

Financial markets survey

13 January 2020

MARKETS ARE ON THE RISE

WEEKLY ISSUE

Trump dispelled fears
Ukraine's international reserves grew record-high for the last seven years in 2019
Inflation in Ukraine slowed down to 4.1% in 2019

GLOBAL MARKET

During the previous week, global financial markets resumed their growth thanks to reduced geopolitical pressure. The global upward trend persists regardless of growing volatility.

After a slight adjustment during the first days of the current year, the American stock market index – the S&P 500 Index – continues setting new historical record-highs (3,274.70 points on 9 January) thanks to positive expectations connected with de-escalation of trade wars and a soft monetary policy implemented by the US Federal Reserve System.

Investors are looking forward to the signing of documents for the first stage trade deal that is expected during the current week – on 15 January. So far, the market has not been fully informed about agreements between the two countries. It is expected that Washington will lower import duties for Chinese goods in response to Beijing's increased purchases of American agricultural, machine-building and energy products, as well as extended rights for American companies' representatives in China.

Uncertainty regarding the US reaction towards retaliatory actions of Iran that launched missiles to attack the US military bases in Iraq did not last long. US President Donald Trump confirmed that new sanctions would be instituted instead of using weapons.

As regards macroeconomic indicators, the US labor market is registering that the situation has been improving. The rate of unemployment remained at 3.5%. Statistical data from the US labor market serves as one of the key indicators for the US FRS's resolution to continue the cycle of lower targeted federal funds rates.

In December 2019, the Consumer Price Index in the euro-area grew 1.3% in annual terms. Prices grew at a more rapid pace as a result of higher costs of energy carriers. The Consumer Price Index in Germany rose 1.5% in December 2019 in annual terms.

European markets do not demonstrate a unified dynamics. Investors' moods were influenced by the news that the US will introduce sanctions against Iran in response to Iran's attack against the American military bases in Iraq.

Investors took a wait-and-see attitude on the raw materials and metals market. The market is witnessing discreet demand for protective instruments, which is reflecting a still persistent interest in risk assets.

During the previous week, 06-10 January, trading in the "EUR/USD" pair ranged within the limits of USD 1.1083-1.1206/EUR.

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1091	-0.5	-1.3	-1.3
GBP/USD	1.3064	-0.1	-1.4	-1.5
USD/RUB	61.2340	-1.1	-1.1	-1.1
USD/UAH	23.9677	1.2	1.2	1.2

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3265.4	0.9	1.1	1.1
FTSE 100 (UK)	7587.9	-0.5	0.6	0.6
MXME (East. Eur.)	199.1	1.8	3.1	3.1
PFTS (Ukraine)	512.2	0.5	0.5	0.5

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.967	0.1	-1.5	-1.5
FRS. % p.a.	1.50-1.75	0.0	0.0	0.0
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	13.500	0.0	0.0	0.0
CB RF. % p.a.	6.250	0.0	0.0	0.0

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	207.5	1.7	1.7	1.7
Brent . USD/barrel	65.0	-5.3	-1.5	-1.5
WTI . USD/barrel	59.0	-6.4	-3.3	-3.3
Gold. USD/ounce	1553.6	0.3	2.6	2.6

Source: Bloomberg

www.pumb.ua

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

MACROECONOMICS

Balance of payments*

In November 2019, surplus of current account amounted to USD 57.0 million or 0.4% of GDP. Exports of goods shrank 3.4%, while imports of goods went down 1.9%.

Exports of goods totaled USD 3.9 billion in November 2019. The main factor behind shrinking exports was exports of ferrous and non-ferrous metals dropping 15.0%. Also, exports of mineral products (including ores) fell 19.3%, while exports of wood, timber and woodwork declined 15.9%. At the same time, exports of chemical products grew 19.3%, and exports of machine-building products rose 12.6%. Exports of food products remained practically unchanged (inched up 0.8%), while exports of seeds of oil-yielding crops and oils went up 11.5%, but was leveled out by exports of grain crops shrinking 3.9%.

Imports of goods landed at USD 5.1 billion in November 2019. Energy imports plunged 27.8%, whereas non-energy imports went up 7.0%, mainly thanks to imports of machine-building products rising 14.5% and imports of electric vehicles growing 17.8%. In addition, imports of food products jumped 18.9%, while imports of manufactured goods grew 19.4%. At the same time, imports of chemical products went down 6.2%, while imports of ferrous and non-ferrous metals dropped 9.9%.

