

Financial markets survey

15 April 2019

BREXIT POSTPONED TILL OCTOBER

WEEKLY ISSUE

Risks for the economy in the FRS and the ECB comments
Inflation in Ukraine slowed down to 8.6%
Investments in internal government bonds are growing

GLOBAL MARKET

The previous week was rather neutral for financial markets. At the same time, on Wednesday alone, three rather important events happened all at once – the EBC held a meeting, minutes of the FRS meeting in March were published, and the EU summit on Brexit took place.

According to the published minutes, the Federal Reserve top officials mentioned a “considerable uncertainty” in respect of the US and global economic prospects, as well as discreet inflationary pressure as factors that make it advisable to use a patient approach to taking further decisions on adjusting the federal funds rate in the future. Decisions on the federal funds rate level at the nearest meetings will depend on estimates of the economic situation, as well as changes in the nature of risks. The FRS downgraded its forecast for economic upheaval in the US for 2019 from 2.3% to 2.1%, for 2020 from 2.0% to 1.9%, as well as confirmed its forecast for 2021 at 1.8%.

In March, producer prices in the US went up 0.6% compared to February. Excluding food and energy, the Producer Price Index grew 0.3% instead of the earlier expected 0.2%.

At the ECB meeting, the ECB top officials confirmed the regulator’s readiness to provide incentives for the euro-area economy. According to the ECB forecast, interest rates will remain at ultra low levels at least until the end of 2019. Based on the results of the meeting, ECB President Mario Draghi stated that inflation in the euro-area could slow down in the near future. Some negative factors weakened. However, risks for the economic forecast remain shifted towards downgrading.

In March 2019, consumer prices in Germany grew 1.4% in annual terms. Over the previous three months, the rate of inflation in Germany stayed at 1.7%.

On Wednesday, 10 April, an extraordinary European Union summit took place. Leaders of the EU countries managed to reach a compromise regarding the new date of Brexit – now it is scheduled for 31 October 2019. If London and the EU do not reach an agreement before that date, the UK will have to leave the European Union without any deal. Thus, the deadline of 12 April was postponed for a later date.

During the previous week, 08-12 April, trading in the “EUR/USD” pair ranged within the limits of USD 1.1211-1.1325/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)	2907.4	0.5	3.4	16.0
FTSE 100 (UK)	7437.1	-0.1	3.9	10.5
MXME (East. Eur.)	172.0	2.2	5.0	13.1
PFTS (Ukraine)	536.6	-5.1	-1.9	-4.1
RTS (Russia)	1253.4	2.3	5.4	17.3

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.748	-0.1	-3.9	-8.6
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

Consumer prices

According to information of the State Statistics Service, consumer prices grew 0.9% in March 2019 compared to February 2019. Compared to March of the previous year, consumer prices rose 8.6%. Since the beginning of the current year, consumer prices grew 2.4%.

In March 2019, core inflation landed at 1.2% compared to the previous month and at 1.7% 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 0.4% in March 2019. Prices for vegetables and fruits rose the most – 2.4% and 1.7% respectively. Prices for products made from grain crops, bread, pasta, fish and fish products, cheeses, and butter went up 1.1-0.5%. At the same time, prices for pork, milk, lard, rice sunflower-seed oil, and beef declined 1.0-0.3%.

Prices for alcoholic beverages and tobacco products rose 0.9% over the previous month, including 1.3% for tobacco products and 0.5% for alcoholic beverages.

Prices for clothes and footwear went up 11.3% over the previous month.

In March 2019, transport prices inched up 0.5 % on the whole, which was mainly the result of passenger rail transport fares and road transport fares growing 4.7% and 1.2% respectively.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel inched up 0.3% in March 2019, which was mainly the result of higher rates for sewage (+2.0%), water supply (+1.9%), hot water and heating (+0.7%), and maintenance of houses and adjoining territories (+0.6%).

Prices for communication services grew 2.2% in March 2019, while prices for healthcare services rose 0.4%. Prices for education services inched up 0.1% over the previous month. Prices in hotels and restaurants increased 0.7%, and prices for rest, recreation and cultural services went up 0.2%.

