

Financial markets survey

19 August 2019

INVESTORS ARE LEAVING FOR “SAFE HAVENS”

WEEKLY ISSUE

Growing concerns about global economic recession
Ukraine's real GDP grew 4.6% in the second quarter
The hryvnia continues to stay strong

GLOBAL MARKET

The previous week followed an ambiguous format for the American market. Investors continued focusing their attention on the trade dispute between Washington and Beijing, and expectations that further confrontation of the parties can trigger recession raised demand for “safe-haven” assets, including the US Treasuries. As a result, earning rates for the US government securities fell record-low for many years.

In addition to the American market, a number of other countries registered that the government securities market grew, which was fostered by weak statistical data on the Chinese and German economies. The US and the UK registered inversion of the interest rate curve, which is considered to be a signal of an upcoming recession: earning rates for government securities maturing in two years went above interest rates for government bonds maturing in ten years.

In July 2019, industrial output in the US went down 0.2% compared to June. Shrinking industrial output is demonstrating that the industrial sector cannot support the impetus to growth in the environment of weak global demand and trade wars.

Over the previous week, the number of Americans applying for unemployment benefit for the first time increased 9,000 individuals to 220,000. Despite the growing number of primary applications, this indicator continues to stay at a low level and serves as the evidence that the American labor market is getting stronger.

The Consumer Confidence Index in the US fell to 92.1 points in August 2019 compared to 98.4 points registered in July. The fall of this index is demonstrating that the consumer sector, which is experiencing aftereffects of the financial markets' volatility and trade disputes, will hardly make such a significant contribution to GDP growth as before.

During the previous week, the world registered appreciation of the US dollar against a basket of global currencies. This is a signal that investors are avoiding risks. One more factor is that the economic situation in the euro-area is weaker than the situation in the US. Earning rates for government bonds in the euro-area are mainly negative. A strong US dollar is not beneficial for American exporters. This is why US President Donald Trump is criticizing the FRS that its approach to lowering interest rates is not aggressive enough.

During the previous week, 12–16 August, trading in the “EUR/USD” pair ranged within the limits of USD 1.1067-1.1233/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1076	-1.1	-1.3	-3.3
GBP/USD	1.2149	1.0	-2.1	-4.7
USD/RUB	65.8907	1.2	4.9	-5.2
USD/UAH	25.1428	0.2	-2.8	-9.2

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2888.7	-1.0	-3.8	15.2
FTSE 100 (UK)	7117.2	-1.9	-6.1	5.8
MXME (East. Eur.)	161.3	-4.0	-10.6	6.0
PFTS (Ukraine)	535.2	-0.2	-0.7	-4.3
RTS (Russia)	1239.8	-3.9	-10.3	16.0

Source: Bloomberg

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.945	-2.2	-12.0	-35.3
FRS. % p.a.	2.00-2.25	0.0	-10.0	-10.0
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	17.000	0.0	-2.9	-5.6
CB RF. % p.a.	7.250	0.0	-3.3	-6.5

Source: Bloomberg

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MACROECONOMICS

GDP

According to up-to-date estimate of the State Statistics Service, Ukraine's real GDP grew 1.6% over the second quarter of 2019 compared to the previous quarter (seasonally adjusted data). Compared to the second quarter of 2018, the country's GDP rose 4.6%.

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 177.6% in July 2019 compared to June 2019. Compared to July 2018, the country registered an 18.3% growth of agricultural output.

Over January-July 2019, agricultural output increased 12.0% compared to the same period during the previous year. In particular, output at agricultural enterprises grew 21.6%, while output at private farms inched up 1.3%. At the same time, plant growing output jumped 20.4%, while livestock breeding output rose 2.2%.

Over the first seven months of the current year, agricultural output grew in twenty-two Ukrainian oblasts compared to January-July 2018. Agricultural output in Luhansk (+30.5%), Zaporizhzhya (+26.1%) and Chernihiv (+25.9%) oblasts increased the most.

Over January-July 2019, agricultural output declined in two Ukrainian oblasts – Odesa (-5.2%) and Zakarpattia (-0.5%) oblasts.

LATEST MACROECONOMIC DATA

Indicator	Value
Real GDP change over Q2'2019, % to Q2'2018, %	4.6
Change in agricultural output over January-July 2019, % year-on-year	12.0

Source: the State Statistics Service

Demographic situation

According to estimates of the State Statistics Service, Ukraine's current population stood at 42,010,063 people as of 1 July 2019.

