

Financial markets survey

18 February 2019

THE US IS FACING A POLITICAL CRISIS

WEEKLY ISSUE

Donald Trump announced a state of emergency
The real GDP in Ukraine grew to 3.4% in Q4'2018
Volatility of the hryvnia exchange rate grew stronger

GLOBAL MARKET

The previous week followed a generally positive format for the US markets. Although the key stock indices were going down due to extremely weak statistical data on retail sales, expectations of news about trade negotiations between the US and China were holding their fall in check. According to information provided by mass media, US President Donald Trump can postpone the increase of import duties for Chinese goods for sixty days in order to agree a new deal.

Retail sales in the US shrank 1.2% in December 2018, which is a record-low drop since September 2009. December data on retail sales in the US came out four weeks late in connection with the shutdown of federal agencies in the US. Shrinking retail sales are another signal of weaker economic growth in the US.

The number of Americans applying for unemployment benefit for the first time grew 4,000 over the previous week and landed at 239,000 individuals. The Producer Price Index in the US inched down 0.1% in January 2019 compared to the previous month and grew 2.0% in annual terms. In January 2019, industrial output in the US shrank 0.6% compared to the previous month.

On Friday, 15 February, US President Donald Trump signed a compromise budget alternative and, thus, escaped a new shutdown. The plan of government spending provides for approximately USD 1.4 billion for border fences instead of USD 5.7 billion requested by the US President. This is the reason why Donald Trump announced a state of emergency in the country in order to receive finances for constructing a wall on the border with Mexico. Such a decision may give a handle for initiating legal actions questioning Trump's powers.

The ECB is discussing the possibility of launching a new round of targeted long-term refinancing operations (TLTRO) for banks in the euro-area.

The UK is prepared to withdraw from the European Union without an agreement, if the Parliament does not approve the Brexit plan. On the eve of this announcement, the House of Commons of the British Parliament did not support the initiative calling for the UK Government to reach an agreement with Brussels on postponing Brexit deadlines.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1231-1.1344/EUR. On Friday, 15 February, trading closed at USD 1.1260/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1260	-0.8	-1.4	-1.7
GBP/USD	1.2889	-0.4	0.2	1.1
USD/RUB	66.5429	0.8	-1.0	-4.2
USD/UAH	27.2479	1.3	-3.3	-1.6

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2775.6	2.5	6.3	10.7
FTSE 100 (UK)	7236.7	2.3	5.0	7.6
MXME (East. Eur.)	162.5	-1.5	1.3	6.8
PFTS Index	565.6	2.4	1.3	1.1
RTS (Russia)	1177.5	-1.8	2.6	10.2

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.906	-1.0	-3.4	-3.3
FRS, % p.a.	2.25-2.50	0.0	9.1	0.0
ECB, % p.a.	0.000	0.0	0.0	0.0
NBU, % p.a.	18.000	0.0	0.0	0.0
CB RF, % p.a.	7.750	0.0	0.0	0.0

Source: Bloomberg

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MACROECONOMICS

GDP

According to up-to-date estimate of the State Statistics Service, Ukraine's real GDP grew 1.1% over the fourth quarter of 2018 compared to the previous quarter (seasonally adjusted data). Compared to the fourth quarter of 2017, the country's GDP rose 3.4%.

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 3.0% in January 2019 compared to January of the previous year. In particular, output at agricultural enterprises grew 7.0%, while output at private farms shrank 1.6%.

Over the previous month, agricultural output in Lviv (+18.4%), Vinnytsya (+13.9%) and Cherkasy (+13.1%) oblasts grew the most. Over the above-mentioned period, agricultural output declined in nine Ukrainian oblasts. Agricultural output in Volyn (-6.7%), Zaporizhzhya (-6.2%) and Kherson (-5.9%) oblasts shrank the most.

Unemployment

The total number of registered unemployed went up over the previous month and landed at 364,300 individuals by the end of January 2019. 188,500 registered unemployed are residing in urban areas, while 175,800 registered unemployed are living in rural area. As before, the majority of registered unemployed are women, totaling 190,900 individuals.

In January 2019, the number of vacant positions went up to 67,800 vacancies. There were five registered unemployed for each vacancy in January 2019.

Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 10,573.00 in December 2018, which constitutes approximately 280.0% of the minimum wage (UAH 3,723.00).

The average nominal wage was registered at 115.4% compared to November 2018 and at 120.5% compared to December 2017.

In December 2018, the index of real wages reached 114.5% compared to November 2018 and 109.7% compared to December 2017.

In December 2018, the highest wages were observed in the city of Kyiv (UAH 16,546.00), Donetsk oblast (UAH 11,298.00) and Kyiv oblast (UAH 11,146.00). The lowest wages were registered in Chernihiv (UAH 8,005.00), Kirovohrad (UAH 8,190.00) and Ternopil (UAH 8,307.00) oblasts.

Areas of business activity where employees earn the highest wages include finance and insurance (UAH 18,088.00), public administration and defense (UAH 17,192.00), and information and telecommunications (UAH 15,518.00). The lowest wages were registered in public catering (UAH 6,801.00), in healthcare and social security (UAH 7,340.00), and among those employed in agriculture and in forest management (UAH 8,204.00).

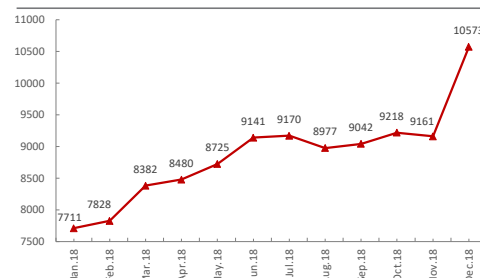
As of 1 January 2019, total wage arrears were registered at UAH 2,645.1 million, including wage arrears of economically active companies at UAH 1,455.7 million (55.0%), wage arrears of bankrupt companies at UAH 795.5 million (30.1%) and wage arrears of economically inactive companies at UAH 393.8 million (14.9%).

LATEST MACROECONOMIC DATA

Indicator	Value
Real GDP change over Q4'2018, % to Q4'2017	3.4
Change in agricultural output in January 2019, % year-on-year	3.0

Source: the State Statistics Service

AVERAGE NOMINAL WAGES (UAH)



Source: the State Statistics Service

BOND MARKET

At a scheduled tender for primary placement of internal government bonds held by the Ministry of Finance on 12 February, participants were less active compared to previous tenders in January and February of the current year.

The Ministry of Finance offered five types of bonds denominated in hryvnia and four types of bonds denominated in US dollars. The majority of bonds offered have to mature in four month to two years.

Bonds denominated in hryvnia and maturing in 119 days enjoyed the highest demand. The Ministry of Finance satisfied all seventeen bids submitted.

The Ministry of Finance satisfied the entire demand for other bonds, setting the earning rates similar to those registered at previous placements.

Unlike at previous tenders, non-residents were noticeably less active on the market of internal government bonds. At the same time, the National Bank continues curtailing its portfolio.

By the end of February 2019, the Ministry of Finance has to repay one issues of internal government bonds maturing in five years for the total of UAH 1.5 billion and one issues maturing in two months for the total of UAH 3.0 billion; one issues maturing in 22 days for the total of USD 0.3 billion and one issues maturing in 252 days for the total of USD 0.5 billion respectively.

As a result of the tender held on 12 February, the Ministry of Finance managed to raise UAH 3.5 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 2.1 billion and, as of 15 February 2019, totaled UAH 760.6 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 50.9 billion, and all of them were overnight certificates of deposit.

The interest rate for overnight certificates of deposit stood at 16.00% per annum.

During the previous week, the National Bank did not place deposit certificates maturing in fourteen days.

At a scheduled NBU quantity tender announced on 15 February to refinance banks, bids of three banks for the total of UAH 3.8 billion were satisfied. The interest rate reached 18.00% per annum. The resources were provided for the period of fourteen days.

Banks used the standing NBU refinancing line (overnight loans) for the total of UAH 102.0 million over the previous week. The interest rate stood at 20.00% per annum.

A positive balance of the State Treasury transactions reached UAH 0.5 billion over the previous week.

