

Financial markets survey

01 April 2019

MARKETS AIMED AT GROWTH

WEEKLY ISSUE

The EU is prepared for Brexit without any deal
Imports are outpacing exports again
Liquidity has recovered

GLOBAL MARKET

The previous week was rather positive for the American markets. The finished quarter was the best one for the American stock market starting from the second quarter of 2009. Investors gave a positive reaction to progress in trade negotiations between the US and China, as well as to softening positions of global central banks.

The US Department of Commerce revised its estimate of GDP growth in the fourth quarter of 2018 downwards - to 2.2% from the earlier announced 2.6%. The revision of the US GDP growth reflects the worsening dynamics of consumer expenditures and business investment compared to preliminary data. Thus, growth estimate of consumer expenditures, which account for more than two-thirds of the US GDP, was downgraded to 2.5% from 2.8%, while the same indicator for business investment was revised downwards to 3.7% from 4.6%. Estimate of the US GDP for the entire 2018 was revised down to 3.0% from 3.1%.

Over the previous week, mortgage lending rates in the US fell record-low for the last decade after the FRS gave up its intention to raise the federal funds rate in 2019. During the previous week, the average fixed 30-year mortgage rate dropped record-low for the last fourteen months - to 4.06% per annum compared to 4.28% per annum registered a week earlier. Such a serious fall of this indicator has not been observed since June 2009.

The Composite Business and Consumer Confidence Index in the euro-area declined to 105.5 points in March 2019 from the revised 106.2 points in February. This indicator has been going down for the ninth consecutive month, while the value registered in March turned out to be a record-low since October 2016. Weak signals throughout the entire euro-area and worsening macroeconomic forecasts of the European Central Bank darkened the moods in all sectors.

On Friday, 29 March, members of the British House of Commons voted against the agreement on the UK's withdrawal from the European Union. Before 12 April, British Prime Minister Theresa May will have to submit her further Brexit plan to the EU. Otherwise, the country will have to leave the EU without any agreement on 12 April. The EU is fully prepared for the UK's withdrawal without any agreement and considers this option for further developments to be the most likely. President of the European Council Donald Tusk announced an extraordinary EU summit on 10 April in connection with the results of the Brexit vote in the British Parliament.

During the previous week, 25-29 March, trading in the "EUR/USD" pair ranged within the limits of USD 1.1210-1.1334/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1235	-0.6	-1.3	-1.9
GBP/USD	1.3035	-1.3	-1.3	2.2
USD/RUB	64.8012	1.7	-1.7	-6.7
USD/UAH	27.2091	0.9	1.3	-1.7

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2834.4	1.2	1.1	13.1
FTSE 100 (UK)	7279.2	1.0	2.4	8.2
MXME (East. Eur.)	164.9	-1.4	0.4	8.4
PFTS (Ukraine)	573.8	3.6	3.3	2.6
RTS (Russia)	1198.1	-1.3	0.9	12.1

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.711	-2.7	-5.8	-9.8
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

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MACROECONOMICS

Balance of payments*

In February 2019, deficit of Ukraine's current account landed at USD 381.0 million or 4.4% of GDP.

In February 2019, exports of goods grew at a more sluggish pace than imports of goods - 7.3% and 14.9% respectively. As a result, deficit of trade in goods expanded to USD 1.1 billion (USD 235.0 million in January 2019).

Exports of goods reached USD 3.6 billion in February 2019. The main factor behind growing exports was exports of food products leaping 26.9% thanks to exports of grains. In addition, exports of machine-building products increased 15.0%, while exports of mineral products (including ores) rose 5.7%. At the same time, exports of ferrous and non-ferrous metals shrank 17.9%, while exports of chemical products fell 15.4%.

Over January-February 2019, exports to African countries grew the most in nominal terms - USD 248.0 million or 37.5%. Exports to the European Union countries and Asian countries rose USD 163.0 million (6.1%) and USD 151.0 million (7.3%) respectively.

Imports of goods landed at USD 4.6 billion in February 2019. Energy imports grew 15.3% thanks to imports of gas, while non-energy imports grew 14.9%. The main factor behind growing imports was imports of machine-building products jumping 38.9% thanks to imports of passenger vehicles, which grew 290%. Also, imports of food products rose 5.3%, imports of ferrous and non-ferrous metals grew 4.4%, imports of chemical products increased 5.6%, while imports of manufactured goods went up 19.5%.