Over January-November 2019, exports to the European Union countries and Asian countries grew the most in nominal terms – 6.7% and 10.1% respectively. Imports from Asian countries and the European Union countries grew the most in nominal terms over January-November 2019 – 21.6% and 10.6% respectively.

The net lending to the rest of the world totaled USD 57.0 million in November 2019.

In November 2019, net inflows under the financial account landed at USD 544.0 million and were caused by private sector transactions.

The net inflow of foreign direct investment was estimated at USD 436.0 million in November 2019, 87.0% which were directed to the real sector.

The net decrease of the banking system's external position on portfolio and other investments amounted to USD 578.0 million in November 2019 and was caused by net purchase of non-residents' securities by banks, repayments on Eurobonds and an of net increase of external position on "currency and deposits" item.

The net increase of the real sector's external position amounted to USD 488.0 million in November 2019 and was caused by incoming funds from Eurobonds placement, increase of net external liabilities on trade credits increase of the amount of cash outside banks, and shrinking net liabilities under credits and loans.

In November 2019, the net inflow on private sector transactions totalled USD 413.0 million.

The net inflow on government sector's transactions amounted to USD 131.0 million in November 2019.

The surplus of overall balance of payments amounted to USD 601.0 million in November 2019

As of 01 January 2020, the volume of international reserves totaled USD 25.3 billion.

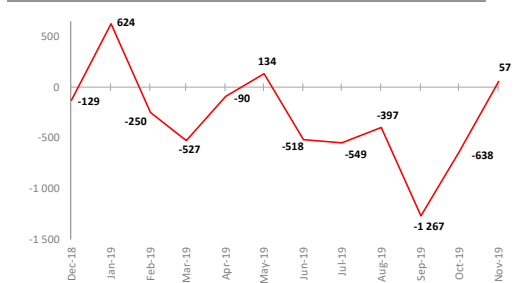
* preliminary data

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in November 2019, USD millions	57.0
Current account balance over January-November 2019, USD billions	-3.4

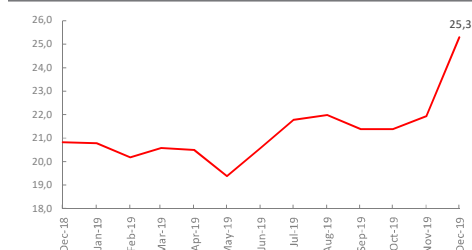
Source: the National Bank of Ukraine

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

Consumer prices

By the end of 2019, the National Bank of Ukraine managed to reach its medium-term inflationary goal of 5.0% +/- 1 percentage point, which it had been declaring since 2015. Inflation shrinking down to the targeted indicator in 2019 is the result of a consistent monetary policy aimed at price stability that was implemented by the National Bank coupled with a weighted fiscal policy of the Government.

According to information of the State Statistics Service, the Consumer Price Index inched down 0.2% in December 2019 compared to November 2019. Compared to December of the previous year, consumer prices rose 4.1%.

In December 2019, core inflation landed at -0.3% compared to the previous month and at 3.9% since the beginning of the current year.

The consumer market registered that prices for the entire group of food products and non-alcoholic beverages remained unchanged on the whole in December 2019. At the same time, prices for poultry meat, rice, sugar, fruits, sunflower oil, fish and fish products, and pasta went down 2.4-0.5%. Meanwhile prices for milk, sour cream, lard, cheeses, vegetables, eggs, butter, beef, and bread went up 1.7-0.3%.

Prices for alcoholic beverages and tobacco products rose 0.8% over the previous month, including 1.6% for tobacco products.

Prices for clothes and footwear declined 3.4% over the previous month.

In December 2019, transport prices went down 0.8% on the whole, which was mainly the result of vehicle prices shrinking 2.6% and fuel prices sliding 1.2%.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel went down 2.3% in December 2019, which was mainly the result of lower rates for natural gas (-11.2%).

Prices for healthcare services declined 0.3% in December 2019. Prices for communication services went down 0.3%. Prices for rest, recreation and cultural services dropped 1.0%. At the same time, prices in hotels and restaurants increased 0.4, while prices for various goods and services went up 2.2% in December 2019.

Producer prices

In December 2019, the Producer Price Index shrank 3.6% compared to the previous month. Compared to December of the previous year, deflation of producer prices landed at 7.4%.

