

Financial markets survey

17 February 2020

INDICES ARE STAYING RECORD-HIGH

Statistical data is better than expected
Ukraine's GDP slowed down to 1.5% in Q4'2019
Domestic government bonds in foreign currency are back

GLOBAL MARKET

The US market is not getting tired of mounting new peaks. During the previous week, key stock indices set new historical record-highs: the S&P 500 Index reached 3,380.16 points, while the Dow Jones Index grew to 29,551.42 points.

Markets are supported by expectations that the US Federal Reserve will keep a low cost of funding and strong macroeconomic indicators of the US.

The FRS Chair Jerome Powell mentioned "good" prospects for economic growth in the country. The FRS chair does not see the need for adjusting monetary policy in the near future. Therefore, there is a very high likelihood that the federal funds rate will be kept at 1.50-1.75% per annum at the next meeting of the Federal Open Market Committee scheduled for 18 March 2020.

The Consumer Price Index in the US accelerated to 2.5% in January 2020 in annual terms from 2.3% in December 2019. Growing gasoline prices (+12.8%) and housing costs (+3.3%) influenced the CPI the most. Food prices remained unchanged.

Indicators of the labor market turned out to be better than expected. 205,000 Americans submitted applications for unemployment benefit. Experts expected this indicator to grow to 210,000.

Retail sales in the US rose 0.3% in January compared to the previous month. This indicator has been growing for the fourth consecutive month. Sustainable retail demand continues to be the key driver for economic growth in the US.

In the fourth quarter of 2019, GDP in Germany did not register any changes compared to the previous three months. Adjusted to the number of business days, Germany's GDP grew 0.4% in annual terms.

In January 2020, the Consumer Price Index in Germany grew 1.6% in annual terms. Thus, inflation in Germany accelerated compared to 1.5% in December 2019 and reached a record-high value since April 2019.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.0828-1.0960/EUR.

WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.0842	-1.2	-2.5	-3.5
GBP/USD	1.3047	1.2	0.2	-1.6
USD/RUB	63.6016	1.3	4.4	2.7
USD/UAH	24.4470	-0.4	1.8	3.2

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3380.2	1.6	3.0	4.6
FTSE 100 (UK)	7409.1	-0.8	-2.8	-1.8
MXME (East. Eur.)	186.3	0.6	-6.1	-3.5
PFTS (Ukraine)	527.6	2.1	4.6	3.5
RTS (Russia)	1534.9	1.1	-4.4	-0.9

KEY RATES

Ставка	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	1.798	-2.0	-8.4	-9.9
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.	11.000	0.0	-18.5	-18.5
CB RF. % p.a.	6.000	0.0	-4.0	-4.0

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	218.5	-2.0	3.8	7.1
Brent. USD/barrel	57.3	5.2	-10.0	-12.2
WTI. USD/barrel	52.1	3.4	-10.7	-14.3
Gold. USD/ounce	1581.4	0.6	2.3	4.4

Source: Bloomberg

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MACROECONOMICS

GDP

According to up-to-date estimate of the State Statistics Service, Ukraine's real GDP inched up 0.1% over the fourth quarter of 2019 compared to the previous quarter (seasonally adjusted data). Compared to the fourth quarter of 2018, the country's GDP rose 1.5%.

According to the Ministry for Development of Economy, Trade and Agriculture of Ukraine, economic growth slowed down in the fourth quarter of 2019 as a result of shrinking industrial output and atypical harvesting times of grain and other crops. This was connected with negative trends on foreign markets, protective trade measures instituted by the US, logistical problems, and warm weather conditions.

Producer prices

In January 2020, the Producer Price Index grew 2.5% compared to December 2019. Compared to January of the previous year, producer prices shrank 5.9%.

In January 2020, the country registered that producer prices went up 5.2% in mining industry and quarry development. Prices in mining of metal ores grew 3.9% in January 2020, prices in the production of crude oil and natural gas jumped 15.0%, whereas prices in black coal production dropped 5.2%.

Producer prices inched down 0.2% in processing industry in January 2020. Prices declined 1.1% in steel industry and 0.6% in food products, beverages and tobacco products. At the same time, the country registered growing prices in chemicals and chemical products (+2.3%), in wood, timber products, paper industry, and printing industry (+0.4%), in coke production and oil refining (+0.4%), in machine-building (+0.3%), and in key pharmaceuticals and pharmaceutical products (+1.4%).

