

Financial markets survey

03 June 2019

BEIJING IS NOT AFRAID OF THE TRADE WAR

WEEKLY ISSUE

Mexican passions seized America
Steep growth of energy imports
Liquidity has recovered

GLOBAL MARKET

The previous week was rather negative for American markets given the rumors that exports of rare-earth metals from China can be limited. Rare-earth metals are components of numerous modern hi-tech products ranging from medicine to the defense sector. Pentagon has already announced that it is searching for the necessary financing to replace deliveries from China. At that, China is practically the global monopolist in extraction of such materials. So far, US President Donald Trump has not announced what he is planning to undertake in response to a possible block of these deliveries.

Starting from 1 June, China introduced higher duties for American goods for the total of USD 60.0 billion. Almost 2,500 varieties of mechanical products, natural gas and beauty care products will be subject to a 25% import duty instead of a 10% duty. Import duties were raised from 10.0% to 20.0% for wood, timber and smoothing and finishing tools. Import duties for sheet glass, lasers and other goods were increased from 5.0% to 10.0%.

US President Donald Trump announced the institution of 5% import duties for all goods from Mexico starting from 10 June 2019. Starting from 1 July 2019, import duties can be increased to 10%. Starting from 1 October 2019, import duties can jump to 25%. Import duties will be in effect as long as the inflow of illegal migrants from Mexico to the US does not stop.

In May 2019, the Consumer Confidence Index in the US grew to 100 points, which is a record-high value since September 2018. The downgraded estimate of this index in May compared to its preliminary value (102.4 points), which indicated a record-high level of consumer confidence over the last fifteen years, is connected with the escalating trade war between the US and China that worsened consumer moods of Americans.

The Economic Sentiment Indicator, which is the composite business and consumer confidence index, in the euro-area grew to 105.1 points in May 2019 from the revised 103.9 points in April. This indicator went up for the first time over almost a year.

Investors also continue following the situation in Italy after the news that it can be subject to a penalty from the EU. According to the EU rules, budget deficit of the EU countries cannot exceed 3% of GDP, while the national debt cannot go above 60% of GDP. In Italy, the national debt totals 132% of GDP. In the opinion of the European Commission, the pace at which the debt burden is shrinking is not sufficient. In addition, a political crisis is boiling up in Italy.

During the previous week, 27-31 May, trading in the "EUR/USD" pair ranged within the limits of USD 1.1114-1.1215/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1151	-0.3	-0.6	-2.6
GBP/USD	1.2629	-0.7	-3.1	-1.0
USD/RUB	65.0583	0.9	0.6	-6.4
USD/UAH	26.8547	1.4	1.4	-3.0

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2752.1	-2.6	-6.6	9.8
FTSE 100 (UK)	7161.7	-1.6	-3.5	6.4
MXME (East. Eur.)	171.3	1.6	1.0	12.6
PFTS (Ukraine)	564.7	-1.6	0.9	1.0
RTS (Russia)	1287.1	0.6	3.1	20.4

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.510	-4.2	-7.6	-16.5
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	0.0	-2.8
CB RF, % p.a.	7.750	0.0	0.0	0.0

Source: Bloomberg

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MACROECONOMICS

Balance of payments*

In April 2019, Ukraine's current account was practically in equilibrium, its deficit totaled a mere USD 8.0 million or 0.1% of GDP.

Unlike the previous month, exports of goods grew at a more sluggish pace than imports of goods - 2.3% and 14.4% respectively.

Over the first four months of 2019, the country's current account deficit landed at USD 388.0 million or 1.0% of GDP.

Exports of goods reached USD 3.8 billion in April 2019. Growth of exports of food products (at 8.1% thanks to exports of grains) was partially leveled out by exports of ferrous and non-ferrous metals shrinking 13.8%. In addition, exports of machine-building products rose 11.6%, while exports of mineral products (including ores) leapt 31.5%. At the same time, exports of chemical products dropped 10.7%.

Over January-April 2019, exports to the European Union countries grew the most in nominal terms - USD 429.0 million or 8.1%. Exports to Asian and African countries rose USD 305.0 million (6.9%) and USD 302.0 million (20.3%) respectively.

Imports of goods landed at USD 4.7 billion in April 2019. Energy imports jumped 30.0% thanks to growing imports of gas and petroleum products. Non-energy imports grew 10.7%. Among non-energy imports, imports of chemical products grew the most - 17.2% thanks to imports of fertilizers. Also, imports of machine-building products rose 7.6%, imports of food products increased 14.4%, imports of ferrous and non-ferrous metals leapt 25.9%, while imports of manufactured goods grew 19.5%.

