

Financial markets survey

02 September 2019

GLOBAL ECONOMY IS SLOWING DOWN

WEEKLY ISSUE

Economic growth in the US slowed down to 2.0%
Ukrainian exports are outpacing imports
Liquidity has practically recovered

GLOBAL MARKET

After the conflict between the US and China escalated and the parties exchanged new import duties, the news stream switched to a more positive direction. US President Donald Trump informed about calls from China's representatives, meaning Beijing wants to strike a deal and negotiations on terms and conditions go on.

The US Department of Commerce downgraded its estimate of GDP growth in the second quarter of 2019 to 2.0% in annual terms from 2.1% announced earlier. In the first quarter of 2019, the US economy grew 3.1%. Slower economic growth is caused by downward revision of exports and product inventories at warehouses, business investment, as well as public expenditures. In the second quarter, US exports shrank 5.8%, which was caused by the ongoing trade conflict with China and appreciation of the US dollar exchange rate.

The Executive Office of the US President is discussing the possibility of issuing "extra long" US Treasuries. The issue of "extra long" US Treasuries maturing in 50 or even 100 years will be a historical transformation of the American bond market (totaling approximately USD 16.0 trillion). Interest rates for US treasuries falling to record-low values made the US government return to this question, whose discussion had been postponed in the past. Trump's Administration is considering the issue of "extra long" bonds, believing that this step may curtail taxpayers' expenses, given the growing budget deficit, which is approaching USD 1.0 trillion.

The Consumer Price Index in Germany grew 1.0% in August in annual terms after rising 1.1% in July 2019. This indicator grew record-low since November 2016. Compared to July 2019, prices inched down 0.1%, whereas experts expected them to inch up 0.1%.

In Q2'2019, the German economy shrank 0.1% compared to the first quarter of 2019. In annual terms, Germany's GDP grew 0.4%. Shrinking GDP in Germany was caused by falling exports. According to the forecast made by Deutsche Bundesbank, the central bank of Germany, the country's GDP may drop once again in the third quarter, and subsiding business confidence is raising the likelihood that the country's government will implement measures to promote economic upturn.

UK Prime Minister Boris Johnson received permission to suspend the Parliament's operation. The break will last until 14 October. In this instance, Members of the Parliament will not have time to prevent Prime Minister Johnson from withdrawing the UK from the European Union without a deal on 31 October by way of passing the necessary law.

Last week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1034-1.1168/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1036	-0.3	-1.1	-3.6
GBP/USD	1.2156	-0.9	0.0	-4.7
USD/RUB	66.7471	1.7	5.1	-3.9
USD/UAH	25.1441	0.3	0.2	-9.2

Source: Bloomberg

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	2926.5	2.8	-2.9	16.7
FTSE 100 (UK)	7207.2	1.6	-5.7	7.1
MXME (East. Eur.)	167.0	1.0	-5.3	9.8
PFTS (Ukraine)	527.4	0.0	-2.5	-5.7
RTS (Russia)	1293.3	2.0	-4.4	21.0

Source: Bloomberg

KEY RATES

Rates	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.974	-2.7	-9.8	-34.3
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	0.0	-5.6
CB RF. % p.a.	7.250	0.0	0.0	-6.5

Source: Bloomberg

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MACROECONOMICS

Balance of payments*

In July 2019, deficit of current account amounted to USD 609.0 million or 4.4% of GDP. Exports of goods grew at a more rapid pace than imports – 20.3% and 9.6% respectively. Over January-July 2019, deficit of the current account landed at USD 864.0 million or 1.1% of GDP.

Exports of goods totalled USD 4.0 billion in July 2019. The main factor behind growing exports was exports of food products jumping 36.5% (thanks to exports of grain crops and oil-yielding crops). In addition, exports of mineral products (including ores) leapt 37.6%, and exports of machine-building products soared 45.1%. Exports of ferrous and non-ferrous metals, as well as exports of chemical products remained practically the same as last year. At the same time, exports of wood and timber products shrank 9.5%.

Over January-July 2019, exports to the European Union countries grew the most in nominal terms – USD 1.1 billion or 11.8%. Exports to Asian and African countries grew USD 644.0 million (8.4%) and USD 436.0 million (17.8%) respectively.

Imports of goods totalled at USD 5.5 billion in July 2019. Energy imports shrank 10.1%, whereas non-energy imports went up 16.5%. Among non-energy imports, imports of machine-building products grew the most – 36.0%. Also, imports of chemical products rose 4.2%, imports of food products increased 8.6%, imports of manufactured goods jumped 24.9%, while imports of ferrous and non-ferrous metals grew 9.7%.

