

Financial markets survey

27 May 2019

ADJUSTMENT IS GATHERING PACE

WEEKLY ISSUE

Problems of global economy
Industrial output in Ukraine grew 5.2%
Foreign exchange supply shrank

GLOBAL MARKET

Global financial markets continue to be “stormy”. The agenda of investors is still the same – the risks of trade wars and the possibility that a medium-term adjustment will develop.

Wednesday, 22 May, saw the presentation of minutes of the FRS meeting that took place over 30 April – 1 May. Members of the Federal Open Market Committee (FOMC) are satisfied with their current “patient approach”. Many of the FOMC representatives think that the recent decline of inflation is temporary. The minutes also mentioned shrinking risks for the economic forecast. This contributed to forming an opinion that it is necessary to keep the interest rates at current levels.

The US Department of Commerce came forward with a proposal to introduce additional duties on imports of goods from countries that are understating exchange rates of their national currencies against the US dollar. Sanctions may be applied to goods from China, which the US has been accusing of intentionally understating the yuan exchange rate for a long time, as well as Japan, South Korea, India, Germany, and Switzerland.

After facing the growing losses for its own economy and hi-tech companies from sanctions against Huawei, the White House softened them. The above-mentioned company received a temporary permit for 90 days to purchase goods of American producers and to update software within the limits of already sold devices and applications. Earlier, this company was introduced to the “black list” of the US Department of Commerce.

Statistical data on the euro-area economy, which was published on Thursday, 23 May, pointed to a further slowdown of activity in the industrial sector. In addition, business confidence in Germany’s economy deteriorated in May.

UK Prime Minister Theresa May announced that she would leave the office of the Conservative Party Leader on 7 June. The prime minister explained this step by the party’s appeal to yield the right to tackle the Brexit problem to other candidates.

During the previous week, 20-24 May, trading in the “EUR/USD” pair ranged within the limits of USD 1.1150-1.1250/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1187	0.1	-0.2	-2.3
GBP/USD	1.2714	-0.1	-1.5	-0.3
USD/RUB	64.4913	-0.1	1.1	-7.2
USD/UAH	26.4748	0.4	-0.4	-4.4

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2826.1	-1.2	-3.5	12.7
FTSE 100 (UK)	7277.7	-1.0	-2.6	8.2
MXME (East. Eur.)	168.6	1.8	-2.2	10.8
PFTS (Ukraine)	573.9	0.6	2.4	2.6
RTS (Russia)	1279.1	1.9	1.2	19.7

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.619	-0.6	-3.9	-12.9
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.	17.500	0.0	-2.8	-2.8
CB RF, % p.a.	7.750	0.0	0.0	0.0

Source: Bloomberg

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output in Ukraine grew 4.4% in April 2019 compared to April 2018 with due consideration for an adjustment to the calendar days effect and 5.2% without the above-mentioned adjustment.

In April 2019, the Industrial Output Index reached 100.9% compared to March 2019 with due consideration for seasonal adjustment and 98.2% without the above-mentioned adjustment.

Output in mining industry grew 2.7% in April 2019 compared to April 2018 without seasonal adjustment. In particular, crude oil and natural gas output grew 6.3%, and iron ores output went up 4.6%. At the same time, black and brown coal output shrank 8.4%.

Output in processing industry also registered growth in April 2019. Output in processing industry rose 7.4% in April 2019 compared to April 2018 without seasonal adjustment. Steel industry went up 9.9%, chemicals and chemical products rose 14.7%, machine-building grew 10.8%, and key pharmaceuticals and pharmaceutical products jumped 23.0%. At the same time, output in coke production and oil refining went down 2.5%. Deliveries of electric energy, gas and vapor inched up 0.3% in April 2019 without seasonal adjustment.

Construction

In April 2019, the Index of Construction Products reached 129.4% compared to April 2018 (with due consideration for an adjustment to the calendar days effect), and 96.8% compared to March 2019 (with due consideration for seasonal adjustment).

Over January-April 2019, Ukrainian companies carried out construction works (construction products output) for the total of UAH 38.6 billion.

Construction of new objects, reconstruction and technical re-equipment made up 79.3% of total construction works, while overhaul and maintenance works accounted for 12.1% and 8.6% of total construction works respectively.

Transportation

Over January- April 2019, freight turnover of transportation companies totaled 110.2 billion ton-km, which constitutes 102.8% compared to January-April 2018.

