

Financial markets survey

26 November 2018

BRITISH DISCORDS

WEEKLY ISSUE

Geopolitical risks grew stronger again
Ukraine registered growing industrial output
Activity on the market of internal government bonds slowed down

GLOBAL MARKET

The previous week was rather gloomy for the American stock market, key stock indices demonstrated a sharp fall. This was the worst start of the week on which the Thanksgiving Day falls since 1994 for the Dow Jones Index and since 1982 – for the S&P 500 Index. The reason behind this was a lower likelihood of constructive negotiations on trade issues between the US and China. Investors are less and less positive that heads of the two countries will reach a meaningful agreement at the 2018 G20 Buenos Aires Summit in late November.

Also investors focused their attention on the ongoing trade tension and uncertainty connected with Brexit, weaker global economic growth, and the fall of petroleum prices.

On Sunday, 25 November, heads of states and heads of governments of the 27 European Union Member States held an extraordinary meeting of the European Council where they approved the agreement on the UK's withdrawal from the EU. The EU leaders ratified the political declaration outlining the framework for future relations between Brussels and London. The Brexit agreement itself includes 587 pages. It stipulates terms and conditions for cooperation between the parties in trade, customs, law, and other areas. Three protocols are attached to the agreement – on Gibraltar, on Cyprus and on Ireland and Northern Ireland.

Expectations that the UK and the EU will reach an agreement on Brexit conditions contributed to appreciation of the euro and the pound sterling against key global currencies. However, on Friday, 23 November, the euro rapidly depreciated against the US dollar and finished the fifth consecutive week with a drop. Investors were worried about extremely weak data on business activity in Germany: the Purchasing Managers' Index (PMI) demonstrated that economic growth in the country became record-weak in November for almost four years. This weakness was also reflected in the PMI values for the entire euro-area.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1324-1.1472/EUR. On Friday, 23 November, trading closed at USD 1.1352/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1352	0.1	-1.1	-5.3
GBP/USD	1.2814	-0.2	-1.3	-5.2
USD/RUB	65.6067	-1.5	0.5	13.9
USD/UAH	27.7958	0.1	-1.3	-1.0

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2632.6	-3.8	-3.9	-1.5
FTSE 100 (UK)	6952.9	-0.9	0.0	-9.6
MXME (East. Eur.)	154.3	-1.1	1.1	-6.8
UX (Ukraine)	577.9	-0.9	3.2	83.4
RTS (Russia)	1113.5	-1.9	0.6	-3.5

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % per annum	3.121	-0.1	2.8	48.1
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

Industrial output

According to information of the State Statistics Service, industrial output grew 0.3% in October 2018 compared to October 2017 (with due consideration for an adjustment to the calendar days effect). Compared to September 2018, industrial output went up 0.6% (with due consideration for seasonal adjustment).

Output in mining industry went up 4.9% in October 2018 compared to October 2017. In particular, black and brown coal production jumped 14.2%, while crude oil and natural gas production grew 7.5%. At the same time, iron ores production went up 2.5%.

Output in processing industry declined 0.4% in October 2018 compared to October 2017. Steel industry went down 1.2%, chemicals and chemical products dropped 1.8% and machine-building inched down 0.3%. At the same time, coke production and oil refining went up 5.4%, key pharmaceuticals and pharmaceutical products jumped 12.1%, rubber and plastic products grew 5.0%, and furniture production leapt 12.2%.

Deliveries of electric energy, gas and vapor declined 3.6% in October 2018.

In October 2018, the country registered growing output of investment goods (+8.9%), non-durable consumer goods (+1.0%) and energy (+2.3%) compared to September 2017. At the same time, output of intermediate goods shrank 1.4%, and output of durable consumer goods declined 1.5%.

Construction

In October 2018, the index of construction products reached 104.8% compared to October 2017 (with due consideration for an adjustment to the calendar days effect), and 97.5% compared to September 2018 (with due consideration for seasonal adjustment).

Over January-October 2018, Ukrainian companies carried out construction works for the total of UAH 100.5 billion, while the index of construction products over the above-mentioned period reached 106.4% compared to the same period of the previous year.

Construction of new objects, reconstruction and technical re-equipment made up 74.3% of total construction works, while overhaul and maintenance works accounted for 16.8% and 8.9% of total construction works respectively.