Over the first seven months of 2019, imports from the European Union countries and Asian countries grew the most in nominal terms – USD 1.6 billion or 13.7% and USD 1.5 billion or 23.1% respectively.

In July 2019, the net borrowing from the rest of the world totaled USD 572.0 million and USD 831.0 million over January-July 2019.

In July 2019, net inflow on the financial account amounted to USD 1.9 billion and were caused by inflows to portfolio investments.

The net inflow of foreign direct investment was estimated as USD 170.0 million in July 2019.

The net increase of the banking system's external position on portfolio and other investments transactions amounted to USD 1.7 billion in July 2019 and was caused by growing assets under the article "currency and deposits".

The net decrease of the real sector external position amounted to USD 2.0 billion in July 2019 and was caused by inflows from placing Eurobonds and from the increase of the net external position on trade credits and the increase of the amount of external liabilities under loans and credits.

The net inflow on private sector transactions totaled USD 688.0 million.

The surplus of the overall balance of payments amounted to USD 1.3 billion in July 2019

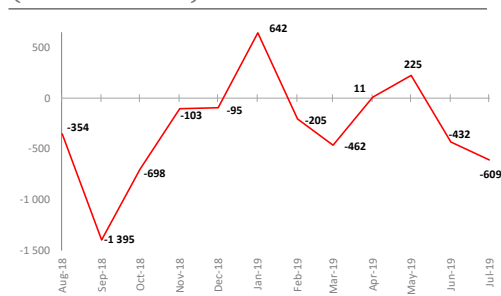
As of 01 August 2019 the volume of international reserves totaled USD 21.8 billion, covering 3.4 months of future imports.

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in July 2019, USD millions	-609.0

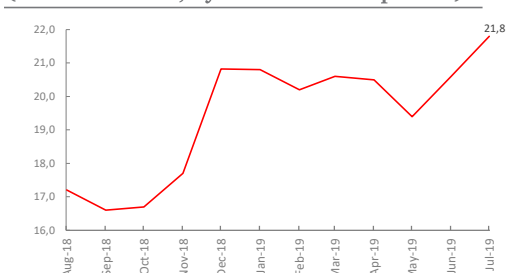
Source: the National Bank of Ukraine

CURRENT ACCOUNT BALANCE (USD MILLIONS)



Source: the National Bank of Ukraine

INTERNATIONAL RESERVES (USD BILLIONS, by the end of the period)



Source: the National Bank of Ukraine

* preliminary data

BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for primary placement of domestic government bonds held on 27 August, the Ministry of Finance offered four types of bonds denominated in hryvnia and, once again, lowered accepted yields for all instruments offered.

Eight bids for the total of UAH 364.8 million were submitted for purchasing bonds maturing in six months. The requested yields ranged within the limits of 16.20-16.50% per annum. The Ministry of Finance set the accepted yield at 16.30% per annum and rejected one bid.

Five bids for the total of UAH 77.0 million were submitted for purchasing bonds maturing in twelve months. The requested yields ranged within the limits of 16.00-16.50% per annum. The Ministry of Finance set the accepted yield at 16.00% per annum and rejected two bids.

Demand for bonds maturing in January 2022, which consisted of eight bids, was satisfied in full. Bids of participants requested yields ranging within the limits of 16.29-16.30% per annum. The accepted yield landed at 16.30% per annum.

Bonds maturing in 5.5 years enjoyed the highest demand. Twenty-five bids for the total of UAH 2.3 billion were submitted for purchasing the above-mentioned bonds. The requested yields ranged within the limits of 15.00-15.84% per annum. The Ministry of Finance set the accepted yield at 15.30% per annum and rejected ten bids.

During the current week, the Ministry of Finance will have to pay out two issues of domestic government bonds denominated in hryvnia for the total of UAH 2.2 billion and UAH 4.1 billion (maturing on 04 September).

As a result of the auction held on 27 August, the Ministry of Finance managed to raise UAH 1.8 billion to the State Budget of Ukraine.

As of 01 September 2019, Ukraine's total budget revenues came to UAH 665.9 billion, while the Simple Treasury Account registered UAH 61.8 billion. Over the seven months of 2019, VAT refunds totaled UAH 105.5 billion.

Over the previous week, the volume of outstanding domestic government bonds went up UAH 2.4 billion and, as of 30 August 2019, totaled UAH 796.5 billion (according to the total principal).

NBU OPERATIONS

Last week, market participants purchased NBU deposit certificates for the total of UAH 45.5 billion, and all of them were overnight certificates of deposit. The interest rate for overnight certificates of deposit landed at 15.00% per annum.

