

# Financial markets survey

15 June 2020

## THE RALLY HAS STOPPED

**The FRS rhetoric remains soft**  
**The NBU cut its key policy rate to 6.0%**  
**Ukraine received the first tranche as part of the Stand-By Program.**

### GLOBAL MARKET

During the previous week, global financial markets registered a natural adjustment. The fears of a new wave of the COVID pandemic and a pessimistic economic forecast made by the US FRS caused dissatisfaction among investors. On Friday, 12 June, a slowdown in the expansion of the FRS balance spurred global sales on the stock market. If the trend towards shrinking support for liquidity continues, it may result in risks of a downward trend on the US stock market.

According to the minutes of the FRS meeting, which were published on Wednesday, 10 June, the federal funds rate was, as expected, left unchanged at 0.00-0.25% per annum. The FRS also expects that the rate will remain within the above-mentioned range until the end of 2022, while the asset purchase (the QE program) will continue at least at the current level.

FRS Chair Jerome Powell stated that the fall of the US GDP in the second quarter of the current year would likely turn out to be a record-low, while the speed of this fall would depend on how the epidemiologic situation would develop. According to the FRS forecasts, the US GDP will shrink 6.5% in 2020 and will grow 5.0% in 2021. The rate of unemployment in the country will reach 9.3% in the current year and 6.5% next year. Inflation will remain below 2.0% even in 2022. On the whole, the FRS confirmed the regulator's readiness to provide unlimited monetary incentives.

The Consumer Price Index in the US slowed down in May from 0.3% to 0.1% in annual terms. Compared to April 2020, consumer price inched down 0.1%. The Producer Price Index in the US was negative in May 2020 and landed at minus 0.8%.

In April 2020, industrial output in the euro-area and the European Union shrank 17.1% and 17.3% respectively as compared to March. In annual terms, this indicator dropped 28.0% in the euro-area and 27.2% in the EU. These are record-low indicators since the middle of 1990s. In Germany, industrial output shrank 21.0% in April compared to March 2020 and 30.2% compared to April 2019.

On 12 June, the UK Government officially informed the EU that it would not request extension of the transition period and would complete the Brexit process on 01 January 2021.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1239-1.1422/EUR.

### WEEKLY ISSUE

#### EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1304	-0.2	4.1	0.6
GBP/USD	1.2540	-1.0	2.3	-5.4
USD/RUB	69.1219	0.2	-6.4	11.7
USD/UAH	26.7303	0.5	-0.2	12.9

#### STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3041.3	-4.8	6.0	-5.9
FTSE 100 (UK)	6105.2	-5.8	1.8	-19.1
MXME (East. Eur.)	149.8	-3.9	10.8	-22.4
PFTS (Ukraine)	499.5	0.0	-0.2	-2.0
RTS (Russia)	1238.1	-3.7	8.9	-20.1

#### KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.593	-6.4	-22.8	-70.3
FRS. % p.a.	0.00-0.25	0.0	0.0	-85.7
ECB. % p.a.	0.000	0.0	0.0	0.0
NBU. % p.a.	6.000	-25.0	-25.0	-55.6
CB RF. % p.a.	5.500	0.0	0.0	-12.0

#### COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	191.5	-9.0	-10.7	-6.1
Brent. USD/barrel	38.7	-8.4	25.7	-38.5
WTI. USD/barrel	36.3	-8.3	37.7	-38.4
Gold. USD/ounce	1733.5	3.0	1.8	14.4

Source: Bloomberg

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## MACROECONOMICS

### Producer prices

According to information of the State Statistics Service, the Producer Price Index went down 0.6% in May 2020 compared to April 2020. Compared to May of the previous year, producer prices declined 5.1%.

In May 2020, the country registered that producer prices declined 4.5% in mining and quarrying. Prices in the extraction of crude petroleum and natural gas dropped 11.0%, while prices in mining of metal ores went down 3.5% in May 2020.

