

Financial markets survey

10 June 2019

RESULTS OF THE ECB MEETING GOT MARKETS DISAPPOINTED

WEEKLY ISSUE

A slowdown of the global economy is knocking on America's door
Inflation in Ukraine accelerated to 9.6%
The NBU kept the discount rate at 17.5%

GLOBAL MARKET

At the beginning of the previous week, key indices of the American markets set new record-lows for the last several months. It became known that the US regulators are preparing antimonopoly investigations against Amazon, Apple, Facebook, and Google. Concerns subsided, whereas statements of the FRS chair confirming the readiness of the Federal Reserve to support the American economy spurred markets to sharp growth.

Market participants are forecasting that the FRS federal funds rate will be lowered three times before the end of the current year. However, it can be an overly optimistic forecast. FRS Chair Jerome Powell said that the regulator was prepared to take actions to support the US economy and, if the rate of inflation happened to be too low in the course of the nearest months, the regulator would have to respond.

The official labor market release for May 2019 turned out to be rather weak. The number of those employed outside the agricultural sector grew 75,000 (the forecast was 185,000). In April, this indicator soared 224,000. The rate of unemployment stays record-low for the last 49 years – at 3.6%, as expected. The share of economically active population also remained unchanged at 62.8%. These data are controversial. On the one hand, a slowdown of the global economy may reach the US. On the other, inflation is under control, which means that the FRS will be able to undertake measures to provide monetary incentives.

As a result of the ECB meeting, which took place on Thursday, 6 June, interest rates were left unchanged, as expected. However, the forecast was revised. Now, it is expected that interest rates will remain at ultra-low levels at least till the middle of 2020 (the previous forecast was till the end of 2019). The ECB will continue reinvesting resources obtained from matured bonds into new issues of bonds for a long time after the beginning of interest rates hikes, which is an incentive measure.

The ECB have slightly upgraded its forecasts for economic growth and consumer prices in the euro-area for 2019. It is expected that GDP in this region will grow 1.2% by the end of the current year instead of 1.1% as was forecast in March 2019. The forecast for inflation was upgraded from 1.2% to 1.3%. "Further employment gains and increasing wages continue to underpin the euro-area economy; there is a very low probability of recession; there is no probability of deflation", mentioned ECB President Mario Draghi in the course of his press-conference.

During the previous week, 3-7 June, trading in the "EUR/USD" pair ranged within the limits of USD 1.1154-1.1347/EUR.

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EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1273	1.1	0.8	-1.5
GBP/USD	1.2737	0.9	-2.6	-0.1
USD/RUB	65.2340	0.3	-0.2	-6.1
USD/UAH	26.5957	-1.0	1.0	-3.9

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2873.3	4.4	-0.4	14.6
FTSE 100 (UK)	7331.9	2.4	1.0	9.0
MXME (East. Eur.)	176.5	3.0	6.0	16.0
PFTS (Ukraine)	553.7	-2.0	-2.7	-1.0
RTS (Russia)	1326.0	3.0	7.1	24.1

Source: Bloomberg

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.346	-6.5	-13.8	-21.9
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	0.0	-2.8
CB RF, % p.a.	7.750	0.0	0.0	0.0

Source: Bloomberg

MACROECONOMICS

Consumer prices

According to information of the State Statistics Service, consumer prices grew 0.7% in May 2019 compared to April 2019. Compared to May of the previous year, consumer prices rose 9.6%. Since the beginning of the current year, consumer prices grew 4.2%.

In May 2019, core inflation landed at 0.2% compared to the previous month and at 2.3% 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 1.0% in May 2019. Prices for fruits grew the most – 11.9%. Prices for meat and meat products, bread, sugar, vegetables, products made from grain crops, fish and fish products went up 1.7-0.7%. At the same time, prices for eggs shrank 15.3%, while prices for lard, milk, rice, cheeses, and sour cream declined 2.5-0.2%.

Prices for alcoholic beverages and tobacco products rose 1.3% over the previous month, including 2.0% for tobacco products and 0.6% for alcoholic beverages.

Prices for clothes and footwear went down 1.5% over the previous month.

In May 2019, transport prices went up 1.5 % on the whole, which was mainly the result of prices for fuels, petroleum, oils and lubricants rising 4.1%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel inched down 0.7% in May 2019, which was mainly the result of lower rates for natural gas (-4.2%). At the same time, rates for housing rentals went up 0.9%, rates for water supply and sewage rose 0.8%, and rates for maintenance of houses and adjoining territories grew 0.7%.

