



Financial markets survey

22 July 2019

FEDERAL RESERVE IS READY TO STIMULATE THE ECONOMY

WEEKLY ISSUE

Markets are expecting the FRS meeting
The demographic crisis in Ukraine is getting worse
The NBU lowered the discount rate to 17.00%

GLOBAL MARKET

The previous week followed an ambiguous format for the US market. The key S&P 500 Index began to adjust downwards from its record-high value. The index did not manage to reach an important benchmark of 3,030 points.

Slack dynamics of trade negotiations between the US and China is not adding any positive moods to stock markets. Fears of an armed conflict between Iran and western countries are forcing global investors to take a wait-and-see stance.

The season of corporate financial statements is moving on in the US. 79% of companies that have already submitted their financial statements (which is a little more than 15% of the total number of companies) demonstrated results that surpassed analysts' expectations of corporate profits.

During the previous week, the US published rather weak data on the real estate market for June. Despite lower mortgage rates, the number of new homes dropped 0.9% compared to May 2019, while the number of building licenses shrank 6.1%. These data turned out to be worse than the consensus forecast of analysts and confirmed a softening position of the FRS.

In June 2019, industrial output in the US did not change compared to May. On the average, analysts expected this indicator to rise 0.1%. At the same time, output in processing industry, which accounts for 75% of the total industrial output, grew 0.4% in June, when analysts expected it to increase 0.3%.

Retail sales in the US grew 0.4% in June compared to May 2019. On the average, analysts expected this indicator to increase 0.2%.

In June, the Consumer Price Index in the euro-area accelerated to 1.3% from 1.2% registered in May. However, this indicator is still tangibly lower than the ECB's targeted level of 2.0%. The core CPI (excluding food and energy) accelerated from 0.8% to 1.1%.

During the previous week, 15-19 July, trading in the "EUR/USD" pair ranged within the limits of USD 1.1200-1.1284/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1226	-0.2	0.2	-2.0
GBP/USD	1.2502	-0.6	-1.1	-2.0
USD/RUB	62.8286	-0.3	-2.3	-9.6
USD/UAH	25.8153	0.2	-2.0	-6.8

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2976.6	-1.2	1.7	18.7
FTSE 100 (UK)	7508.7	0.0	1.4	11.6
MXME (East. Eur.)	178.0	-1.5	-0.5	17.0
PFTS (Ukraine)	545.1	1.2	-1.4	-2.5
RTS (Russia)	1350.7	-2.7	-0.8	26.4

Source: Bloomberg

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y, % p.a.	2.158	-3.3	-6.1	-28.2
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.	17.000	-2.9	-2.9	-5.6
CB RF, % p.a.	7.500	0.0	0.0	-3.2

Source: Bloomberg

www.pumb.ua

Department of Investment Business
Andriivska St., 4, Kiev, Ukraine 04070
tel. +38 044 231 7380

MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 180.8% in June 2019 compared to May 2019. Compared to June 2018, the country registered a 12.2% growth of agricultural output.

Over January-June 2019, agricultural output increased 5.8% compared to the same period during the previous year. In particular, output at agricultural enterprises grew 13.2%, whereas output at private farms shrank 1.1%. At the same time, plant growing output jumped 19.1%, while livestock breeding output rose 1.9%.

Over the first half of the current year, agricultural output grew in fourteen Ukrainian oblasts. Agricultural output in Zaporizhzhya (+30.9%), Kharkiv (+23.3%) and Mykolayiv (+20.1%) oblasts increased the most.

Over January-June 2019, agricultural output declined in nine Ukrainian oblasts. Agricultural output in Odesa (-8.3%), Kyiv (-4.6%) and Kherson (-3.3%) oblasts shrank the most.

Demographic situation

According to estimates of the State Statistics Service, Ukraine's current population stood at 42,030,832 people as of 1 June 2019.

Ukraine's current resident population totaled 41,861,195 people as of 1 June 2019 according to estimates. The average resident population reached 41,922,380 people over January-May 2019.

Over January-May 2019, Ukraine's population shrank 122,369 people.

The number of deaths continues to seriously outpace the number of births: 49 newborns per every 100 deceased.

Migration helped increase population numbers by 11,842 people over the first five months of 2019.

Unemployment

The total number of registered unemployed went down 13,800 individuals over the previous month and landed at 287,100 individuals by the end of June 2019.

167,700 registered unemployed are residing in urban areas, while 119,400 registered unemployed are living in rural area. As before, the majority of registered unemployed are women, totaling 165,400 individuals.