Prices in electricity, gas, steam and air-conditioning went up 8.1%.

Economic Sentiment

The Economic Sentiment Indicator (ESI) in Ukraine calculated by the State Statistics Services stood at 103.0% in the first quarter of 2020 compared to 113.4% registered in the fourth quarter of 2019.

All four indicators of business expectations that are the ESI components registered a worsening: the Construction Confidence Indicator dropped from -18.9% in Q4'2019 to -21.7% in Q1'2020, the Industrial Confidence Indicator declined from -5.5% to -6.4%, the Services Confidence Indicator shrank from +1.6% to -3.0%, and the Retail Trade Confidence Indicator fell from +13.7% to +3.7%. Also, the Consumer Confidence Indicator fell from -5.8% to -11.4%.

The ESI rose record-high (113.4%) in the fourth quarter of 2019 and was record-low (76.9%) in the first quarter of 2017 when this indicator was calculated for the first time.

The indicator is calculated according to the Method of calculation of indicators of business expectations in compliance with the requirements of the International Monetary Fund's Special Data Dissemination Standard (SDDS).

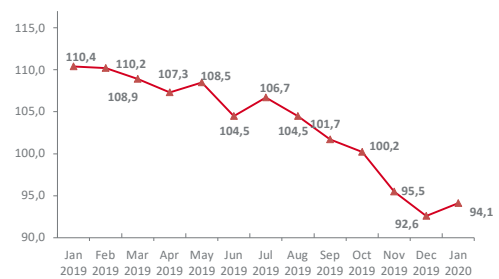
Depending on the sector, indicators of business confidence are estimated through polls regarding the current level of orders and inventories of finished products, changes in sales over the last three months, the forecast for changes in output/sales and staff numbers during the next three months.

LATEST MACROECONOMIC DATA

Indicator	Value
Real GDP change over Q4'2019, % to Q4'2018	1.5

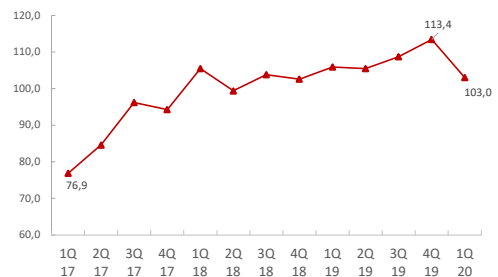
Source: the State Statistics Service

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



Source: the State Statistics Service

ECONOMIC SENTIMENT



Source: the State Statistics Service

BOND MARKET AND STATE FINANCE

At a scheduled auction for placement of domestic government bonds by the Ministry of Finance, which was held on 11 February, demand shifted towards short-term instruments and instruments denominated in US dollars.

Demand for bonds maturing in three months totaled UAH 1.2 billion. Eight bids were submitted for purchasing the above-mentioned instrument, while the requested yields ranged within the limits of 9.10-10.50% p.a.. Given the limit of UAH 0.5 billion established for this placement, the Ministry of Finance lowered the accepted yield down to 9.53% p.a. and satisfied four bids.

Bonds maturing in June 2021 scored eight bids for the total of UAH 1.6 billion. The requested yields ranged within the limits of 9.53-11.00% p.a.. There was a limit of UAH 1.0 billion established for the above-mentioned placement. The Ministry of Finance set the accepted yield at 9.53% p.a. (same as the accepted yield for bonds maturing in three months) and satisfied two bids, including one of them uncompetitive.

Demand for bonds maturing in two years consisted of four bids for the total UAH 0.5 billion. The requested yields ranged within the limits of 10.00-10.15% p.a.. Setting the accepted yield at 10.00% p.a., the Ministry of Finance satisfied two bids, including one of them uncompetitive.

Seventeen bids for the total of UAH 2.2 billion were submitted for purchasing bonds maturing in four years. The requested yields ranged within the limits of 9.89-10.20% p.a.. The Ministry of Finance set the accepted yield at 10.09% p.a. and rejected five bids.

Sixty-nine bids for the total of USD 0.3 billion were submitted for purchasing bonds denominated in US dollars and maturing in April 2021. The requested yields ranged within 3.20-4.90% p.a.. The Ministry of Finance set the accepted yield at 3.50% p.a. and satisfied forty-eight bids.

During the current week, the Ministry of Finance has planned to pay out two issues of domestic government bonds for the total of UAH 2.9 billion and for the total of UAH 1.6 billion (both due on 19 February).