Over the first four months of 2019, imports from the European Union countries and Asian countries grew the most in nominal terms - USD 991.0 million or 16.4% and USD 714.0 million or 20.1% respectively. Imports from the Russian Federation shrank USD 133.0 million or 5.2%.

Net lending resources provided from abroad reached USD 7.0 million in April 2019.

In April 2019, the financial account was practically in balance, outflows under the financial account reached USD 38.0 million. Inflows of resources to the public sector were compensated by outflows from the private sector.

Net inflows of foreign direct investment were estimated at USD 290.0 million in April 2019, while 81% of total foreign direct investment was channeled to the real sector.

Net increase of the banking system external position in portfolio and other investment reached USD 684.0 million in April 2019 and was caused mainly by growing assets under the article "foreign exchange and deposits".

Net increase of the real sector external position landed at USD 288.0 million.

Net outflows under private sector transactions landed at USD 643.0 million in April 2019.

Deficit of Ukraine's consolidated balance of payments landed at USD 45.0 million in April 2019.

As of 01 May 2019, Ukraine's total stocks of international reserves were registered at USD 20.5 billion, which provides for financing 3.4 months of future imports.

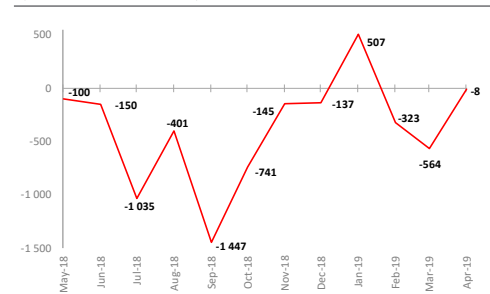
* preliminary data

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in April 2019, USD millions)	-8.0

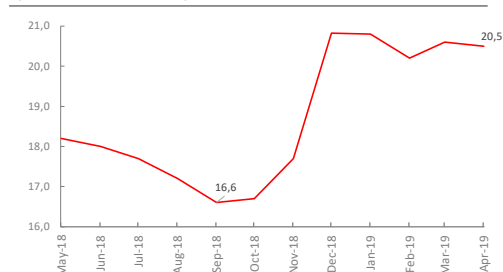
Source: the National Bank of Ukraine

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD BILLIONS)



Source: the National Bank of Ukraine

BOND MARKET

On 27 May, Clearstream, one of the two European International Central Securities Depositories, which is owned by the Deutsche Borse group, connected the Ukrainian market to its network by way of an account opened with the depository of the National Bank of Ukraine and will make Ukrainian government securities accessible in its system of settlements. This will simplify access for foreign investors to Ukrainian government securities denominated in hryvnia.

At a scheduled tender for primary placement of internal government bonds held on 28 May, the trend of demand shifting towards longer-term instruments denominated in hryvnia persisted, as well as growth of demand for foreign exchange bonds denominated in US dollars.

Demand for bonds denominated in hryvnia and maturing in three months was unusually low. Seven bids for the total of UAH 46.5 million were submitted for purchasing the above-mentioned bonds. The requested interest rates ranged within the limits of 18.00-18.50% per annum. The Ministry of Finance set the cut-off rate at 18.00% per annum and rejected three bids requesting interest rates above this level.

At the above-mentioned tender, all nine bids for purchasing bonds denominated in US dollars and maturing in January 2020 were satisfied in full. Unwilling to raise the interest rate above the level of previous placements, set at 7.25% per annum, the Ministry of Finance rejected one bid out of ten bids submitted for purchasing bonds denominated in US dollars and maturing in October 2020.

Also, the Ministry of Finance fully satisfied one bid for purchasing bonds denominated in US dollars with advanced repayment. The interest rate landed at 3.85% per annum.

During the current week, the Ministry of Finance will have to pay out one issue of internal government bonds denominated in foreign exchange for the total of EUR 249.7 million (maturing in 546 days).

As a result of the tender held on 28 May, the Ministry of Finance managed to raise UAH 3.6 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 3.3 billion and, as of 31 May 2019, totaled UAH 777.3 billion (according to the total principal).

NBU OPERATIONS

During the previous week, market participants purchased NBU deposit certificates for the total of UAH 105.8 billion, including overnight certificates of deposit for the total of UAH 74.4 billion.

On Friday, 31 May, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 31.4 billion, satisfying bids of forty-seven banks.

