Financial markets survey

04 March 2019

THE US AND CHINA ARE CLOSE TO FINISHING THE TRADE WAR

WEEKLY ISSUE

The US GDP has been finally calculated
Ukrainian exports are demonstrating growth
The mandatory foreign exchange sale requirement was lowered to 30%

GLOBAL MARKET

The American stock indices were going down in the course of the previous week in connection with growing geopolitical risks. However, they finished the second consecutive month with an upturn. On Friday, 1 March, stock indices demonstrated active growth thanks to optimistic moods related to trade negotiations between the US and China. The American side is preparing the final text of its trade agreement with China for a summit of the two countries' leaders, which may take place in the middle of March.

Traders focused their attention on growing tension in relations of India and Pakistan, as well as the lack of agreements resulting from negotiations between US President Donald Trump and North Korean Supreme Leader Kim Jong Un. Donald Trump and Kim Jong Un rolled down their negotiations in Hanoi ahead of schedule due to a failure to reach an agreement. Earlier, US President Trump stated that the US and North Korea were not hurrying as regards denuclearizing the Korean Peninsula and were willing to work out a "correct agreement".

The US economy grew 3.1% in 2018 after rising 2.5% in 2017. The main factor behind the stronger annual growth was the support of economy as a result of the 2017 tax reform totaling USD 1.5 trillion. The US GDP slowed down to 2.6% in the fourth quarter of 2018 from 3.4% registered in the third quarter and was record-low since January-March of the previous year. Usually, preliminary data on the US GDP for the fourth quarter are published at the end of January, while the revised estimate comes out in February. However, the operation of the US Government was partially suspended for 35 days in December 2018 and January 2019. This is why, preliminary and revised data were united in one report.

Consumer expenditures, which account for approximately 70% of the US GDP, grew 2.8% in the fourth quarter of 2018. The US exports rose 1.6%, while imports went up 2.7%. Government expenditures inched up 0.4% thanks to a sharp increase in defense spending – 6.9%.

The Consumer Price Index in Germany grew 1.7% in February in annual terms. Thus, inflation in Germany continues to stay record-low since April 2018 for the third consecutive month. The Consumer Price Index in the euro-area rose 1.5% in February 2019.

During the current week, the European Central Bank will hold an important meeting: top officials of the central bank will have to decide whether the weakening economic growth in the euro-area needs new monetary incentives.

During the previous week, 25 February – 1 March, trading in the "EUR/USD" pair ranged within the limits of USD 1.1322-1.1420/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1383	0.5	-0.3	-0.6
GBP/USD	1.3202	1.1	1.0	3.5
USD/RUB	65.8895	0.5	-0.1	-5.2
USD/UAH	26.8622	-0.6	-3.3	-3.0

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2803.7	0.4	6.2	11.8
FTSE 100 (UK)	7106.7	-1.0	4.0	5.6
MXME (East. Eur.)	164.2	-0.9	-0.9	7.9
PFTX Index	555.4	0.1	0.6	-0.7
RTS (Russia)	1187.4	-0.9	-0.3	11.1

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.879	-0.4	-4.8	-4.2
FRS, % p.a.	2.25-2.50	0.0	0.0	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

www.pumb.ua

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

MACROECONOMICS

Balance of payments*

In January 2019, surplus of Ukraine's current account landed at USD 446.0 million (preliminary data).

In January 2019, Ukraine registered that exports of goods went up 9.1% (4.2% in December 2018). Imports of goods remained practically at the level of January 2018. They rose a mere 1.2% (1.0% in December 2018).

Exports of goods reached USD 3.7 billion in January 2019. The main factor behind growing exports was exports of food products rising 22.9% (17.0% in December 2018) thanks to exports of grains. In addition, exports of ferrous and non-ferrous metals increased 7.8%, while exports of manufactured goods jumped 18.6%. At the same time, exports of machine-building products declined 16.4%, exports of chemical products plummeted 24.0%, and exports of mineral products (including ores) inched down 0.4%.

In nominal terms, exports to African countries and the European Union grew the most: USD 176.0 million (160%) and USD 103.0 million (7.3%) respectively.

Imports of goods landed at USD 4.0 billion in January 2019. Energy imports shrank 10.0%, while non-energy imports grew 4.8%. Imports of machine-building products grew the most – 21.7% – thanks to imports of passenger vehicles, which grew 240%. Also imports of food products rose 9.6%, while imports of ferrous and non-ferrous metals inched up 0.7%. At the same time, imports of chemical products declined 9.3%, while imports of manufactured goods went down 7.2%.