Funds raised to the State Budget from the sale of instruments on 11 February - UAH 9.2 billion (according to the NBU exchange rate).

Over the previous week, the volume of outstanding domestic government bonds went down UAH 3.2 billion and, as of 14 February 2020, totaled UAH 813.6 billion (according to the total principal).

NBU OPERATIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 66.2 billion, and all of them were overnight certificates of deposit (the interest rate stood at 9.00% p.a.).

At a scheduled NBU tender announced on 14 February to support liquidity, a bid of one bank for the total of UAH 108.6 million was satisfied. The interest rate reached 11.00% p.a. The funding was granted for the period of fourteen days. Banks did not use the standing NBU refinancing line (overnight loans) over the previous week.

The banking system liquidity is at an excessive high level.

INTERBANK LENDING MARKET

The interbank lending market was stable during the previous week. Rates for loans in the national currency for all periods from overnight till one month were ranging within the limits of 8.00-10.00% 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
11 Feb.	84 days	9.46%	8/4	489.34
11 Feb.	476 days	9.53%	8/2	1118.59
11 Feb.	693 days	10.00%	4/2	455.67
11 Feb.	1561 days	9.99%	17/12	2174.90
11 Feb.	421 days	3.39%	69/48	202.34*

* - 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	328.4	-0.5	-2.6	-2.6
Banks	322.5	-0.8	-0.8	-4.1
Legal entities	24.9	-0.1	0.7	-5.3
Private individ.	8.8	-5.1	-7.8	-9.7
Non-residents	128.9	1.4	6.2	9.5

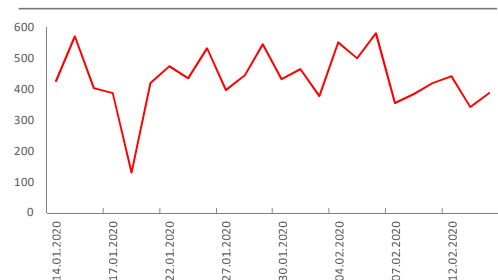
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	70.3	24.3	15.2	34.1	
NBU refinancing. UAH billions	44.8	-0.1	-0.1	-0.5	
NBU deposit certificates	O/N. UAH billions	10.4	-50.2	-72.1	-82.3
	Total. UAH billions	177.9	8.2	9.6	17.0

Source: the National Bank of Ukraine

TRADING VOLUMES (USD MILLIONS)



Source: NBU

FOREIGN EXCHANGE MARKET

To enhance Ukraine's investment appeal, the NBU expanded the possibilities for foreign banks in selling and purchasing foreign currency for hryvnias by way of clarifying definitions of a number of terms. Thanks to such clarifications, foreign banks are now free to make settlements in hryvnias with other foreign banks in transactions to sell/purchase foreign currency in accordance with contracts signed outside Ukraine using their correspondent accounts in Ukrainian banks. Amendments came into force starting from 8 February 2020.

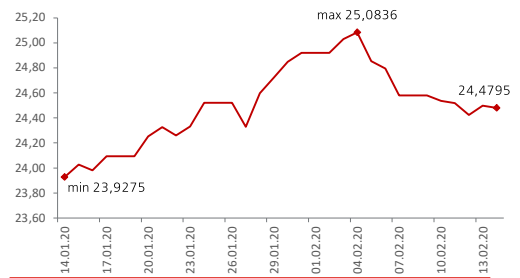
During the previous week, the Ukrainian interbank foreign exchange market was relatively balanced. At the same time, the market registered a slight appreciation of the hryvnia. Foreign currency supply prevailed over demand due to the presence of non-residents on the government bonds market and exporters actively selling their foreign currency proceeds. The National Bank was also present on the foreign exchange market and purchased foreign currency to replenish its international reserves. On Friday, 14 February, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 24.4470/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 24.48-24.55/USD on Monday, 10 February, UAH 24.40-24.47/USD on Tuesday, 11 February, UAH 24.45-24.55/USD on Wednesday, 12 February, UAH 24.46-24.56/USD on Thursday 13 February, UAH 24.42-24.49/USD on Friday, 14 February.

Over 10-14 February, the National Bank purchased USD 165.50 million from banks (USD 98.50 million by way of the best exchange rate interventions and USD 67.00 million by way of the single exchange rate interventions).

The overall weekly foreign currency sales on the interbank foreign exchange market reached USD 2.4 billion over the previous week.