Prices for communication services inched down 0.2% in May 2019, while prices for rest, recreation and cultural services declined 0.3%. Prices for healthcare services rose 0.3%. Prices in hotels and restaurants increased 0.4%. Prices for education services remained at the level registered in April 2019.

Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 10,269.00 in April 2019, which constitutes approximately 250.0% of the minimum wage (UAH 4,173.00).

The average nominal wage went up 0.3% in April 2019 compared to March 2019. Over the last twelve month (compared to April 2018), the average wage grew 21.1%.

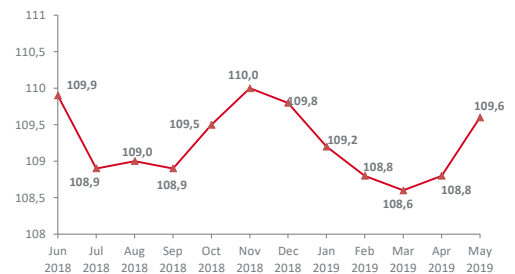
In April 2019, the index of real wages reached 99.2% compared to March 2019 and 111.2% compared to April 2018.

In April 2019, the highest wages were observed in the city of Kyiv (UAH 15,876.00), Donetsk oblast (UAH 12,134.00) and Kyiv oblast (UAH 10,666.00). The lowest wages were registered in Kherson (UAH 7,695.00), Chernivtsi (UAH 7,698.00) and Kirovohrad (UAH 8,014.00) oblasts.

In April, areas of business activity where employees earned the highest average wages included information and telecommunications (UAH 20,516.00), finance and insurance (UAH 19,836.00), as well as professional, scientific and technical sectors (UAH 14,412.00).

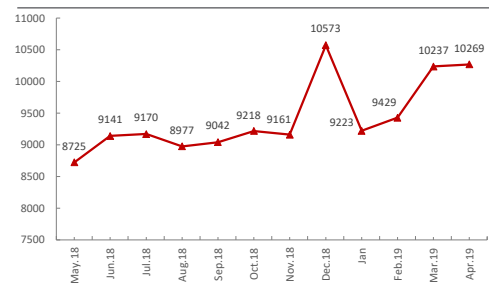
As of 1 May 2019, total wage arrears were registered at UAH 2,615.4 million or at 106.2% compared to 1 April 2019.

CONSUMER PRICE INDEX (month-on-month of the previous year, %)



Source: the State Statistics Service

AVERAGE NOMINAL WAGES (UAH)



Source: the State Statistics Service

BOND MARKET

Ukraine plans to place seven-year Eurobonds denominated in Euros. As part of preparations for the deal, meetings with investors will start on 10 June. The road show will take place in London, Milan, Frankfurt, and Munich. BNP Paribas and Goldman Sachs were selected to be organizers of the deal.

At a scheduled tender for primary placement of internal government bonds held on 4 June, the Ministry of Finance offered a record-high number of bond types: five types of bonds denominated in hryvnia and seven types of bonds denominated in foreign exchange, including five types of bonds denominated in US dollars and two types of bonds denominated in Euros.

Demand for bonds denominated in hryvnia remains not very high, even despite the expected lowering of the discount rate. The Ministry of Finance satisfied practically the entire demand for bonds denominated in hryvnia, rejecting only two bids for purchasing bonds maturing in three months. The cut-off rates for all maturity periods remained at the level of previous placements.

Demand for bonds denominated in foreign exchange was satisfied in full. The cut-off rates also 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 hryvnia for the total of EUR 5.3 billion (maturing in twelve months on 12 June).

As a result of the tender held on 4 June, the Ministry of Finance managed to raise UAH 8.4 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 0.7 billion and, as of 7 June 2019, totaled UAH 778.0 billion (according to the total principal).

NBU OPERATIONS

At the NBU Board meeting on monetary policy issues, which took place on 6 June, the decision was made to keep the discount rate unchanged at 17.50% per annum. This step is necessary to insure against inflationary risks that have grown stronger since the time when the previous decision was made in April 2019, as well as to reach the targeted inflation indicator of 5.0% in 2020.

During the previous week, banks purchased NBU deposit certificates for the total of UAH 98.6 billion, and all of them were overnight certificates of deposit. The interest rate for overnight certificates of deposit landed at 15.50% per annum.

Over the previous week, the National Bank did not place deposit certificates maturing in fourteen days.

At a scheduled NBU quantity tender announced on 7 June to refinance banks, bids of three banks for the total of UAH 6.6 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 19.50% per annum interest rate) during the previous week.

Over the previous week, 3-7 June, the balance of the State Treasury transactions landed at UAH 38.0 million.