In nominal terms, imports from Asian countries and the European Union grew the most: USD 143.0 million (16.8%) and USD 84.0 million (6.2%) respectively.

Net lending resources provided from abroad reached USD 441.0 million in January 2019.

Net outflows under the financial account landed at USD 0.5 billion in January 2019 and were mainly the result of private sector transactions.

Net inflows of foreign direct investment were estimated at USD 168.0 million in January 2019, while 53.0% of them were channeled to the real sector.

Net increase of the banking system external position in portfolio and other investment reached USD 168.0 million in January 2019 and was caused by growing assets under the article "foreign exchange and deposits".

Net increase of the real sector external position reached USD 677.0 million in January.

On the whole, net outflows under private sector transactions landed at USD 654.0 million in January 2019.

Deficit of Ukraine's consolidated balance of payments landed at USD 68.0 million in January 2019.

As of 01 February 2019, Ukraine's total stocks of international reserves were registered at USD 20.8 billion, which provides for financing 3.4 months of future imports.

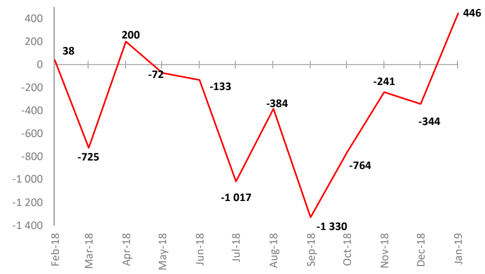
* preliminary data

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in January 2019, USD millions	446.0

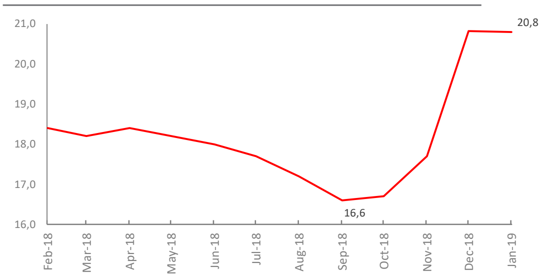
Source: the National Bank of Ukraine

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD BILLIONS)



Source: the National Bank of Ukraine

BOND MARKET

On 28 February, Ukraine managed to attract a loan totaling EUR 529.0 million from Deutsche Bank against security of the International Bank for Reconstruction and Development (IBRD) to support government policies in the area of economic growth (tranche A totaling EUR 240.0 million for four years and tranche B totaling EUR 289.0 million for ten years).

The Ministry of Finance increased the number of tenders scheduled for March 2019 for placing internal government bonds denominated in US dollars to twelve from six tenders initially announced at the end of December 2018. According to the updated schedule for placing internal government bonds, additional tenders will be held in the second half of the month.

At a scheduled tender for primary placement of internal government bonds held on 26 February, the Ministry of Finance offered five types of bond denominated in hryvnia and six types of bonds denominated in US dollars.

As before, demand for bonds denominated in hryvnia continues to be far from high. Given the need for budget resources, the Ministry of Finance satisfied all bids submitted. Interest rates remained at the levels of previous placements.

The interest in internal government bonds denominated in foreign exchange was noticeably higher. Given upcoming payments, the Ministry of Finance satisfied all bids submitted. Earning rates remained at the levels of previous placements.

During the current week, the Ministry of Finance will have to pay out one issue of internal government bonds denominated in hryvnia for the total of UAH 3.4 billion (maturing in twelve months).

In February 2019, revenues of the State Budget were fulfilled 108.3%. Over January-February 2019, revenues of the State Budget were fulfilled 99.0%.

As a result of the tender held on 26 February, the Ministry of Finance managed to raise UAH 4.7 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 10.6 billion and, as of 1 March 2019, totaled UAH 743.8 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 96.1 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 1 March to refinance banks, bids of three banks for the total of UAH 2.5 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 7.0 billion over the previous week. The interest rate stood at 20.00% per annum.