Over January-February 2019, imports from the European Union countries and Asian countries grew the most in nominal terms - USD 454.0 million or 15.9% and USD 382.0 million or 22.5% respectively. Imports from the Russian Federation shrank USD 135.0 million (10.6%) .

Net lending resources provided from abroad reached USD 379.0 million in February 2019.

Net inflows under the financial account landed at USD 131.0 million in February 2019 and were mainly the result of private sector transactions.

Net inflows of foreign direct investment were estimated at USD 369.0 million in February 2019, while 33.0% of them were transactions to restructure debts of the banking sector. 56% of total foreign direct investment were channeled to the real sector.

Net increase of the banking system external position in portfolio and other investment reached USD 1.2 billion in February 2019 and was caused mainly by assets under the article "foreign exchange and deposits" growing USD 877.0 million.

Net increase of the real sector external position reached USD 750.0 million in February.

On the whole, net inflows under private sector transactions landed at USD 127.0 million in February 2019.

Deficit of Ukraine's consolidated balance of payments landed at USD 248.0 million in February 2019. Repayments of debts to the IMF reached USD 359.0 million.

As of 01 March 2019, Ukraine's total stocks of international reserves were registered at USD 20.2 billion.

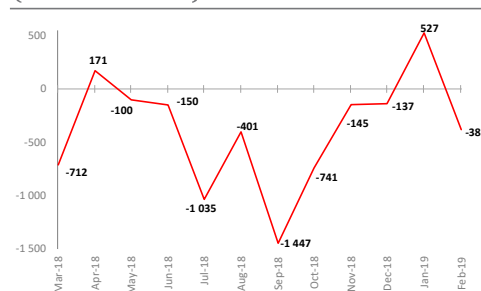
* preliminary data

LATEST MACROECONOMIC DATA

Показатель	Значение
Current account balance in February 2019, USD millions	-381.0

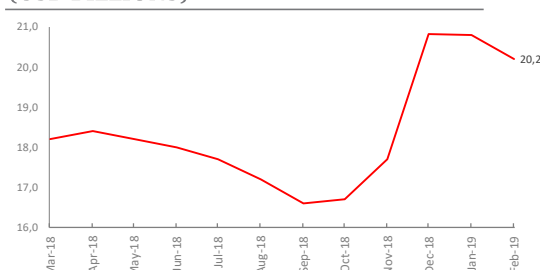
Source: the National Bank of Ukraine

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD BILLIONS)



Source: the National Bank of Ukraine

BOND MARKET

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

The trend of demand shifting towards longer-term bonds persisted, while interest rates for bonds remained at the levels of previous placements.

The Ministry of Finance satisfied all bids submitted for purchasing eight types of bonds out of nine types offered. Four bids for purchasing bonds maturing in 4.5 years were rejected in full due to the unwillingness to raise resources for such a term at the rate of 17.00% per annum.

The highest demand in terms of the number of bids was registered for the shortest term bonds (maturing in June 2019) - 32 bids. The highest demand in terms of the total sum of bids was registered for bonds denominated in hryvnia and maturing in two years.

As regards bonds denominated in foreign exchange, bonds maturing in two years enjoyed the highest demand.

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 5.6 billion (maturing in 294 days) and one issue of internal government bonds denominated in foreign exchange for the total of USD 135.0 million (maturing in 490 days).

As a result of the tender held on 26 March, the Ministry of Finance managed to raise UAH 5.5 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 0.6 billion and, as of 29 March 2019, totaled UAH 757.9 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 60.8 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 29 March to refinance banks, bids of three banks for the total of UAH 83.8 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 11.8 billion over the previous week. The interest rate stood at 20.00% per annum.

A positive balance of the State Treasury transactions reached UAH 1.4 billion over the previous week.