Producer prices shrank 1.1% in manufacturing in May 2020. The country registered shrinking prices in steel industry (-4.0%), in manufacture of chemicals and chemical products (-8.1%), in machine-building (-0.4%), and in manufacture of coke and refined petroleum products (-3.4%). At the same time, prices grew 0.7% in manufacture of food products, beverages and tobacco products, 0.4% in manufacture of wood, paper products, and printing and 0.2% in manufacture of pharmaceuticals, medicinal chemical and botanical products.

Prices in electricity, gas, steam and air-conditioning supply rose 2.5%.

In May 2020, prices in the production of intermediate goods went down 2.8%. At the same time, prices in the production of investment goods and non-durable consumer goods increased 0.5% and prices in energy generation rose 0.4%. Prices in the production of durable consumer goods remained at the level registered in April 2020.

### Wages

The average nominal monthly wage of full-time staff members employed at companies, institutions and organizations totaled UAH 10,430.00 in April 2020, which constitutes approximately 220.0% of the minimum wage (UAH 4,723.00).

Compared to March 2020, the average nominal wage shrank 8.9% in April 2020. Over the last twelve months (compared to April 2019), the average nominal wage went up 1.6%.

In April 2020, the Index of Real Wages reached 90.4% compared to the previous month and 99.6% compared to April 2019.

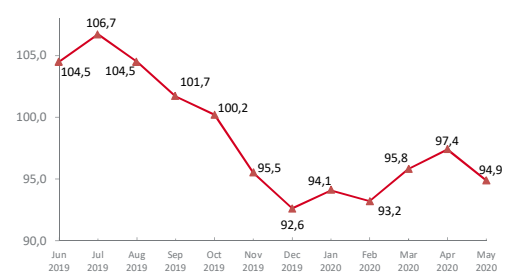
In April 2020, the highest average wages were observed in the city of Kyiv (UAH 15,278.00), Donetsk oblast (UAH 12,473.00) and Kyiv oblast (UAH 10,797.00). The lowest wages were registered in Ternopil oblast (UAH 7,815.00), Volyn oblast (UAH 7,758.00) and Chernivtsi oblast (UAH 7,560.00).

The highest average wages were registered among those employed in finance and insurance (UAH 20,256.00), in information and telecommunications (UAH 18,317.00), as well as in public administration and defense and mandatory social insurance (UAH 15,041.00).

As of 1 May 2020, total wage arrears were registered at UAH 2,996.7 million or at 101.1% compared to 1 April 2020.

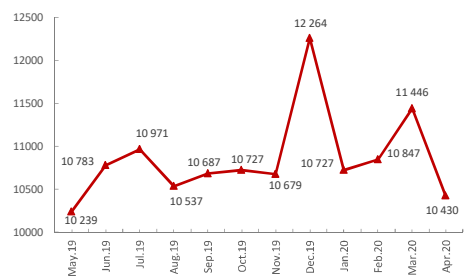
As of 1 May 2020, wage arrears of economically active companies stood at UAH 1,822.1 million or at 100.3% compared to 1 April 2020.

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



Source: the State Statistics Service

### AVERAGE NOMINAL WAGES (UAH)



Source: the State Statistics Service

## BOND MARKET AND PUBLIC FINANCE

A scheduled auction for placing domestic government bonds was held on 09 June, where the Ministry of Finance (MoF) offered six issues of bonds: five issues denominated in hryvnia and one issue denominated in Euros.

Eleven bids for the total of UAH 1.7 billion were submitted for purchasing bonds maturing in three months. The requested yields ranged within the limits of 9.00-9.75% p.a. The limit established for this placement totaling UAH 0.5 billion made it possible for the MoF to lower the accepted yield to 9.00% p.a. and to reject six bids.

Eleven bids for the total of UAH 1.1 billion were submitted for purchasing bonds maturing in six months. The requested yields ranged within the limits of 9.50-10.50% p.a. The MoF set the accepted yield at 9.50% p.a. and rejected 7 bids (the limit for the above-mentioned placement stood at UAH 0.5 billion).

Bonds maturing in nine months scored eight bids for the total of UAH 0.3 billion. The requested yields ranged within the limits of 10.50-10.79% p.a. The MoF set the accepted yield at 10.75% p.a. and rejected one bid.