The banking system liquidity is currently at a high level and 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
12 Feb.	119 days	19,50%	17/17	2087,07
12 Feb.	175 days	19,00%	10/10	97,24
12 Feb.	280 days	18,50%	1/1	4,38
12 Feb.	350 days	18,50%	5/5	10,13
12 Feb.	511 days	18,25%	6/6	163,54
12 Feb.	64 days, den. in USD	6,50%	9/9	27,84*
12 Feb.	252 days, den. in USD	7,20%	10/10	2,63*
12 Feb.	351 days, den. in USD	7,25%	9/9	4,39*
12 Feb.	729 days, den. in USD	7,50%	15/15	5,34*

* - 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	338.6	-0.6	-2.4	-2.7
Banks	375.8	0.7	0.8	0.4
Legal entities	25.5	4.8	29.0	23.1
Private individ.	7.1	5.1	18.9	17.7
Non-residents	13.5	1.0	107.0	113.1

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		56.9	16.4	-0.5	59.7
NBU refinancing, UAH billions		54.8	0.0	3.4	0.0
NBU deposit certi- ficates	O/N, UAH billions	9.2	-48.2	-21.6	-69.6
	Total, UAH billions	55.6	-13.3	16.1	-10.2

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

The interbank lending market was stable during the previous week. Rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 13.00-15.00% per annum.

FOREIGN EXCHANGE MARKET

During the previous week, the foreign exchange market was registering increased volatility. The market was testing new foreign exchange regulations. After several weeks when foreign exchange supply was exceeding demand, the balance shifted, and a foreign exchange shortage triggered depreciation of the national currency exchange rate. In addition, non-residents stopped selling foreign exchange to purchase internal government bonds, which also had a negative impact on the hryvnia exchange rate.

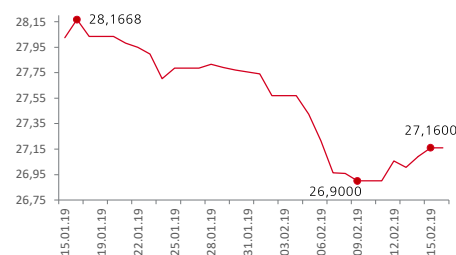
As a result, on Friday, 15 February, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.2479/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.00-27.15/USD on Monday, 11 February, UAH 26.95-27.10/USD on Tuesday, 12 February, UAH 27.05-27.15/USD on Wednesday, 13 February, UAH 27.10-27.25/USD on Thursday, 14 February, and UAH 27.20-27.30/USD on Friday, 15 February.

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

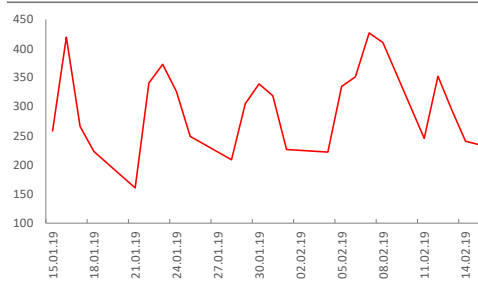
Over 11-15 February, the National Bank purchased USD 25.0 million from banks by way of foreign exchange interventions in the form of matching.

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Prices for benchmark crudes continued growing during the previous week. Investors are waiting for new signals about how the trade negotiations between the US and China are proceeding. The Brent crude price is currently record-high for the last three months. Also, data on further reduction of the global petroleum output and shrinking petroleum exports from Saudi Arabia supported crude prices.

According to data of the US Department of Energy, Venezuela curtailed petroleum deliveries to the country to a record-low level during the previous week, while Saudi Arabia delivered a mere 415,000 barrels per day, which coincides with a historical record-low.

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	227.5	0.0	1.6	2.9
Brent crude. USD/barrel	66.3	6.7	9.0	22.6
WTI crude. USD/barrel	55.6	5.4	6.1	21.6
Gold. USD/ounce	1316.6	0.1	1.7	2.9

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.4 (fourth quarter, preliminary estimate)	-
Industrial output. %	-13.4	2.4	-0.1	1.1	-
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9,2 (January)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	10,4 (January)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	-
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	20,8 (January, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	-
Banking system assets. % of growth	4.7	0.2	6.4	2.0	-
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	27.76 (January)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.76 (January)

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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