The banking system liquidity 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
04 June	91 days	18,00%	8/6	106,18
04 June	182 days	18,74%	9/9	317,21
04 June	336 days	18,50%	7/7	609,16
04 June	798 days	17,95%	4/4	223,81
04 June	1071 days	17,00%	2/2	573,37
04 June	239 days	7,25%	4/4	78,30*
04 June	343 days	7,25%	8/8	25,40*
04 June	729 days	7,53%	10/10	1,63*
04 June	435 days	3,85%	1/1	26,31*
04 June	442 days	3,85%	1/1	73,81*
04 June	175 days	4,52%	7/7	18,18**
04 June	365 days	4,60%	8/8	17,18**

* - 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	361.8	-0.2	2.4	-3.4
Legal entities	25.8	-0.1	4.1	24.6
Private individ.	9.6	0.5	12.7	57.4
Non-residents	43.7	3.4	21.0	587.7

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a, UAH billions	53.8	10.2	13.0	50.9	
NBU refinancing, UAH billions	56.6	8.9	10.7	3.2	
NBU deposit certificates	O/N, UAH billions	15.7	-14.2	-27.2	-48.0
	Total, UAH billions	47.1	-5.2	-26.9	-24.0

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 15.50-16.50% per annum on the interbank lending market.

FOREIGN EXCHANGE MARKET

During the previous week, the interbank foreign exchange market was rather dynamic. On Monday and Tuesday, 3 and 4 June, foreign exchange demand exceeded supply, and the US dollar quotations grew sharply. Wednesday, 5 June, was the game changer, whereas Thursday and Friday registered excess foreign exchange supply on the interbank foreign exchange market, which helped the hryvnia appreciate seriously. Positive factors for the hryvnia were the NBU decision to leave the discount rate unchanged, completion of foreign exchange purchases to withdraw dividends and foreign exchange sales by non-residents to purchase internal government bonds. As a result, on Friday, 7 June, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.5957/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.90-27.07/USD on Monday, 3 June, UAH 27.17-27.27/USD on Tuesday, 4 June, UAH 26.87-27.00/USD on Wednesday, 5 June, UAH 26.70-26.90/USD on Thursday, 6 June, and UAH 26.50-26.65/USD on Friday, 7 June.

Over 3-7 June, the National Bank purchased USD 102.70 million from banks: USD 60.00 million by way of foreign exchange interventions in the form of matching and USD 42.70 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 1.6 billion over the previous week.

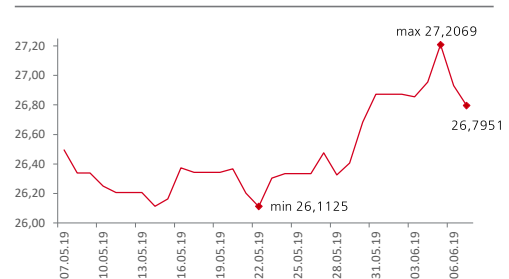
COMMODITY MARKETS

The petroleum market resumed growth due to optimistic moods regarding global trade and statements of Saudi Arabia representatives expressing their readiness to prolong restrictions for petroleum output.

At the Saint Petersburg International Economic Forum (SPIEF), the minister of Energy, Industry and Mineral Resources of Saudi Arabia stated that cooperation of Russia and Saudi Arabia as part of the OPEC/non-OPEC deal would continue. In his turn, the head of the Ministry of Energy of the Russian Federation noted that Russia and Saudi Arabia identically understood the situation on the petroleum market and reached an agreement to make joint resolutions.

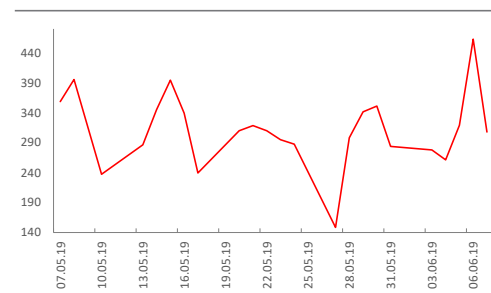
Also, growing petroleum prices were caused by weaker drilling activities in the US. Over the previous week, the number of active oil derricks in the US shrank 11 units – down to 789 derricks. The number of active oil derricks in the US has been falling for four out of five last weeks. Since the beginning of the current year, the number of active oil derricks dropped 96 units.

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	0.0	-2.3	-13.3
Brent crude. USD/barrel	63.3	2.1	-8.4	15.3
WTI crude. USD/barrel	54.0	0.9	-12.2	14.1
Gold. USD/ounce	1340.7	3.5	4.6	4.8

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	9.6 (May)
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)	19.4 (May, 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	-1.4 (January-April)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.87 (May)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	27.02 (January-May)

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	FRTSI\$ 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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