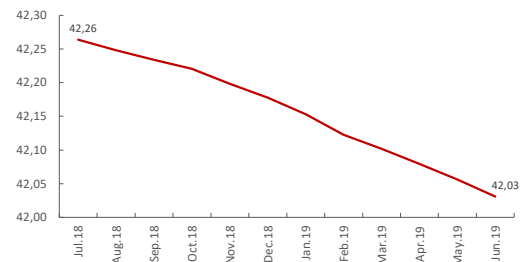
In June 2019, the number of vacant positions shrank 3,000 vacancies landing at 93,200 vacancies. There were three registered unemployed per each vacancy in June 2019.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-June 2019, % year-on-year	5.8

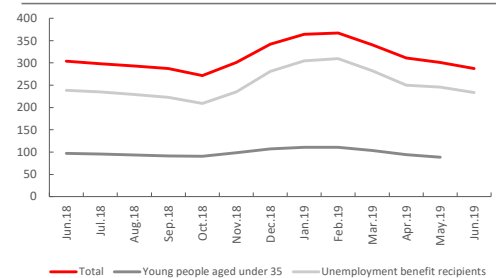
Source: the State Statistics Service

POPULATION (millions of people)



Source: the State Statistics Service

REGISTERED UNEMPLOYED (thousands of people)



Source: the State Statistics Service

BOND MARKET

At a scheduled auction for primary placement of domestic government bonds held on 16 July, demand for bonds denominated in hryvnia grew significantly, as market players were expecting the National Bank to lower the discount rate. This made it possible for the Ministry of Finance to lower yield for all instruments and, at the same time, to raise a record-high amount of resources to the State Budget of Ukraine, UAH 33.3 billion (at the NBU rate).

Once again, the Ministry of Finance set a limit for placing bonds maturing in three months and in seven months totaling UAH 0.5 billion each and a limit for placing bonds maturing in twelve months totaling UAH 1.0 billion. This step made it possible to lower the accepted yield to 17.00% p.a., 17.40% p.a. and 17.74% p.a. respectively.

Bonds maturing in two years enjoyed the highest demand. Out of thirty-six bids for the total of UAH 5.9 billion which requested yield within the limits of 17.50-17.85% p.a., the Ministry of Finance satisfied thirty-one bids, setting the accepted yield at 17.75% p.a.

After a three-week break, the Ministry of Finance offered bonds denominated in foreign currency (in US dollars) and maturing in twelve months and in two years. Demand for the above-mentioned instruments exceeded expectations. The Ministry of Finance took advantage of the situation and lowered the yield, at the same time rejecting a part of bids with high requested yield. The yield for bonds maturing in twelve months landed at 6.50% p.a., while the yield for bonds maturing in two years reached 7.00% p.a.

This week there are no scheduled payouts of domestic government bonds.

Over the previous week, the volume of outstanding domestic government bonds went up UAH 22.7 billion and, as of 19 July 2019, totaled UAH 786.1 billion (according to the total principal).

NBU OPERATIONS

At the NBU Board meeting on monetary policy issues, which took place on 18 July, the decision was to cut the key policy rate to 17.00% p.a. starting from 19 July. The National Bank continues its cycle of monetary policy easing as inflation is declining towards the target of 5%. The NBU's baseline scenario envisages the key policy rate to decrease further, to 8% over the coming years, provided that inflation steadily declines to the 5% target. The largest decrease is expected over 2020, along with inflation returning to the target range and inflation expectations improving.

After the key policy rate was cutted, interest rates for the main NBU instruments also went down. Starting from 19 July 2019, the interest rate for deposit certificates maturing in fourteen days declined to 17.00% p.a., while the interest rate for overnight certificates of deposit landed at 15.00% p.a.

Last week banks purchased NBU deposit certificates for the total of UAH 63.7 billion, and all of them were overnight certificates of deposit.

The National Bank of Ukraine reports holding a regular interest-rate liquidity-providing tender on 19 July 2019. The bid submitted by one banks worth UAH 21.0 million at an interest rate of 17.00 % p.a. were accepted. The loan was provided for the period of fourteen days.

Last week one bank used the NBU standing refinancing facility (overnight loans) for the total of UAH 119.0 million (interest rate - 19.00% p.a.).

The banking system liquidity is at a high level.

THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
16 July	91 days	16.96%	18/14	479.72
16 July	196 days	17.21%	22/18	457.69
16 July	357 days	17.68%	52/41	973.36
16 July	756 days	17.70%	36/31	5495.81
16 July	358 days, denom in USD	6.50%	67/62	631.58*
16 July	687days, denom in USD	7.00%	59/53	374.06*

* USD millions

Source: the Ministry of Finance of Ukraine

OWNERS OF DOMESTIC GOVERNMENT BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	337.1	0.0	0.0	-3.2
Banks	345.3	4.9	-3.3	-7.8
Legal entities	25.3	9.6	0.8	21.8
Private individ.	9.3	5.6	-1.5	53.3
Non-residents	69.1	6.1	41.2	988.7

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	57.3	-8.2	-10.5	60.8	
NBU refinancing. UAH billions	48.0	-13.5	-13.0	-12.3	
NBU deposit certificates	O/N. UAH billions	9.5	-6.7	-28.0	-68.3
	Total. UAH billions	46.6	-1.4	11.7	-24.7

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

Last week the interbank lending market was stable. Interest rates for overnight, weekly and monthly lending loans in the national currency were ranging within the limits of 15.00-17.00% per annum.

FOREIGN EXCHANGE MARKET

Last week, the national currency exchange rate continued depreciating. Exporters did not hurry to sell their foreign currency proceeds, while importers were in a hurry to close their contracts. As a result, demand seriously exceeded foreign currency supply. On Friday, the situation changed – right from the opening of the interbank FX market, foreign currency supply substantially exceeded demand. As a result, the hryvnia appreciated UAH 0.22 over that day. A likely reason for such a situation could be resources incoming to Naftogaz Ukrayiny from placing eurobonds and a possible sale of a part of these resources on the interbank FX market. As a result, on Friday, 19 July, the weighted average exchange rate on the interbank FX market was registered at UAH 25.8153/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.70-25.85/USD on Monday, 15 July, UAH 25.75-25.97/USD on Tuesday, 16 July, UAH 25.80-25.97/USD on Wednesday, 17 July, UAH 25.85-26.10/USD on Thursday, 18 July, and UAH 25.69-25.95/USD on Friday, 19 July.

Over the previous week, the foreign currency sales reached USD 2.0 billion.

Over 15-19 July, the National Bank purchased USD 40.0 million from banks by way of interventions in the form of best FX rate.

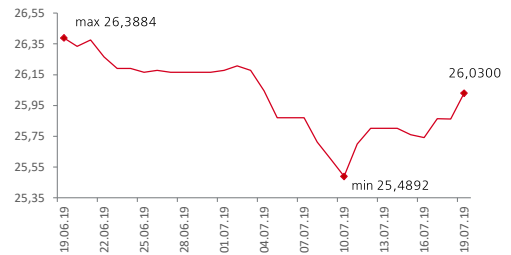
COMMODITY MARKETS

Last week negative moods prevailed on raw materials markets. Prices for benchmark crudes were demonstrating a decline in the course of the entire previous week and, only on Friday, managed to show a slight growth.

The main reason behind shrinking petroleum prices was downgraded forecasts for growth of petroleum demand. Another forecast of the International Energy Agency (IEA) expects growth by 1.1 million barrels per day in 2019 against 1.5 million barrels per day estimated at the beginning of the current year and downgraded to 1.2 million barrels per day in June. The IEA analysts mentioned that this downgrading of forecasts could not be final – the IEA is planning to closely follow global economic indicators in the course of the next months.

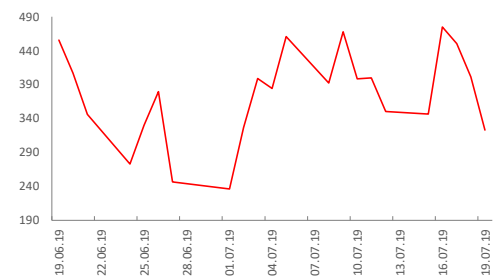
The reason behind recovering quotations was the information that Iran seized a British oil tanker.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	57.3	-8.2	-10.5	60.8
Brent crude. USD/barrel	48.0	-13.5	-13.0	-12.3
WTI crude. USD/barrel	9.5	-6.7	-28.0	-68.3
Gold. USD/ounce	46.6	-1.4	11.7	-24.7

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	2.5 (first quarter, revised estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	1.6 (May)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9.0 (June)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	4.5 (June)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	-0.8 (May, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	0.2 (May, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-0.6 (May, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	20.6 (June, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	114,4 (first quarter)
Banking system assets. % of growth	4.7	0.2	6.4	2.0	-1.4 (January-May)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	26.17 (June)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	26.93 (January-June)

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@fuiib.com

Marina Timbay
Trading and brokerage
+38 044 231 7053
marina.timbay@fuiib.com

Nataliya Khimich
Research
+38 044 231 7380
nataliya.khimich@fuiib.com

PUBLIC RELATIONS

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

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.