Eight bids for the total of UAH 0.3 billion were submitted for purchasing bonds maturing in twelve months. The requested yields ranged within the limits of 10.60-10.85% p.a. The MoF set the accepted yield at 10.79% p.a. and rejected two bids.

Demand for bonds maturing in November 2021 was high – market participants submitted eight bids for the total of UAH 5.9 billion. The requested yields ranged within the limits of 10.80-10.98% p.a. The MoF set the accepted yield at 10.80% p.a. and rejected one bid.

The MoF satisfied nineteen bids submitted for purchasing bonds maturing in twelve months and denominated in Euros for the total of EUR 0.4 billion in full. The single requested yield stood at 2.20% p.a.

Funds raised to the State Budget from the sale of instruments on June 09, 2020 – UAH 17.8 billion (at the NBU rate).

Over the previous week, the volume of outstanding domestic government bonds went up UAH 9.8 billion and, as of 12 June 2020, totaled UAH 893.4 billion (according to the total principal). This week, the MoF will have to pay out one issue for the total of USD 0.8 billion (due on 18 June).

### NBU TRANSACTIONS

At the NBU Board meeting on monetary policy issues, which took place on 11 June, the decision was made to cut the NBU key policy rate from 8.00% to 6.00% effective from 12 June. The NBU key policy rate cut below the neutral level is the evidence that the cycle of rapidly softening monetary policy is over.

Also the National Bank approved the decision to narrow the interest rate band for standing facilities from “key policy rate +/- 2 p.p.” to “key policy rate +/- 1 p.p.”. This means that with the new key policy rate, overnight refinancing loans will be issued at 7.00% p.a., and overnight certificates of deposit will be placed at 5.00% p.a. starting from 12 June.

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 210.7 billion, including overnight certificates of deposit for the total of UAH 87.4 billion.

On Friday, 12 June, the NBU held two quantitative liquidity-providing tenders to refinance banks. As a result of the first tender for the period of up to 84 days, bids of three banks for the total of UAH 445.0 million were satisfied (interest rate - 6.00% p.a.). As a result of the second tender for the period of up to 1,820 days (five years), bids of ten banks for the total of UAH 2.2 billion were satisfied (interest rate - 6.00% p.a.).

On Friday, 12 June, the National Bank placed deposit certificates maturing in seven days for the total of UAH 123.4 billion, satisfying bids of fifty-two banks (interest rate - 6.00% p.a.).

## THE RESULTS OF PLACING DOMESTIC BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
09 Jun.	70 days	9.00%	11/5	527.25
09 Jun.	168 days	9.50%	11/4	479.06
09 Jun.	259 days	10.70%	8/7	205.48
09 Jun.	343 days	10.70%	8/6	207.40
09 Jun.	525 days	10.80%	8/7	5 763.39
09 Jun.	337 days	2.20%	19/19	353.29*

\* EUR millions

Source: the Ministry of Finance of Ukraine

## HOLDERS OF DOMESTIC BONDS

Owner	last value, UAH billion	week ch.. %	mon. ch.. %	YTD. %
NBU	324.6	0.0	0.0	-3.7
Banks	406.8	3.6	13.4	20.9
Legal entities	51.6	-3.2	1.8	95.8
Private individ.	7.6	-3.1	-9.8	-22.1
Non-residents	102.9	-2.3	-6.5	-12.6

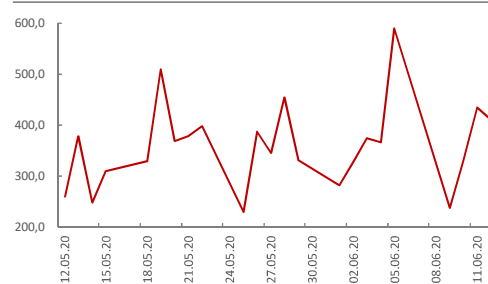
Source: the National Bank of Ukraine

## MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	62.7	38.1	-9.5	19.6	
NBU refinancing. UAH billions	49.6	3.4	4.5	10.1	
NBU deposit certificates	O/N. UAH billions	14.6	-32.6	-54.2	-75.2
	Total. UAH billions	138.0	-7.2	-11.5	-9.2

Source: the National Bank of Ukraine

## TRADING VOLUMES (USD MILLIONS)



Source: NBU

### INTERBANK LENDING MARKET

The interbank lending market reacted to a cut NBU key policy rate by way of reducing lending rates for interbank funds in the national currency down to 4.00-6.00% p.a.