The banking system liquidity is at a high level (above UAH 100.0 billion) 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 Mar.	112 days	19,50%	32/32	1187,19
26 Mar.	161 days	19,00%	8/8	14,88
26 Mar.	308 days	18,50%	4/4	3,49
26 Mar.	469 days	18,25%	7/7	520,71
26 Mar.	728 days	18,00%	9/9	2076,25
26 Mar.	84 days, den. in USD	6,50%	7/7	8,51*
26 Mar.	322 days, den. in USD	7,25%	9/9	1,63*
26 Mar.	687 days, den. in USD	7,25%	13/13	52,37*

* - 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	0.0	-3.2
Banks	367.3	-0.2	-0.9	-1.9
Legal entities	25.2	-3.0	-1.5	21.7
Private individ.	8.0	2.2	5.9	31.1
Non-residents	20.3	11.7	50.7	219.8

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	48.3	-12.7	-18.6	35.5
NBU refinancing, UAH billions	49.0	0.1	-9.4	-10.6
NBU deposit certificates	O/N, UAH billions	19.2	231.7	9.8
	Total, UAH billions	57.8	30.3	-8.4

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 14.00-16.00% per annum.

FOREIGN EXCHANGE MARKET

The previous week was rather dynamic for the interbank foreign exchange market. During the first half of the previous week, the hryvnia tried to recover its positions. The national currency was supported by non-residents that were actively selling foreign exchange to purchase internal government bonds. Since the middle of the previous week, foreign exchange demand exceeded supply, importers were actively closing contracts at the end of the first quarter, while exporters did not hurry to sell foreign exchange expecting further depreciation of the exchange rate. On Friday, 29 March, foreign exchange demand also exceeded supply and was connected with increased liquidity resulting from significant VAT refunds.

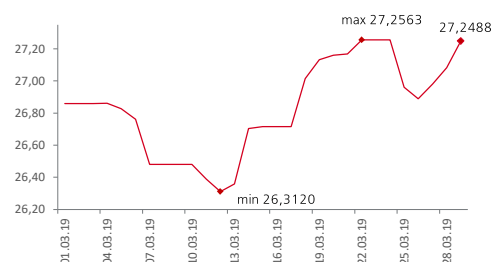
As a result, on Friday, 29 March, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.2091/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.85-26.98/USD on Monday, 25 March, UAH 26.90-27.05/USD on Tuesday, 26 March, UAH 27.00-27.13/USD on Wednesday, 27 March, UAH 27.20-27.30/USD on Thursday, 28 March, and UAH 27.15-27.35/USD on Friday, 29 March.

Over 25-29 March, the National Bank purchased USD 15.0 million from banks by way of foreign exchange interventions in the form of matching.

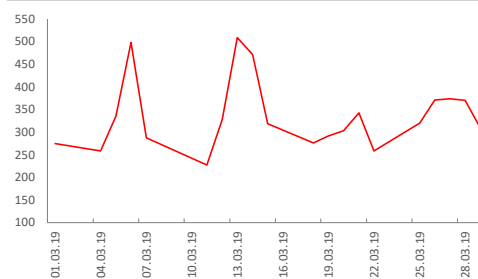
The overall weekly foreign exchange sales volumes on the interbank foreign exchange market reached USD 1.5 billion over the previous week.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Prices for benchmark crudes grew by the end of the previous week, month and quarter thanks to shrinking petroleum output in the OPEC+ member states, as well as falling petroleum deliveries from Venezuela and Iran due to the American sanctions.

US President Donald Trump is putting more pressure on the OPEC. On Thursday, 28 March, Donald Trump once again called on the cartel of petroleum producers to increase crude output and to lower petroleum prices.

The issue of the US prolonging permits for a number of countries to import oil from Iran bypassing sanctions will play an important role for petroleum quotations in April.

Also, the market is following the progress in negotiations between the US and China in trade area.

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	214.0	-1.8	-4.0	-3.2
Brent crude. USD/barrel	67.0	-0.2	-0.3	23.4
WTI crude. USD/barrel	59.0	0.4	2.2	26.9
Gold. USD/ounce	1311.3	0.6	-1.3	2.5

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	-
Industrial output. %	-13.4	2.4	-0.1	1.1	-1.8 (February)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	8.8 (February)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	10.2 (February)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	-0.2 (February, 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)	-1.1 (February, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	20.2 (February, 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	0.6 (January-February)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	27.25 (March)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.52 (January-February)

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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