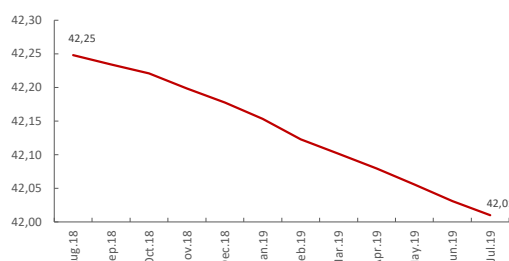
Ukraine's current resident population totaled 41,840,426 people as of 1 July 2019 according to estimates. The average resident population reached 41,911,995 people over January-June 2019.

Over the first half of 2019, Ukraine's population shrank 143,138 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 11,643 people over the January-June 2019.

POPULATION (MILLIONS OF PEOPLE)



Source: the State Statistics Service

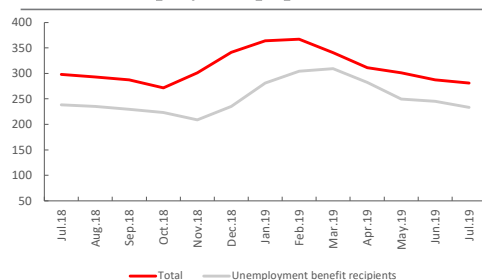
Unemployment

The total number of registered unemployed went down 6,300 individuals over the previous month and landed at 280,800 individuals by the end of July 2019.

165,100 registered unemployed are residing in urban areas, while 115,700 registered unemployed are living in rural area. As before, the majority of registered unemployed are women, totaling 162,400 individuals.

In July 2019, the number of vacant positions increased 2,200 vacancies landing at 95,400 vacancies. There were three registered unemployed per each vacancy in July 2019.

UNEMPLOYMENT RATE (% of the employable population)



Source: the State Statistics Service

BOND MARKET

At a scheduled auction for primary placement of domestic government bonds held on 13 August, the Ministry of Finance offered three types of domestic government bonds denominated in hryvnia. Demand for government bonds shrank noticeably; however, it did not prevent the Ministry of Finance from lowering the cost of borrowing further down.

The Ministry of Finance set a limit for all three placements totaling UAH 0.5 billion each for bonds maturing in six months and eleven months and UAH 2.0 billion for bonds maturing in two years.

Fifteen bids for the total of UAH 391.2 million were submitted for purchasing bonds maturing in six months. The requested yield ranged within the limits of 16.00-16.70% per annum. The Ministry of Finance rejected one bid requesting the highest yield and set the accepted yield at 16.50% per annum.

Eighteen bids for the total of UAH 498.0 million were submitted for purchasing bonds maturing in two years. The requested yield rates ranged within the limits of 15.70-16.50% per annum. The Ministry of Finance set the accepted yield rate at 16.18% per annum and rejected two bids.

Bonds maturing in November 2021 enjoyed the highest demand. Twenty bids for the total of UAH 1.4 billion were submitted for purchasing the above-mentioned bonds. The requested yield ranged within the limits of 16.00-16.75% per annum. The Ministry of Finance satisfied nineteen bids, establishing the accepted yield at 16.52% per annum.

At a auction that will be held on 20 August, the Ministry of Finance is planning to place three types of bonds denominated in hryvnia and maturing in 91 days, 322 days and 1,078 days.

This week, the Ministry of Finance will have to pay out one issue of domestic government bonds denominated in hryvnia for the total of UAH 5.9 billion (maturing on 21 August).

As a result of the auction held on 13 August, the Ministry of Finance managed to raise UAH 2.0 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went up UAH 1.0 billion and, as of 16 August 2019, totaled UAH 799.8 billion (according to the total principal).

NBU OPERATIONS

Last week, market participants purchased NBU deposit certificates for the total of UAH 45.2 billion, and all of them were overnight certificates of deposit.

At a scheduled NBU quantity tender announced on 16 August to support liquidity, bids of four banks for the total of UAH 4.5 billion were satisfied. The interest rate reached 17.00% per annum. The loans were provided for the period of fourteen days.

The interest rate for overnight certificates of deposit landed at 15.00% per annum. The interest rate for deposit certificates maturing in fourteen days stood at 17.00% per annum.