Producer prices

In March 2019, producer prices went down 1.0% compared to the previous month. Compared to March of the previous year, inflation of producer prices landed at 8.9%.

In March, producer prices grew in mining industry (+1.9%) and in processing industry (+0.4%). Prices in deliveries of electric energy, gas and vapor registered a 5.2% decline over the previous month.

Prices in the production of crude oil and natural gas went down 1.9% in March 2019, while prices in black coal production inched down 0.2%. At the same time, prices in the production of iron ores rose 6.2%.

In March 2019, the country registered growing prices in steel industry (+0.7%), in chemicals and chemical products (+0.7%), in coke production and oil refining (+3.3%), and in key pharmaceuticals and pharmaceutical products (+0.9%).

At the same time, prices in food products, beverages and tobacco products inched down 0.1%, while prices in machine-building declined 0.7%.

CONSUMER PRICE INDEX

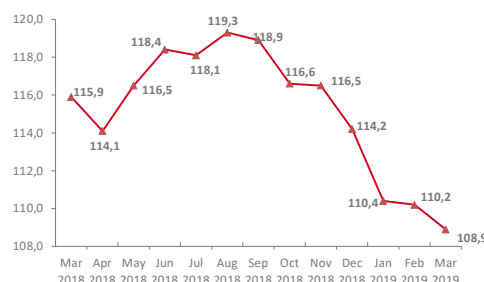
(month-on-month of the previous year, %)



Source: the State Statistics Service

PRODUCER PRICE INDEX

(month-on-month of the previous year, %)



Source: the State Statistics Service

BOND MARKET

A scheduled tender for primary placement of internal government bonds held on 9 April by the Ministry of Finance once again registered active demand for government bonds, especially for those denominated in hryvnia.

As before, the shortest term bonds enjoyed the highest demand again. Thirty-eight bids for the total of UAH 4.5 billion were submitted for purchasing bonds maturing in four months. The requested interest rates ranged within the limits of 19.00-20.00% per annum. The Ministry of Finance set the cut-off rate at the level of previous placements, at 19.50% per annum, and rejected one bid requesting a higher rate.

The Ministry of Finance satisfied all bids submitted for purchasing bonds denominated in hryvnia and maturing in six months and in twelve months, leaving the earning rates unchanged.

Nine bids requesting interest rates within the limits of 18.00-18.25% per annum were submitted for purchasing bonds maturing in two years. Once again, the Ministry of Finance refused to raise the cut-off rate above 18.00% per annum and rejected one bid for the total of UAH 90.0 million.

Also, all bids for purchasing bonds denominated in US dollars and maturing in twelve months and in eighteen months, as well as bonds denominated in Euros and maturing in eight months were satisfied. Rates for the above-mentioned placements remained at the level of previous placements for similar periods.

During the current week, the Ministry of Finance will have to pay out two issues of internal government bonds denominated in foreign exchange for the total of USD 73.0 million (maturing in eighteen months) and for the total of USD 259.2 million (maturing in three months).

As a result of the tender held on 9 April, the Ministry of Finance managed to raise UAH 8.2 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 1.5 billion and, as of 12 April 2019, totaled UAH 756.3 billion (according to the total principal). At the same time, non-residents' portfolio increased UAH 3.8 billion once again.

NBU OPERATIONS

Over the previous week, banks purchased NBU deposit certificates for the total of UAH 63.1 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 12 April to refinance banks, bids of three banks for the total of UAH 83.8 million were satisfied. The interest rate reached 18.00% per annum. The resources were provided for the period of fourteen days.

Banks did not use the standing NBU refinancing line (overnight loans) during the previous week.

A positive balance of the State Treasury transactions reached UAH 9.9 billion over the previous week.

