.6	103.2	361.4	-14.3
	Total, UAH billions	43.3	38.0	77.0	-25.4

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The interbank lending market remained stable. 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 quiet on the foreign exchange market. The hryvnia continued moving along an appreciating trend. Only on Thursday, 8 November, the market was registering a slight volatility. The reason behind this volatility was the emergence of non-residents with bids to purchase foreign exchange after they received hryvnia resources from the repayment of internal government bonds. A slight imbalance of demand and supply in favor of demand that was registered on Thursday and on Friday at the beginning of trading was over by the middle of trading on Friday, and the hryvnia continued appreciating. On Friday, 09 November, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.8916/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 28.00-28.05/USD on Monday, 05 November, UAH 27.92-28.00/USD on Tuesday, 06 November, UAH 27.87-27.94/USD on Wednesday, 07 November, UAH 27.87-27.97/USD on Thursday, 08 November, and UAH 27.86-27.94/USD on Friday, 09 November.

Over 2-9 November, the National Bank purchased USD 157.4 million from banks: USD 30.0 million by way of foreign exchange interventions in the form of matching, USD 70.0 million by way of foreign exchange interventions in form of a single exchange rate and USD 57.4 million by way of a foreign exchange tender on 7 November (the weighted average exchange rate landed at UAH 27.9013/USD).

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.6 billion.

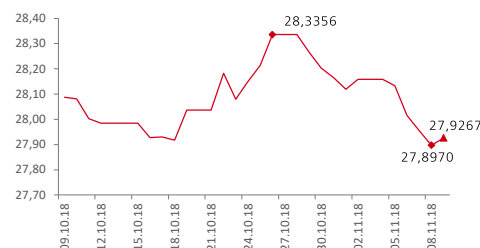
COMMODITY MARKETS

During the previous week, petroleum prices continued going down finishing the fifth consecutive week with a fall.

Shrinking prices were caused by fears of excessive petroleum supply after the US government made the decision to apply waivers to a number of countries and to allow them purchasing crude oil from Iran after the anti-Iranian sanctions have come into force. In response, the OPEC+ Monitoring Committee may discuss the possibility of renewing restrictions on crude production in 2019.

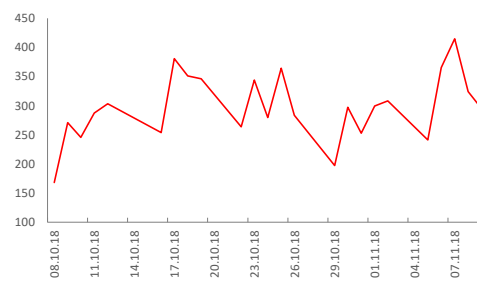
In addition, Saudi Arabia carried out a study to examine consequences of the OPEC breakdown, which alarmed the OPEC member-states. The study is of purely theoretical nature. However, the talks on this matter cannot be left without any attention. Moreover, market participants are afraid of further toughening of the FRS monetary policy and a further slowdown of the Chinese economy.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	214.0	-1.4	1.4	19.2
Brent crude. USD/barrel	70.2	-3.6	-17.0	10.8
WTI crude. USD/barrel	60.2	-4.7	-19.5	3.7
Gold. USD/ounce	1211.4	-1.7	2.2	-6.2

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	9.5 (October)
Producer price growth. % year-on-year	25.4	35.7	16.5	16.6 (October)
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	18.1 (October, 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	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



DEPARTMENT OF INVESTMENT BUSINESS

Anton Stadnik
Head of department
+38 044 231 7046
anton.stadnik@fuib.com

Marina Timbay
Trading and brokerage
+38 044 231 7053
marina.timbay@fuib.com

Nataliya Khimich
Research
+38 044 231 7380
nataliya.khimich@fuib.com

INTERNATIONAL FINANCING AND TRANSACTION STRUCTURING

Serhiy Zubro
+38 044 231 7055
serhiy.zubro@fuib.com

PUBLIC RELATIONS

Anna Kokoba
+38 044 231 7252
anna.kokoba@fuib.com