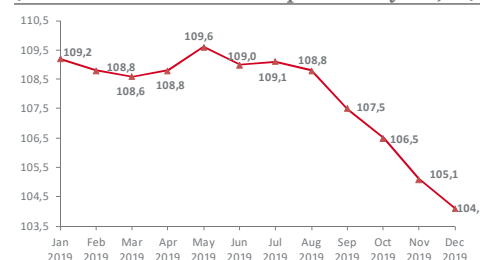
In December 2019, producer prices went down in mining industry and quarry development (-3.8%) and in processing industry (-0.8%). At the same time, prices in deliveries of electric energy, gas and vapor declined 9.2%.

Prices in the production of iron ores went down 4.4% in December 2019, prices in the production of crude oil and natural gas declined 4.6%, while prices in black coal production dropped 2.3%.

In December 2019, the country registered shrinking prices in chemicals and chemical products (-1.0%), in steel industry (-2.6), in wood, timber products, paper industry, and printing industry (-1.1%), in coke production and oil refining (-1.1%), and in machine-building (-0.9%).

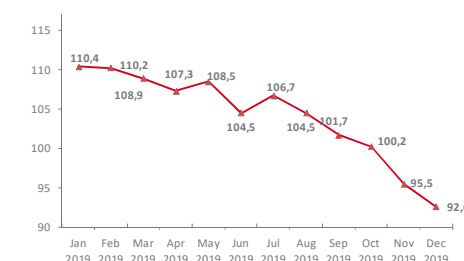
At the same time, December registered that prices went up 1.6% in key pharmaceuticals and pharmaceutical products and 0.6% in food products, beverages and tobacco products.

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



Source: the State Statistics Service

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



Source: the State Statistics Service

BOND MARKET AND PUBLIC FINANCE

At the last scheduled auction for primary placement of domestic government bonds in 2019, which was held on 24 December, the Ministry of Finance offered three issues of bonds denominated in hryvnias and two issues of bonds denominated in US dollars.

Bonds maturing in four months scored nine bids for the total of UAH 0.9 billion. The requested yields ranged within the limits of 11.70-13.50% p.a. The Ministry of Finance set the accepted yield at 11.80% p.a. and rejected four bids.

Demand for domestic government bonds maturing in nine months was accompanied by high requested yields (13.00% p.a.). This was the reason why all bids were rejected by the Ministry of Finance in full.

Seven bids for the total of UAH 0.7 billion were submitted for purchasing bonds maturing in two years and a half. The requested yields ranged within the limits of 11.00-11.75% p.a. The Ministry of Finance set the accepted yield at 11.00% p.a. and rejected five bids.

Bonds denominated in US dollars and maturing in ten months enjoyed the highest demand. Seventeen bids for the total of USD 174.4 million were submitted for purchasing the above-mentioned instrument. The requested yields ranged within the limits of 3.00-4.49% p.a. The Ministry of Finance set the accepted yield at 3.45% p.a. and satisfied five bids.

Bonds denominated in US dollars and maturing in two years scored eighteen bids for the total of USD 107.1 million. The requested yields ranged within the limits of 3.80-5.00% p.a.. The Ministry of Finance set the accepted yield at 3.95% p.a. and rejected seven bids.

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 3.5 billion and one issue of domestic government bonds denominated in foreign currency for the total of USD 0.3 billion (maturing on 15 January).

Funds raised to the State Budget from the sale of instruments on December 24, 2019 – UAH 5.3 billion (by NBU rate).

Over the previous week, the volume of outstanding domestic government bonds went down UAH 4.5 billion and, as of 11 January 2020, totaled UAH 822.8 billion (according to the total principal). Starting from 2020, the total sum of outstanding domestic government bonds is reflected according to their face and depreciation value (earlier – at face value).

NBU OPERATIONS

Over 3-11 January, market participants purchased NBU deposit certificates for the total of UAH 393.8 billion, including overnight certificates of deposit for the total of UAH 268.7 billion. On Friday, 10 January, the National Bank placed deposit certificates maturing in fourteen days for the total of UAH 125.1 billion, satisfying bids of sixty-three banks.

The interest rate for overnight certificates of deposit - at 11.50% p.a.; for deposit certificates maturing in fourteen days - at 13.50% p.a.

At a scheduled NBU tender announced on 03 January to refinance banks, a bid of one bank for the total of UAH 105.00 million was satisfied. The interest rate reached 13.50% p.a. The funds were provided for the period of fourteen days. Banks did not use NBU standing refinancing facility (overnight loans) over 3-11 January.

The balance of the State Treasury transactions landed at UAH 17.61 billion over 23-28 December and UAH 6.20 billion over 3-11 January.

The banking system liquidity is at an excessive level (above UAH 220.0 billion).

INTERBANK LENDING MARKET

Last three 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 11.50-13.50% p.a.