Transportation

Over January-October 2018, freight turnover of transportation companies totaled 276.3 billion ton-km, which constitutes 97.5% compared to January-October 2017.

Transportation companies carried 516.1 million tons of freight over January-October 2018, which stands at 98.8% of the similar indicator registered over January-October 2017.

3,747.1 million passengers used services of passenger transport over January-October 2018, which accounted for 97.3% of the indicator registered over January-October of the previous year.

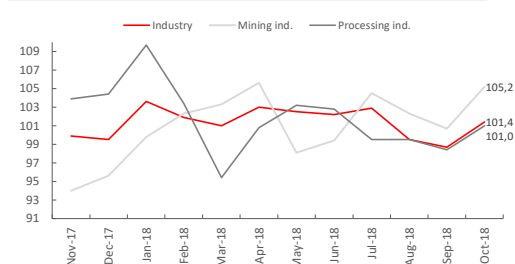
Over January-October 2018, traffic in pipeline transport went down compared to January-October 2017. Pipeline transportation of gas and oil shrank 5.6% and 4.3% respectively. Gas transit declined 6.9%, while oil transit went down 5.4%. At the same time, pipeline transportation and transit of ammonia grew 34.0% and 29.5% respectively.

LATEST MACROECONOMIC DATA

Показатель	Значение
Industrial output change in October 2018, % year-on-year	0.3

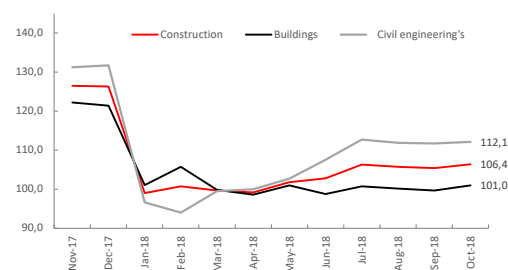
Source: the State Statistics Service

INDUSTRIAL OUTPUT INDEX (% year-on-year, excluding adjustments)



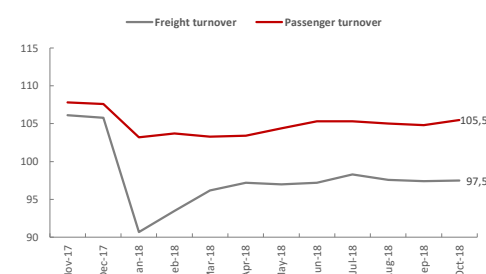
Source: the State Statistics Service

THE INDEX OF CONSTRUCTION PRODUCTS (% year-on-year, excluding adjustments)



Source: the State Statistics Service

TRANSPORTATION SERVICES (% year-on-year, progressive total)



Source: the State Statistics Service

BOND MARKET

At a scheduled tender for primary placement of internal government bonds held on 20 November, the Ministry of Finance offered 4 types of bonds denominated in hryvnia and 3 types of bonds denominated in US dollars.

Seven bids with a single requested interest rate of 19.00% per annum were submitted for purchasing bonds maturing in two months. The Ministry of Finance satisfied these bids in full.

Bonds maturing in six months were placed less actively. The Ministry of Finance satisfied two out of three bids submitted, setting the cut-off rate at the level of the previous tender, at 18.50% per annum.

Demand for bonds maturing in nine months consisted of five bids with a single requested interest rate of 18.50% per annum and was satisfied by the Ministry of Finance in full.

Only one bid was submitted for purchasing bonds maturing in three years. The requested interest rate stood at 19.00% per annum. The Ministry of Finance was not prepared to raise resources at such a rate. As a result, the Ministry of Finance rejected this bid.

The interest in internal government bonds denominated in foreign exchange was a bit higher, and market participants were more active in purchasing bonds denominated in US dollars. Out of six bids submitted for purchasing bonds maturing in seven months and requesting interest rates within 6.70-7.00% per annum, the Ministry of Finance rejected only one bid totaling USD 0.1 million, setting the cut-off rate at 6.70% per annum.

Ten bids for the total of USD 11.7 million were submitted for purchasing bonds denominated in US dollars and maturing in eleven months. The requested interest rates ranged within 7.25-7.50% per annum. The Ministry of Finance set the cut-off rate at 7.25% per annum and rejected two bids for the total of USD 0.5 million.