As before, the banking system liquidity is at an excessive 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
09 Apr.	119 days	19.50%	38/37	4256.18
09 Apr.	182 days	18.99%	16/16	599.73
09 Apr.	357 days	18.48%	9/9	931.09
09 Apr.	714 days	18.00%	9/8	1940.42
09 Apr.	358 days, den. in USD	7.25%	8/8	9.41*
09 Apr.	469 days, den. in USD	7.25%	14/14	4.07*
09 Apr.	231 days, den. in EUR	4.60%	10/10	2.57**

* - USD millions, ** - EUR 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	359.4	-1.5	-0.3	-4.0
Legal entities	26.1	3.4	6.5	25.7
Private individ.	8.1	2.6	11.7	34.0
Non-residents	25.6	12.1	82.3	303.0

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	55.3	35.5	-6.5	55.2
NBU refinancing, UAH billions	48.9	0.0	-4.9	-10.7
NBU deposit certificates	O/N, UAH billions	9.9	-59.8	34.2
	Total, UAH billions	55.3	-12.3	25.0

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

After a slight growth of rates, the interbank lending market returned to its habitual benchmarks. Rates for overnight, weekly and monthly lending resources in the national currency are ranging within the limits of 14.00-16.50% per annum.

FOREIGN EXCHANGE MARKET

During the previous week, depreciation of the national currency and its appreciation were taking turns on the interbank foreign exchange market. On the whole, market mechanisms functions well, and the National Bank did not interfere.

Active foreign exchange sales by non-residents investing into Ukrainian government securities contributed to appreciation of the hryvnia exchange rate. Depreciation of the national currency exchange rate was caused by growing foreign exchange demand due to an increase in freely circulating hryvnia volumes, which came in as a result of transactions carried out by the State Treasury and repayment of large volumes of internal government bonds by the Ministry of Finance.

As a result, on Friday, 12 April, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.7139/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.60-26.70/USD on Monday, 8 April, UAH 26.65-26.85/USD on Tuesday, 9 April, UAH 26.70-26.85/USD on Wednesday, 10 April, UAH 26.75-26.90/USD on Thursday, 11 April, and UAH 26.67-26.77/USD on Friday, 12 April.

Over 08-12 April, the National Bank purchased USD 56.5 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 1.4 billion over the previous week.

COMMODITY MARKETS

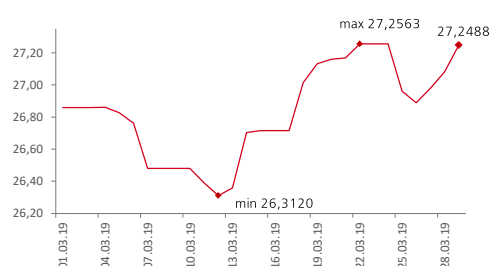
Petroleum prices continue growing thanks to expectations of shrinking output, as well as to growing geopolitical risks.

According to a monthly report of the International Energy Agency, in March, the OPEC member-countries fulfilled their commitments under the agreement for curtailing petroleum output 153%, reducing petroleum extraction altogether 550,000 barrels per day down to 30.1 million barrels per day.

Saudi Arabia lowered petroleum output to a record-low over the last two years. In March, Venezuela cut down its petroleum production 0.27 million barrels per day compared to February, while Libya diminished its crude output 0.2 million barrels per day. Over the previous month, petroleum output in Iran remained approximately at the same level as was registered in February.

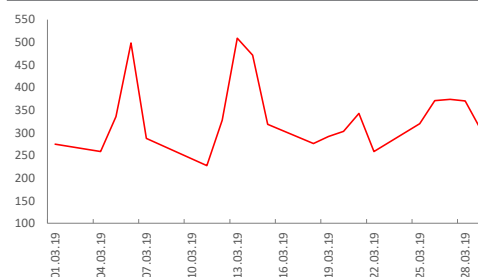
There is a likelihood that, as soon as the next month, the US will institute stricter terms for buyers of Iranian crude that were given waivers after Washington introduced sanctions against Tehran. Afterwards, the Brent price may jump to USD 80.0 per barrel.

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	-0.5	-1.8	-3.2
Brent crude. USD/barrel	71.6	1.7	6.1	31.1
WTI crude. USD/barrel	63.9	1.3	9.0	37.4
Gold. USD/ounce	1294.3	0.5	-1.0	1.2

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	8.6 (March)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	8.9 (March)
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)	20.6 (March, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	-
Banking system assets. % of gro wth	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	27.30 (January-March)

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

PUBLIC RELATIONS

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