THE RESULTS OF PLACING DOMESTIC GOVERNMENT BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
24 Dec.	132 days	11,75%	9/5	511,17
24 Dec.	951 days	11,00%	7/2	11,27
24 Dec.	294 days	3,40%	17/5	104,69*
24 Dec.	721 days	3,86%	18/11	100,39*

* - 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	0.0
Banks	332.6	-1.2	-1.2	-1.2
Legal entities	26.4	0.1	0.1	0.1
Private individ.	10.0	2.1	2.1	2.1
Non-residents	116.9	-0.7	-0.7	-0.7

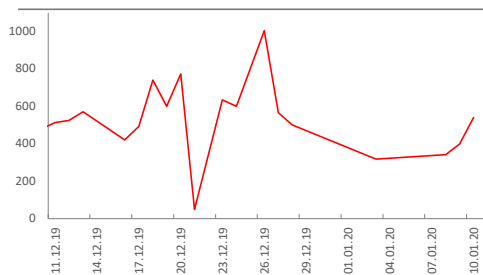
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions	67.6	28.9	28.9	28.9
NBU refinancing. UAH billions	44.9	-0.4	-0.4	-0.4
NBU deposit certificates	O/N. UAH billions	33.0	-43.8	-43.8
	Total. UAH billions	158.1	4.0	4.0

Source: the National Bank of Ukraine

TRADING VOLUMES (USD MILLIONS)



Source: NBU

FOREIGN EXCHANGE MARKET

During the last business days of 2019, the Ukrainian national currency demonstrated a record-high appreciation. The hryvnia was supported by exporters that were selling foreign currency to make mandatory payments at the end of the year and Naftogaz of Ukraine that sold foreign currency to transfer profits to the State Budget. The National Bank was actively buying foreign currency to escape an even more sharp appreciation of the national currency exchange rate. In addition to traditional interventions, the NBU held two auctions to purchase US dollars: on 26 December, the NBU bought USD 230.0 million from banks and the exchange rate was UAH 23.2552/USD, and on 28 December, the NBU bought USD 500.0 million from banks and the exchange rate was UAH 23.6882/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 23.25-23.31/USD on Monday, 23 December, UAH 23.23-23.29/USD on Tuesday, 24 December, UAH 23.25-23.35/USD on Thursday, 26 December, UAH 23.55-23.75/USD on Friday, 27 December. On the last trading day of 2019, 28 December, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 23.6862/USD.

Over 23-28 December, the National Bank purchased USD 1,558.00 million from banks: USD 100.00 million by way of foreign exchange interventions in the form of best exchange rate, USD 728.00 million by way of foreign exchange interventions in the form of a single exchange rate and USD 730.00 million by way of foreign exchange auctions. During the above-mentioned period, the National Bank sold USD 50.00 million to banks by way of foreign exchange interventions in the form of a single exchange rate.

Over the 23-28 December, the foreign exchange sales reached USD 3.3 billion.

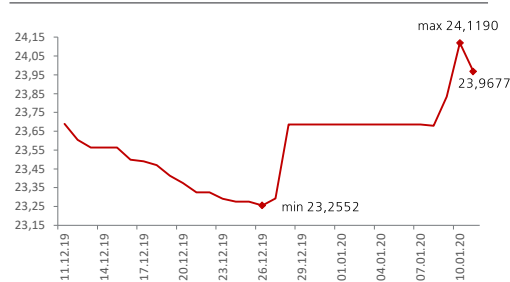
During the first business days of 2020, quotations of the US dollar grew situationally. However, the situation stabilized as the interbank foreign exchange market of Ukraine saw the beginning of active trading and, on Saturday, 11 January, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 23.9723/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 23.64-23.73/USD on Friday, 3 January, UAH 23.77-23.94/USD on Wednesday, 8 January, UAH 24.05-24.18/USD on Thursday, 9 January, UAH 23.88-24.05/USD on Friday, 10 January, and UAH 23.90-24.03/USD on Saturday, 11 January.

Over 03-11 January, the National Bank purchased USD 198.00 million from banks by way of foreign exchange interventions in the form of a single exchange rate and sold USD 30.00 million to banks by way of foreign exchange interventions in the form of a single exchange rate.