NBU 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	102,44	102,75	2,52	USD
Ukraine-2021	7,75	01.09.2021	106,54	107,04	3,02	USD
Ukraine-2022	7,75	01.09.2022	110,13	110,63	3,34	USD
Ukraine-2023	7,75	01.09.2023	112,09	112,59	3,90	USD
Ukraine-2024	8,99	01.02.2024	116,45	117,15	4,23	USD
Ukraine-2024	7,75	01.09.2024	113,24	113,89	4,34	USD
Ukraine-2025	7,75	01.09.2025	114,43	115,11	4,62	USD
Ukraine-2026	6,75	20.06.2026	118,16	118,75	3,41	EUR
Ukraine-2026	7,75	01.09.2026	115,82	116,32	4,81	USD
Ukraine-2027	7,75	01.09.2027	116,25	116,75	5,05	USD
Ukraine-2028	9,75	01.11.2028	127,69	128,07	5,62	USD
Ukraine-2030	4,38	27.01.2030	101,10	101,65	4,24	EUR
Ukraine-2032	7,38	25.09.2032	114,34	115,00	5,69	USD
Ukreximbank	16,50	02.03.2021	104,70	105,54	10,70	UAH
Ukreximbank	9,63	27.04.2022	106,14	106,84	6,22	USD
Ukreximbank	9,05	09.02.2023	100,13	101,21	8,25	USD
Ukreximbank	9,75	22.01.2025	108,47	109,26	7,47	USD
Oschadbank	9,38	10.03.2023	106,28	106,51	6,97	USD
Oschadbank	9,07	19.01.2024	99,00	100,57	8,42	USD
Oschadbank	9,63	20.03.2025	105,84	106,05	8,14	USD
Privatbank CJSC	11,00	09.02.2021	9,58	10,76	447,1	USD
Metinvest BV	7,50	31.12.2021	99,81	101,59	6,52	USD
Metinvest BV	7,75	23.04.2023	105,76	106,22	5,59	USD
Metinvest BV	5,63	17.06.2025	103,13	103,81	4,80	EUR
Metinvest BV	8,50	23.04.2026	108,11	108,60	6,77	USD
Metinvest BV	7,75	17.10.2029	103,86	104,67	7,07	USD
DTEK Finance	10,75	31.12.2024	103,65	104,05	9,70	USD
MHP SE	7,75	10.05.2024	108,59	108,96	5,35	USD
MHP Lux SA	6,95	03.04.2026	105,52	105,94	5,78	USD
MHP Lux SA	6,25	19.09.2029	99,25	100,27	6,21	USD
Kernel Holding	8,75	31.01.2022	107,90	108,06	4,39	USD
Kernel Holding	6,50	17.10.2024	105,29	106,41	4,94	USD
Ukraine Railways	9,88	15.09.2021	104,74	105,03	6,45	USD
Ukraine Railways	8,25	09.07.2024	110,31	110,77	5,45	USD
NAK Naftogaz	7,38	19.07.2022	105,34	105,59	4,89	USD
NAK Naftogaz	7,13	19.07.2024	110,76	111,45	4,22	EUR
NAK Naftogaz	7,625	08.11.2026	108,67	109,51	5,89	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2016	2017	2018	2019	2020
GDP. %	2.3	2.5	3.3	1.5 (fourth quarter, up-to-date estimate)	-
Industrial output. %	2.4	-0.1	1.1	-1.8	-
Consumer price growth. % year-on-year	12.4	13.7	9.8	4.1	3.2 (January)
Producer price growth. % year-on-year	35.7	16.5	14.2	-7.4	-5.9 (January)
Balance of payments (consolidated). USD billions	1.3	2.6	2.9	3.3 (December, preliminary estimate)	-
Current account balance. USD billions	-1.3	-2.1	-4.7	2.4 (December, preliminary estimate)	-
Balance of trade. USD billions	-6.5	-8.61	-12.7	-1.2 (December, preliminary estimate)	-
International reserves. USD billions	15.5	18.8	20.8	25.3	26.3 (January, preliminary estimate)
External debt. USD billions	113.6	116.6	114.7	120.0 (third quarter)	-
Banking system assets. % of growth	0.2	6.4	2.0	9.9	-
Exchange rate. by year end. UAH/USD	27.19	28.07	27.69	23.69	24.92 (January)
Exchange rate. annual average. UAH/USD	25.55	26.60	27.20	25.85	24.12 (January)

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	RTS 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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