Transportation companies carried 218.7 million tons of freight over January- April 2019, which stands at 109.1% of the similar indicator registered over January-April 2018.

1,425.0 million passengers used services of passenger transport over the first four months of 2019, which accounted for 94.3% of the indicator registered over the same period during the previous year.

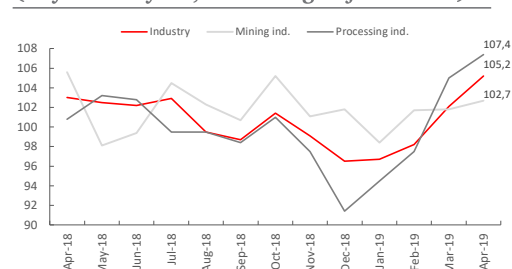
Over January-April 2019, traffic in pipeline transport went up compared to the indicator registered over January-April 2018. Pipeline transportation of ammonia and oil grew 20.8% and 5.5% respectively. Pipeline transportation of gas shrank 0.4%. Transit of ammonia jumped 17.7%, oil transit grew 5.7%, while gas transit went up 5.6%.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in April 2019, % year-on-year (without adjustments)	5.2

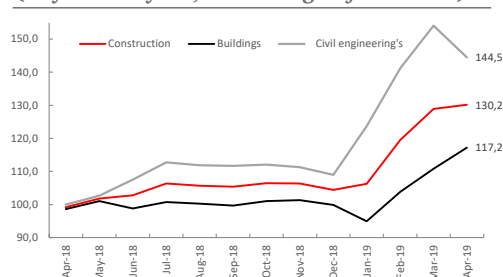
Source: the State Statistics Service

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



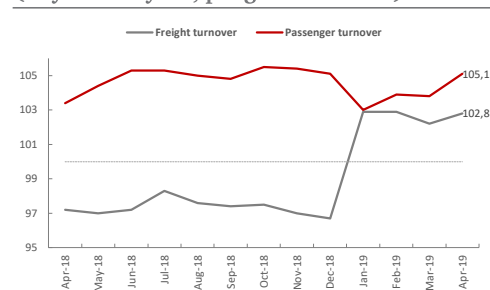
Source: the State Statistics Service

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 by the Ministry of Finance held on 21 May, participants became slightly less active. Demand shifted towards bonds denominated in foreign exchange.

The Ministry of Finance set restrictions for placing bonds denominated in hryvnia and maturing in three and six months at UAH 0.5 billion for each placement. This step made it possible to slightly lower the weighted average interest rates. The cut-off rate for bonds maturing in three months was set at 17.89% per annum and for bonds maturing in six months – at 18.50% per annum.

As for other bonds offered, the cut-off rates remained at previous levels (18.50% per annum for bonds maturing in twelve months, 18.00% per annum for bonds maturing in eighteen months, and 16.00% per annum for bonds maturing in four years). The weighted average interest rates for some internal government bonds changed a little: the rate for bonds maturing in twelve months grew 0.11 percentage points, while the rate for bonds maturing in eighteen months inched down 0.04 percentage points.

Demand for instruments denominated in foreign exchange grew compared to previous tenders. With due consideration for payments to service the national debt, the Ministry of Finance satisfied all bids submitted for purchasing bonds denominated in US dollars. The interest rates remained at the level of previous placements.

During the current week, the Ministry of Finance will have to pay out one issue of internal government bonds denominated in US dollars for the total of USD 99.0 million (maturing in eighteen months on 29 May).

As a result of the tender held on 21 May, the Ministry of Finance managed to raise UAH 5.0 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 1.9 billion and, as of 24 May 2019, totaled UAH 774.0 billion (according to the total principal). At that, portfolio of banks shrank UAH 0.5 billion, while portfolio of non-residents grew UAH 1.7 billion.

NBU OPERATIONS

During the previous week, investments into NBU deposit certificates shrank significantly and totaled UAH 46.7 billion. The entire amount was paid for overnight certificates of deposit. The interest rate for overnight certificates of deposit landed at 15.50% 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 24 May to refinance banks, bids of five banks for the total of UAH 4.2 billion were satisfied. The interest rate reached 17.50% per annum. The resources were provided for the period of fourteen days.

Banks did not use the standing NBU refinancing line (overnight loans with a 19.5% per annum interest rate) during the previous week.

Over the previous week, 20-24 May, a negative balance of the State Treasury transactions landed at UAH 1.2 billion.