Last week banks used the NBU standing refinancing facility (overnight loans) for the total of UAH 346.7 million (interest rate - 19.00% p.a.).

Over the previous week, 12-16 August, a negative balance of the State Treasury transactions landed at UAH 6.6 billion.

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 mill ions
13 Aug.	182 days	16,47%	15/14	87,30
13 Aug.	329 days	16,16%	18/16	462,24
13 Aug.	826 days	16,43%	20/19	1415,08

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	339.6	0.3	3.3	-9.3
Legal entities	25.9	-0.7	11.1	24.7
Private individ.	9.6	2.1	8.8	58.4
Non-residents	87.7	0.1	34.5	1280.9

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions		52.8	19.0	-7.8	48.2
NBU refinancing. UAH billions		52.3	3.7	2.5	-4.5
NBU deposit certificates	O/N. UAH billions	8.6	-57.9	-43.6	-71.6
	Total. UAH billions	45.8	-20.5	-12.4	-26.1

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 situation on the Ukrainian FX market was quiet. The Ukrainian hryvnia continues to be stable. Despite shrinking activities of non-residents on the market of internal domestic bonds and lower foreign currency supply coming from them, the market is supported by exporters that are actively selling foreign currency to make quarterly payments of corporate profit tax.

On Friday, 16 August, the weighted average exchange rate on the interbank FX market was registered at UAH 25.1428/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.12-25.20/USD on Monday, 12 August, UAH 25.12-25.30/USD on Tuesday, 13 August, UAH 25.18-25.33/USD on Wednesday, 14 August, UAH 25.25-25.40/USD on Thursday, 15 August, and UAH 25.10-25.20/USD on Friday, 16 August.

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

Over 12–16 August, the National Bank purchased USD 59.80 million from banks: USD 40.00 million by way of FX interventions in the form of a best exchange rate and USD 19.80 million by way of FX interventions in the form of a single exchange rate.

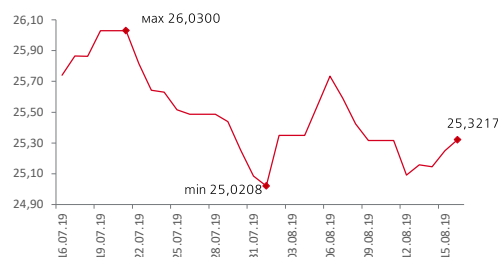
COMMODITY MARKETS

During the previous week, prices for crude oil demonstrated a slight growth. However, by the end of the previous week, they seriously cut down their growth after the OPEC downgraded its estimate for petroleum demand growth for the current year.

According to the new OPEC forecast, global petroleum consumption will grow 1.1 million barrels per day in 2019 compared to 2018 – up to 99.92 million barrels per day. Thus, the estimate for crude oil consumption was downgraded 40,000 barrels per day compared to the forecast made a month earlier mainly due to weaker than expected demand in a number of countries in the first half of the current year.

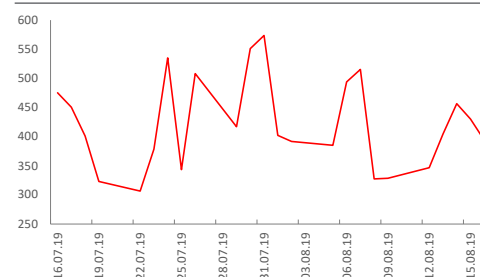
Estimate for petroleum demand growth for 2020 was kept at 1.14 million barrels per day to reach 101.05 million barrels per day. However, the OPEC is noting that this forecast is under the threat of downgrading due to uncertainties regarding the development of global economy.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	52.8	19.0	-7.8	48.2
Brent crude. USD/barrel	52.3	3.7	2.5	-4.5
WTI crude. USD/barrel	8.6	-57.9	-43.6	-71.6
Gold. USD/ounce	45.8	-20.5	-12.4	-26.1

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	4.6 (second quarter, up-to-date estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	-2.3 (June)
Consumer price growth. % year-on-year	43.3	12.4	13.7	9.8	9.1 (July)
Producer price growth. % year-on-year	25.4	35.7	16.5	14.2	6.7 (July)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	1.2 (June, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.4 (June, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.2 (June, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	21.8 (July, 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	0.1 (January-June)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	25.08 (July)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	26.76 (January-July)

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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