At a scheduled NBU quantity tender announced on 30 August to support liquidity, bids of five banks for the total of UAH 7.0 billion were satisfied. The interest rate reached 17.00% per annum. The loans were provided for the period of fourteen days.

Last week banks did not use the NBU standing refinancing facility (overnight loans).

Over the previous week, 27-30 August, a negative balance of the State Treasury transactions landed at UAH 5.6 billion.

During the previous week, the banking system liquidity increased slightly and was concentrated on correspondent accounts of banks with the National Bank and in NBU deposit certificates.

THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
27 Aug.	168 days	16.30%	8/7	288.86
27 Aug.	357 days	16.00%	5/3	67.21
27 Aug.	861 days	16.29%	8/8	58.32
27 Aug.	2009 days	15.30%	25/15	1355.93

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	337.3	0.4	-1.6	-9.9
Legal entities	25.6	1.6	-1.1	23.6
Private individ.	9.5	1.2	0.7	55.6
Non-residents	87.1	0.6	17.8	1272.6

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions		57.4	-3.2	27.5	61.0
NBU refinancing. UAH billions		54.6	4.4	13.8	-0.4
NBU deposit certi- ficates	O/N. UAH billions	14.7	66.4	-11.7	-51.2
	Total. UAH billions	40.1	17.1	-21.6	-35.3

Source: the National Bank of Ukraine

INTERBANK LENDING MARKET

During the previous week, the interbank lending market remained 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 Ukrainian national currency was stable, while market mechanisms were in effect. Once again, the hryvnia was supported by non-residents actively purchasing Ukrainian government securities and exporters selling foreign currency to make mandatory payments at the end of the month. As a result, on Friday, 30 August, the weighted average exchange rate on the interbank FX market was registered at UAH 25.1441/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.13-25.20/USD on Tuesday, 27 August, UAH 25.16-25.25/USD on Wednesday, 28 August, UAH 25.20-25.27/USD on Thursday, 29 August, and UAH 25.12-25.22/USD on Friday, 30 August.

Over 27–30 August, the National Bank purchased USD 20.00 million from banks by way of foreign exchange interventions in the form of a best rate.

Over the previous week, the foreign exchange sales reached USD 1.5 billion.

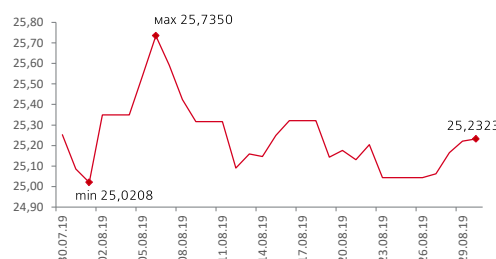
COMMODITY MARKETS

By the end of the previous week, prices for benchmark crudes grew record-high for the last seven weeks thanks to the signals of weakening hostility in relations between the US and China and a drop in the US fuel inventories.

Data of the US Department of Energy published on Wednesday, 28 August, demonstrated that petroleum inventories in the country fell 10.00 million barrels over the previous week, which is a record-fast drop since June 2019 (analysts expected this indicator to shrink 2.11 million barrels). Altogether, petroleum inventories in the US totaled 427.80 million barrels, which is a record-low since October 2018.

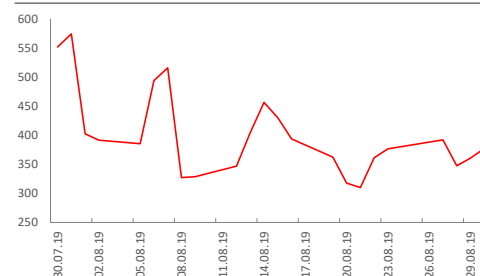
An important positive factor for the market was a statement made by official spokesman of the Chinese Ministry of Commerce Gao Feng saying that China will not be immediately responding to the new import duties hike announced by US President Donald Trump during the previous week.

EXCHANGE RATE (UAH/USD)



Source: NBU

TRADING VOLUMES (USD MILLIONS)



Source: NBU

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	181.5	-0.5	-1.6	-17.9
Brent crude. USD/barrel	59.3	0.8	-7.7	7.6
WTI crude. USD/barrel	55.1	1.7	-5.2	14.7
Gold. USD/ounce	1528.4	1.6	7.2	19.5

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP. %	-9.8	2.3	2.5	3.3	1.6 (second quarter, up-to-date estimate)
Industrial output. %	-13.4	2.4	-0.1	1.1	-0.2 (July)
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)	1.3 (July, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	-0.6 (July, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.4 (July, 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	0.9 (January-July)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	25.23 (August)
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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