The interest rate for overnight certificates of deposit landed at 15.50% per annum. The interest rate for deposit certificates maturing in fourteen days stood at 17.50% per annum.

The NBU did not hold any quantity tenders to refinance banks during the previous week.

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, 27-31 May, a negative balance of the State Treasury transactions landed at UAH 5.6 billion.

The banking system liquidity is at a high level (approximately 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
28 May	98 days	18.00%	7/4	31.42
28 May	175 days	18.32%	10/10	459.62
28 May	343 days	18.50%	11/11	713.18
28 May	749 days	17.95%	6/6	30.61
28 May	246 days, den. in USD	7.25%	9/9	13.21*
28 May	505 days, den. in USD	7.25%	10/9	3.91*
28 May	435 days, den. in USD w. adv. repayment	3.85%	1/1	73.86*

* - 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	362.6	0.5	0.9	-3.2
Legal entities	25.9	2.2	-3.8	24.7
Private individ.	9.5	3.6	11.2	56.6
Non-residents	42.2	1.9	16.3	565.3

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a, UAH billions	48.8	-9.5	11.9	36.9
NBU refinancing, UAH billions	52.0	-1.9	6.2	-5.2
NBU deposit certificates	O/N, UAH billions	18.3	57.3	84.6
	Total, UAH billions	49.6	1.8	3.0

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, the interbank lending market was stable. Rates for overnight, weekly and monthly lending resources in the national currency were ranging within the limits of 16.00-17.50% per annum on the interbank lending market.

FOREIGN EXCHANGE MARKET

During the previous week, the interbank foreign exchange market registered that foreign exchange demand exceeded supply, and the hryvnia continued depreciating. On Thursday, 30 May, the National Bank had to enter the market to sell foreign exchange in the anonymous format. At that, the NBU sold foreign exchange in insignificant amounts. Such actions of the National Bank slightly calmed down the market, and the US dollar quotations went down a little. On Friday, 31 May, the market registered an increase in foreign exchange supply. This helped the hryvnia to slightly recover its positions. As a result, on Friday, 31 May, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.8547/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.28-26.37/USD on Monday, 27 May, UAH 26.33-26.48/USD on Tuesday, 28 May, UAH 26.63-26.73/USD on Wednesday, 29 May, UAH 26.80-26.95/USD on Thursday, 30 May, and UAH 26.77-27.03/USD on Friday, 31 May.

Over 27-31 May, the National Bank purchased USD 11.5 million from banks by way of foreign exchange interventions in the form of matching and sold USD 43.0 million by way of foreign exchange interventions in the form of a single exchange rate.

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

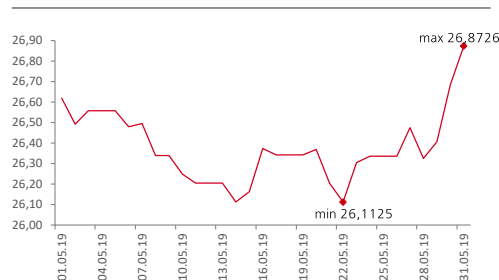
COMMODITY MARKETS

On Friday, 31 May, prices for benchmark crudes fell record-low for more than three months and finished both the previous week and the entire previous month with a fall.

The market was pressured by new steps of the US in the area of foreign trade, as well as signals about China's readiness to undertake further measures in response to Washington's actions. The escalation of tension in global trade creates serious risks for the global economy and, respectively, for petroleum demand.

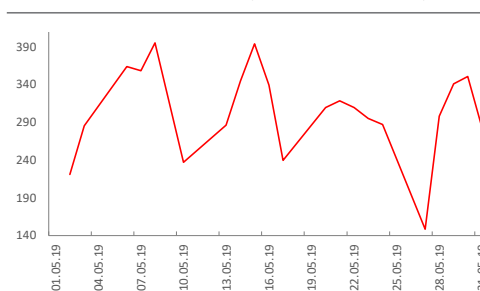
In addition, the US may allow some countries to continue importing Iranian oil for some time, even despite the fact that waivers from sanctions expired at the beginning of May 2019

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	191.5	0.8	-5.2	-13.3
Brent crude. USD/barrel	62.0	-8.1	-13.2	13.0
WTI crude. USD/barrel	53.5	-8.7	-16.4	13.1
Gold. USD/ounce	1295.6	1.0	1.0	1.3

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)	0.0 (April, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.0 (April, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-0.7 (April, 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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