Over the 03-11 January, the foreign exchange sales reached USD 1.6 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

QUOTATIONS ON GLOBAL MARKETS

Name	Cou pon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2020	7,75	01.09.2020	102,82	103,24	2,52	USD
Ukraine-2021	7,75	01.09.2021	106,57	107,07	3,25	USD
Ukraine-2022	7,75	01.09.2022	108,71	109,22	4,02	USD
Ukraine-2023	7,75	01.09.2023	110,46	110,96	4,44	USD
Ukraine-2024	8,99	01.02.2024	114,16	114,82	4,91	USD
Ukraine-2024	7,75	01.09.2024	111,25	111,91	4,84	USD
Ukraine-2025	7,75	01.09.2025	111,72	112,38	5,18	USD
Ukraine-2026	6,75	20.06.2026	114,61	115,29	4,00	EUR
Ukraine-2026	7,75	01.09.2026	112,32	112,82	5,42	USD
Ukraine-2027	7,75	01.09.2027	112,32	112,82	5,66	USD
Ukraine- 2028	9,75	01.11.2028	124,00	124,69	6,08	USD
Ukraine-2032	7,38	25.09.2032	110,04	110,70	6,15	USD
Ukreximbank	16,50	02.03.2021	100,40	101,57	14,88	UAH
Ukreximbank	9,63	27.04.2022	105,89	106,54	6,49	USD
Ukreximbank	9,05	09.02.2023	99,70	100,74	8,60	USD
Ukreximbank	9,75	22.01.2025	107,85	108,64	7,64	USD
Oschadbank	9,38	10.03.2023	105,82	106,05	7,19	USD
Oschadbank	9,07	19.01.2024	98,90	100,58	8,58	USD
Oschadbank	9,63	20.03.2025	105,48	105,70	8,25	USD
Privatbank CJSC	11,00	09.02.2021	20,24	29,15	182,1	USD
Metinvest BV	7,50	31.12.2021	100,03	101,51	6,61	USD
Metinvest BV	7,75	23.04.2023	106,34	106,82	5,45	USD
Metinvest BV	5,63	17.06.2025	103,34	104,02	4,77	EUR
Metinvest BV	8,50	23.04.2026	108,86	109,48	6,63	USD
Metinvest BV	7,75	17.10.2029	103,31	105,71	6,93	USD
DTEK Finance	10,75	31.12.2024	102,88	103,94	9,74	USD
MHP SE	7,75	10.05.2024	109,09	109,47	5,27	USD
MHP Lux SA	6,95	03.04.2026	105,74	106,12	5,76	USD
MHP Lux SA	6,25	19.09.2029	99,49	100,52	6,18	USD
Kernel Holding	8,75	31.01.2022	108,68	108,85	4,18	USD
Kernel Holding	6,50	17.10.2024	104,52	105,33	5,22	USD
Ukraine Railways	9,88	15.09.2021	105,60	105,83	6,13	USD
Ukraine Railways	8,25	09.07.2024	108,06	108,53	6,05	USD
NAK Naftogaz	7,38	19.07.2022	105,09	105,35	5,08	USD
NAK Naftogaz	7,13	19.07.2024	109,77	110,65	4,46	EUR
NAK Naftogaz	7,625	08.11.2026	106,63	107,46	6,26	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2015	2016	2017	2018	2019
GDP, %	-9.8	2.3	2.5	3.3	4.1 (third quarter, updated estimate)
Industrial output, %	-13.4	2.4	-0.1	1.1	-7.5 (November)
Consumer price growth, % year-on-year	43.3	12.4	13.7	9.8	4.1 (December)
Producer price growth, % year-on-year	25.4	35.7	16.5	14.2	-7.4 (December)
Balance of payments (consolidated). USD billions	0.8	1.3	2.6	2.9 (preliminary estimate)	0.6 (November, preliminary estimate)
Current account balance. USD billions	-0.2	-1.3 (revised data)	-2.1 (revised data)	-4.7 (preliminary estimate)	0.0 (November, preliminary estimate)
Balance of trade. USD billions	-1.7	-6.5 (revised data)	-8.61 (revised data)	-11.5 (preliminary estimate)	-1.2 (November, preliminary estimate)
International reserves. USD billions	13.3	15.5	18.8	20.8 (preliminary estimate)	25.3 (December, preliminary estimate)
External debt. USD billions	118.7	113.6	116.6	114.7 (third quarter)	120.0 (third quarter)
Banking system assets. % of growth	4.7	0.2	6.4	2.0	3.3 (January-November)
Exchange rate. by year end. UAH/USD	24.00	27.19	28.07	27.69	23.69 (December)
Exchange rate. annual average. UAH/USD	21.85	25.55	26.60	27.20	25.85

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@fuib.com

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

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

Olena Lysyanska
Research
+38 044 231 7380
olena.lysyanska@fuib.com

PUBLIC RELATIONS

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