### FOREIGN EXCHANGE MARKET

Despite a large number of important financial news items, it was rather quiet on the Ukrainian foreign exchange market last week, while the US dollar exchange rate fluctuated within a narrow range of UAH 26.55-26.80/USD. The main factors that influenced the exchange rate were rather large volumes of funds raised by the Ministry of Finance at the auction to place domestic government bonds, the news that the IMF approved a new program for Ukraine and the NBU's decision to cut its key policy rate. As a result, on Friday, 12 June, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.7303/USD.

During the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.60-26.67/USD on Tuesday, 09 June, UAH 26.62-26.69/USD on Wednesday, 10 June, UAH 26.57-26.63/USD on Thursday, 11 June, and UAH 26.67-26.77/USD on Friday, 12 June.

Over 09-12 June, the National Bank purchased USD 40.0 million from banks by way of the single exchange rate interventions. The overall foreign currency sales on the interbank foreign exchange market reached USD 1.6 billion over the previous week.

### UKRAINE ON INTERNATIONAL MARKETS

On 09 June, the Executive Board of the International Monetary Fund (IMF) approved a new 18-month Stand-by Arrangement for Ukraine, with access equivalent to SDR 3.6 billion (approximately USD 5.0 billion). The new Stand-By Arrangement is focused on the key task – ensuring macroeconomic and financial stability – and will address, among other things, such areas as: fiscal policy, monetary policy, the financial sector policy, energy policy, and anti-corruption policy.

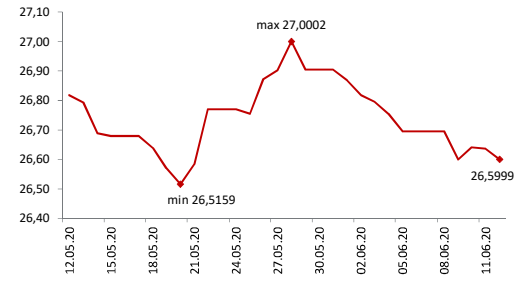
On 11 June, Ukraine received the first tranche from the IMF totaling SDR 1.5 billion (approximately USD 2.1 billion) and was channeled to the State Budget of Ukraine.

Cooperation with the IMF provided access to financial support of the World Bank and the European Union. The European Commission provided Ukraine with the second tranche nominally totaling EUR 500.0 million as part of the fourth EU macro-financial (lending) assistance. The funds were provided in the form of a loan with an interest rate of 0.125% p.a. and maturing before 10 June 2035.

It is expected that the total sum of official financing during the current year will reach above USD 5.0 billion and more than half of it will come from the IMF.

On 12 June 2020, Moody's Investors Service upgraded the Government of Ukraine's long-term issuer and senior unsecured ratings from "Caa1" to "B3". The outlook on the ratings is "stable". The Government of Ukraine's long-term issuer and senior unsecured ratings were upgraded to B3 as a result of the approved new financing program for Ukraine by the IMF. Ukraine is the only country in the world that had its credit ratings upgraded during the COVID-19 pandemic.