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

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
26 Feb.	105 days.	19,50%	16/16	639,97
26 Feb.	161 days.	19,00%	8/8	165,50
26 Feb.	336 days.	18,50%	4/4	2,32
26 Feb.	693 days.	18,00%	4/4	248,91
26 Feb.	112 days, den. in USD	6,50%	4/4	72,20*
26 Feb.	141 days, den. in USD	6,70%	7/7	18,48*
26 Feb.	288 days, den. in USD	7,25%	8/8	35,03*
26 Feb.	350 days, den. in USD	7,25%	15/15	2,59*
26 Feb.	511 days, den. in USD.	7,25%	9/9	3,70*
26 Feb.	715 days, den. in USD	7,50%	17/17	4,24*

* - 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	337.1	0.0	-1.9	-3.2
Banks	362.3	-2.3	-2.9	-3.2
Legal entities	23.7	-7.3	14.1	14.4
Private individ.	7.2	-4.2	7.2	18.7
Non-residents	13.4	-0.5	36.5	111.0

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions		44.2	-20.1	-8.6	24.0
NBU refinancing, UAH billions		52.5	-2.9	-8.5	-4.2
NBU deposit certi-ficates	O/N, UAH billions	24.5	186.1	4.4	-18.6
	Total, UAH billions	70.1	29.4	-2.1	13.2

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

Despite a slight narrowing of the banking system liquidity, which is traditional for the end of a reporting period, rates for overnight, weekly and monthly lending resources in the national currency returned to the levels of 13.00-15.00% per annum on the interbank lending market.

FOREIGN EXCHANGE MARKET

The previous week was positive for the Ukrainian hryvnia. Since the very beginning of the previous week, foreign exchange supply was exceeding demand. Neither additional incoming hryvnia resources from VAT refunds, nor the slackness of non-residents on the market of internal government bonds put any pressure on the national currency. In addition, on 1 March, the decision of the National Bank to lower the mandatory foreign exchange sale requirement for exporters to 30% from 50% came into force, which also did not change the appreciating trend of the national currency exchange rate. The NBU did not seriously interfere with trading, except for buying the announced amount to replenish its reserves (USD 15.0 million per day), letting participants in the foreign exchange market find the exchange rate balance on their own.

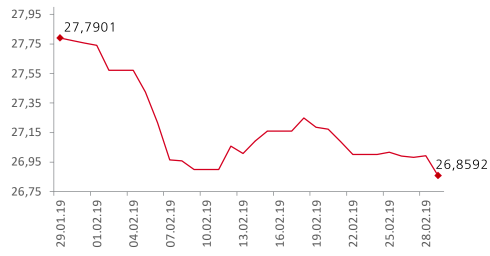
As a result, on Friday, 1 March, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.8622/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.94-27.03/USD on Monday, 25 February, UAH 26.95-27.03/USD on Tuesday, 26 February, UAH 26.95-27.03/USD on Wednesday, 27 February, UAH 26.83-26.91/USD on Thursday, 28 February, and UAH 26.83-26.91/USD on Friday, 1 March.

Over 25 February – 1 March, the National Bank purchased USD 75.0 million from banks by way of foreign exchange interventions in the form of matching.

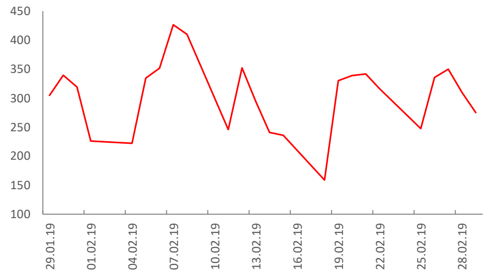
The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.5 billion over the previous week.

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

From Monday to Thursday, the world was witnessing confident growth of prices for benchmark crudes. After the failure to recover above USD 67.0 per barrel, petroleum prices started to decline on Friday, 1 March, and finished the previous week in the red due to weak statistical data from the US.

Later on Friday, there was a publication demonstrating the results of a survey pointing that petroleum output of the OPEC member states fell record-low over the last four years by the end of February 2019.

Despite the criticism on the part of US President Donald Trump, Saudi Arabia and other member states of the cartel curtailed petroleum output even more in February 2019.

The story of sanctions against Iran and Venezuela is also contributing to lower global petroleum supply. The period of waivers for buyers of Iranian crude oil will expire in May 2019. Afterwards, petroleum exports from the country can serious fall.

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	223.0	-1.3	-1.3	0.9
Brent crude. USD/ barrel	65.1	-3.2	6.2	19.8
WTI crude. USD/ barrel	55.8	-2.5	4.1	21.1
Gold. USD/ounce	1312.0	-1.3	0.3	2.6

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	-3.3
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)	**0,0 (January, preliminary estimate)**
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	**0,4 (January, preliminary estimate)**
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	**-0,2 (January, 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	**26,99 (February)**
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.88 (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	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

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