The banking system liquidity shrank insignificantly, but, as before, it is 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
21 May	105 days	17.89%	18/8	475.53
21 May	182 days	18.37%	16/16	292.67
21 May	350 days	18.50%	15/15	423.29
21 May	497 days	17.95%	13/9	350.40
21 May	1554 days	16.00%	8/7	561.77
21 May	154 days, den. in USD	6.70%	16/16	97.82*
21 May	316 days, den. in USD	7.25%	11/11	8.11*
21 May	631 days, den. in USD	7.74%	26/26	6.49*

* - 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	361.0	-0.1	0.6	-3.6
Legal entities	25.3	2.0	-2.6	22.0
Private individ.	9.2	2.0	9.8	51.2
Non-residents	41.4	4.4	36.4	552.7

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	54.0	-1.8	-0.1	51.4
NBU refinancing, UAH billions	53.0	2.0	8.3	-3.3
NBU deposit certificates	O/N, UAH billions	11.6	65.5	39.6
	Total, UAH billions	48.8	10.4	4.6

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, rates on the interbank lending market reacted to narrowing of the hryvnia liquidity in the banking system by way of growing slightly once again. Rates for overnight, weekly and monthly lending resources in the national currency grew 1.0-1.5 percentage points on the average and were ranging within the limits of 15.50-17.50% per annum on the interbank lending market.

FOREIGN EXCHANGE MARKET

During the previous week, the interbank foreign exchange market was rather dynamic. Starting from Monday, 20 May, the hryvnia was depreciating spurred by increased foreign exchange demand on the part of importers and not very active exporters – sellers of foreign exchange.

As a result, on Friday, 24 May, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.4748/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.15-26.27/USD on Monday, 20 May, UAH 26.08-26.15/USD on Tuesday, 21 May, UAH 26.25-26.35/USD on Wednesday, 22 May, UAH 26.28-26.37/USD on Thursday, 23 May, and UAH 26.28-26.52/USD on Friday, 24 May.

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

Over 20-24 May, the National Bank purchased USD 70.0 million from banks (USD 40.0 million by way of foreign exchange interventions in the form of matching and USD 30.0 million by way of foreign exchange interventions in the form of a single exchange rate).

COMMODITY MARKETS

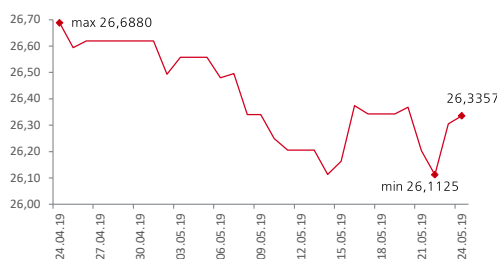
On Friday, 24 May, prices for benchmark crudes demonstrated a positive dynamics after a serious decline over the previous days to record-lows for the last two months.

On Thursday, 23 May, crude oil quotations fell sharply spurred by the media savoring the issue of the trade conflict between the US and China. There weren't any new serious news items that could provoke such hectic sales on their own.

Over the previous week, prices for WTI crude and Brent crude declined 7.0% and 5.0% respectively, which are record-low weekly drops during the current year.

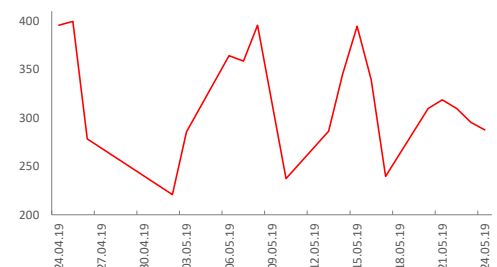
American sanctions against Iran and problems in Venezuela and Libya can result in fuel shortages on the global market. At the same time, analysts assume that the OPEC/Non-OPEC countries can compensate shrinking deliveries from Iran, and they will not have to exceed the current restrictions for petroleum production, since they are currently overfulfilling conditions of the deal.

NBU EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	190.0	-0.5	-9.1	-14.0
Brent crude. USD/barrel	68.7	-4.9	-7.0	25.4
WTI crude. USD/barrel	58.6	-6.8	-11.0	24.0
Gold. USD/ounce	1282.5	0.1	0.9	0.3

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	2.2 (first quarter, preliminary estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	5.2 (April)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	8.8 (April)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	7.3 (April)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	0.7 (March, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.7 (March, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-2.0 (March, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	20.5 (April, 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	1.3 (January-March)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.62 (April)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.18 (January-April)

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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