### NBU EXCHANGE RATE (UAH/USD)



Source: NBU

### QUOTATIONS ON GLOBAL MARKETS

Name	Coupon	Maturity	Bid Price	Ask Price	Ask YTM	Cur
Ukraine-2020	7,75	01.09.2020	100,25	100,75	3,93	USD
Ukraine-2021	7,75	01.09.2021	102,54	103,04	5,10	USD
Ukraine-2022	7,75	01.09.2022	103,89	104,55	5,52	USD
Ukraine-2023	7,75	01.09.2023	104,74	105,41	5,87	USD
Ukraine-2024	8,99	01.02.2024	108,12	109,15	6,13	USD
Ukraine-2024	7,75	01.09.2024	105,30	106,32	6,02	USD
Ukraine-2025	7,75	01.09.2025	105,74	106,69	6,22	USD
Ukraine-2026	6,75	20.06.2026	102,10	103,13	6,11	EUR
Ukraine-2026	7,75	01.09.2026	105,81	106,65	6,43	USD
Ukraine-2027	7,75	01.09.2027	105,47	106,31	6,63	USD
Ukraine-2028	9,75	01.11.2028	116,21	117,05	7,02	USD
Ukraine-2030	4,38	27.01.2030	87,12	88,28	6,19	EUR
Ukraine-2032	7,38	25.09.2032	102,85	103,93	6,89	USD
Ukreximbank	16,50	02.03.2021	95,84	100,10	16,22	UAH
Ukreximbank	9,63	27.04.2022	101,35	102,60	8,08	USD
Ukreximbank	9,05	09.02.2023	98,67	100,51	7,29	USD
Ukreximbank	9,75	22.01.2025	101,18	101,83	9,25	USD
Oschadbank	9,38	10.03.2023	102,78	102,87	8,17	USD
Oschadbank	9,07	19.01.2024	94,54	97,46	8,18	USD
Oschadbank	9,63	20.03.2025	103,74	104,14	8,54	USD
Privatbank CJSC	11,00	09.02.2021	9,23	10,78	983,3	USD
Metinvest BV	7,50	31.12.2021	99,61	100,44	7,12	USD
Metinvest BV	7,75	23.04.2023	97,54	97,80	8,64	USD
Metinvest BV	5,63	17.06.2025	89,08	91,14	7,80	EUR
Metinvest BV	8,50	23.04.2026	95,91	96,41	9,31	USD
Metinvest BV	7,75	17.10.2029	91,22	92,30	8,99	USD
DTEK Finance	10,75	31.12.2024	58,81	59,08	26,33	USD
MHP SE	7,75	10.05.2024	103,31	103,68	6,66	USD
MHP Lux SA	6,95	03.04.2026	100,75	101,37	6,66	USD
MHP Lux SA	6,25	19.09.2029	93,41	95,35	6,94	USD
Kernel Holding	8,75	31.01.2022	103,71	103,88	6,18	USD
Kernel Holding	6,50	17.10.2024	97,81	99,61	6,60	USD
Ukraine Railways	9,88	15.09.2021	100,77	101,05	8,94	USD
Ukraine Railways	8,25	09.07.2024	97,91	98,28	8,76	USD
NAK Naftogaz	7,38	19.07.2022	99,24	99,40	7,69	USD
NAK Naftogaz	7,13	19.07.2024	97,44	98,17	7,66	EUR
NAK Naftogaz	7,625	08.11.2026	96,36	97,43	8,15	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2016	2017	2018	2019	2020
GDP. %	2.3	2.5	3.3	3.2	-1.5
Industrial output. %	2.4	-0.1	1.1	-1.8	-16.2 (April)
Consumer price growth. % year-on-year	12.4	13.7	9.8	4.1	1.7 (May)
<b>Producer price growth. % year-on-year</b>	35.7	16.5	14.2	-7.4	<b>-5.1 (May)</b>
Balance of payments (consolidated). USD billions	1.3	2.6	2.9	6.0 (preliminary data)	-0.7 (April, preliminary estimate)
Current account balance. USD billions	-1.3	-2.4	-4.4	-1.1 (preliminary data)	1.4 (April, preliminary estimate)
Balance of trade. USD billions	-6.5	-8.6	-12.7	-14.0 (preliminary data)	0.2 (April, preliminary estimate)
International reserves, USD billions, by the end of the period	15.5	18.8	20.8	25.3	25.4 (May, preliminary estimate)
External debt. USD billions	113.6	116.6	114.7	121,7 (forth quarter)	-
Banking system assets, % of annual growth	0.2	6.4	2.0	9.9	4.2 (January-April)
Exchange rate. by year end. UAH/USD	27.19	28.07	27.69	23.69	26.91 (May)
Exchange rate. annual average. UAH/USD	25.55	26.60	27.20	25.85	25.83 (January-May)

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	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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