Bonds maturing in January 2020 scored the highest number of bids submitted. Out of fourteen bids requesting interest rates within 7.00-8.00% per annum, the Ministry of Finance satisfied thirteen bids, setting the cut-off rate at 7.50% per annum.

As a result of the tender held on 20 November, the Ministry of Finance managed to raise UAH 1.3 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 down UAH 2.3 billion and, as of 23 November 2018, totaled UAH 738.6 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, banks purchased NBU deposit certificates for the total of UAH 16.5 billion, including overnight certificates of deposit for the total of UAH 9.3 billion.

On Tuesday, 20 November, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 3.1 billion. On Friday, 23 November, the total sum of placement reached UAH 4.1 billion.

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.

At a scheduled NBU quantity tender announced on 23 November to refinance banks, one bid of a bank for the total of UAH 2.0 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 11.4 billion. The interest rate stood at 20.00% per annum.

The banking system liquidity is currently 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
20 Nov.	77 days	19,00%	7/7	173,84
20 Nov.	175 days	18,50%	3/2	0,80
20 Nov.	287 days	18,50%	5/5	7,93
20 Nov.	210 denom in USD	6,70%	6/5	27,49*
20 Nov.	336 denom in USD	7,25%	10/8	11,03*
20 Nov.	420 denom in USD	7,43%	14/13	2,11*

* - 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	358.9	-0.4	-2.9	-0.5
Legal entities	19.4	-2.6	-7.4	-12.7
Private individ.	5.6	1.4	8.0	281.4
Non-residents	6.6	-4.0	-7.6	26.9

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		57.7	14.6	4.0	53.9
NBU refinancing, UAH billions		55.2	-0.8	-4.8	-10.6
NBU deposit certi- ficates	O/N, UAH billions	1.5	-7.7	-58.4	-91.3
	Total, UAH billions	17.1	-33.6	-18.9	-70.5

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, the interbank lending market was staying stable. Rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 17.50-19.50% per annum.

FOREIGN EXCHANGE MARKET

During the previous week, the situation on the foreign exchange market was rather quiet and stable. Foreign exchange demand and supply were balanced: exporters were selling foreign exchange to replenish their circulating assets, while importers were purchasing foreign exchange to pay their contracts. The National Bank bought out a slight foreign exchange supply surplus in order to avoid sharp exchange rate fluctuations.

As a result, on Friday, 23 November, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.7958/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.74-27.81/USD on Monday, 19 November, UAH 27.74-27.81/USD on Tuesday, 20 November, UAH 27.75-27.82/USD on Wednesday, 21 November, UAH 27.72-27.79/USD on Thursday, 22 November, and UAH 27.73-27.82/USD on Friday, 23 November.

The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.3 billion.

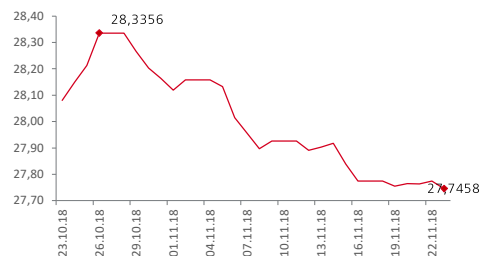
Over 19-23 November, the National Bank purchased USD 52.7 million from banks by way of foreign exchange interventions in form of a single exchange rate.

COMMODITY MARKETS

The petroleum market finished the seventh consecutive week in the red. The last time such a lingering fall was registered in 2015.

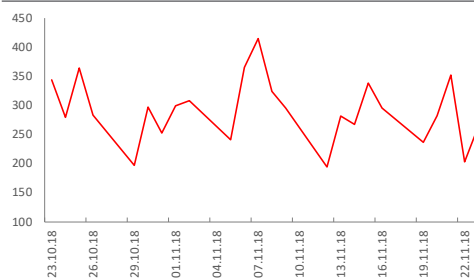
Key factors influencing the petroleum market have not changed: demand is growing at a more sluggish pace, while output is expected to continue rising.

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	0.0	-1.4	19.2
Brent crude. USD/barrel	58.8	-11.9	-22.8	-7.1
WTI crude. USD/barrel	50.4	-11.0	-24.3	-12.7
Gold. USD/ounce	1223.7	0.1	-1.0	-5.2

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018
GDP. %	-9.8	2.3	2.5	2.8 (third quarter, preliminary estimate)
Industrial output. %	-13.4	2.4	-0.1	0.3 (October)
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



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