

Financial markets survey

06 July 2020

CHINESE ENCHANTMENT

Unexpected data from the US labor market
Significant drops in Ukrainian exports and imports
The hryvnia is under pressure

GLOBAL MARKET

The trading week on stock markets finished on a positive note on the eve of the US Independence Day. Rapid growth of the Chinese stock market, long-term and almost unlimited fiscal and monetary incentives for economies provided by national central banks and strong data from the US labor market made investors optimistic.

The rally on the stock market in China goes on, while the country's stock indices are approaching a record-high since the beginning of 2019. Statistical data on industrial output and the services sector in China, which were published during the previous week, are the evidence that the Chinese economy has fully recovered. In June 2020, the Services Purchasing Managers' Index (PMI) in China rose to a record-high for the last ten years spurred by rapidly growing demand as a result of lifting the lockdown restrictions.

On Tuesday, 30 June, US Secretary of the Treasury Steven Mnuchin made a speech in the US Congress saying that the White House was supporting additional budgetary and fiscal incentives. It is expected that the new package of fiscal incentives will be approved before the end of July.

On Wednesday, 1 July, the FRS published minutes of its meeting in June that revealed the discussion of how to target the curve of the US Treasuries yields. As part of this measure, the FRS may use a mechanism to support the targeted maximum for short-term and medium-term Treasuries yields.

The official US Monthly Labor Review for June, published on Thursday, 2 July, turned out to be unexpectedly positive. Total non-farm payrolls grew 4.8 million people after rising 2.7 million in May (the consensus forecast of analysts was 3.0 million people). The rate of unemployment shrank from 13.3% to 11.1% (the consensus forecast was 12.3%). The average hourly earnings went down 1.2% in June compared to May 2020, whereas this indicator registered a 5.0% growth in annual terms (the consensus forecast was -0.7% and +5.3% respectively).

The petroleum market continues approaching a record-high for the last three months. Oil prices get support thanks to resumed business activities in the largest economies of the world, which results in growing demand for petroleum and energy carriers. Limited oil supply, which is the result of implementing decisions made by the OPEC+ is holding in check the attack of players for lower prices.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1183-1.1302/EUR.

WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1224	0.1	0.3	-0.1
GBP/USD	1.2483	1.2	-0.7	-5.8
USD/RUB	70.5198	1.5	2.2	13.9
USD/UAH	27.1716	1.8	1.6	14.7

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3130.0	4.0	0.2	-3.1
FTSE 100 (UK)	6157.3	0.0	-3.5	-18.4
MXME (East. Eur.)	146.8	-0.4	-5.8	-23.9
PFTS (Ukraine)	499.5	0.0	-0.1	-2.0
RTS (Russia)	1235.2	-0.9	-5.1	-20.3

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.506	-10.7	-18.8	-74.7
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	0.0	-25.0	-55.6
CB RF. % p.a.	4.500	0.0	-18.2	-28.0

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	184.5	-2.1	-12.4	-9.6
Brent. USD/barrel	42.8	4.6	7.1	-31.5
WTI. USD/barrel	40.7	5.6	8.1	-30.3
Gold. USD/ounce	1772.9	1.4	4.0	17.0

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 May 2020, current account surplus totaled USD 1.4 billion.

In January-May 2020, the current account surplus totaled USD 5.6 billion (a deficit of USD 1.1 billion was registered in January-May 2019). The current account surplus is more than half resulted from real sector's reinvested earnings (USD 2.8 billion in January – May 2020).

For the first time since the beginning of the current year, the country registered a serious drop in export of goods – 24.7% in May 2020 (compared to May 2019).

Exports of goods totaled USD 3.1 billion. Exports shrank as a result of exports of ferrous and non-ferrous metals dropping 32.1%, food exports declining 13.4%, exports of mineral products (including ores) falling 35.2%, machinery and equipment exports going down 17.5%, exports of timber and wood products sinking 25.5%, chemical exports sagging 18.4%, and exports of manufactured products shrinking 20.7%.

Imports of goods declined seriously in May 2020 – 35.5% (compared to May 2019) – and totaled at USD 3.3 billion.

Energy imports shrank 2.1 times. Non-energy imports decreased 1.4 times owing to machinery and equipment imports shrinking 25.4%, chemical imports falling 33.3%, imports of ferrous and non-ferrous metals plummeting 34.0%, imports of manufactured goods going down 25.2%, imports of timber and wood products sinking 31.3%, and food imports sagging 1.1%.

In May 2020, the net lending to the rest of the world totaled USD 1.4 billion.

In May 2020, net outflows under public sector transactions reached USD 1.3 billion and were formed through the repayments on Eurobonds and net sale of domestic government bonds by non-residents.

The net outflow of foreign direct investment totaled USD 323 million in May 2020.

The net increase of the banking system's external position (excluding foreign direct investments) totaled USD 146.0 million and resulted from net increase of external position under the "currency and deposits" item and net sale of non-residents' securities by banks.

The net increase of the real sector's external position (excluding foreign direct investment) reached USD 217.0 million in May 2020 and resulted from factors: increase of the amount of cash outside banks, net increase of the external position on trade credits and net increase of liabilities on loans.

In May 2020, the amount of cash outside banks increased by USD 477.0 million.

The net outflow on private sector's transactions (including errors and omissions) totaled USD 466.0 million in May 2020.

Deficit of the overall balance of payments totaled USD 353.0 million in May 2020.

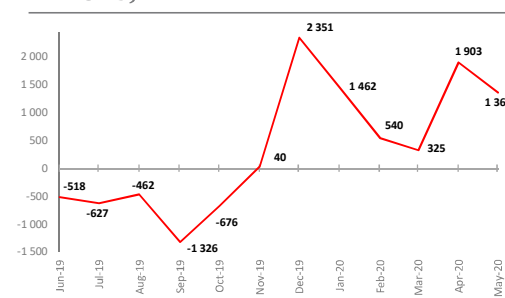
As of June 01 2020, the volume of international reserves amounted to USD 25.4 billion.

LATEST MACROECONOMIC DATA

Indicator	Value
Current account of the balance of payments in May 2020, USD billions	1.4

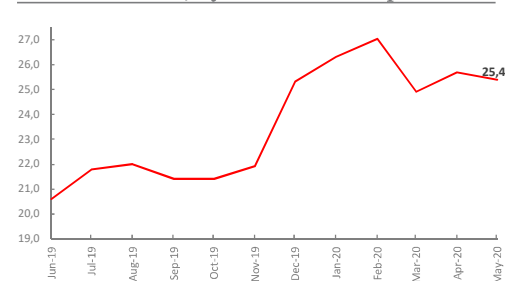
Source: the State Statistics Service

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

BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for placing domestic government bonds, which was held on 30 June, the Ministry of Finance (MoF) offered six issues of bonds denominated in hryvnia. However, it managed to place only four issues. Bonds maturing in eight months failed to raise any interest among investors, while bonds maturing in twelve months scored two bids requesting yields higher than those satisfied at the previous auction. On the whole, demand among investors was rather discreet. Bonds maturing in three and six months enjoyed the highest demand.

Three bids for the total of UAH 0.8 billion were submitted for purchasing bonds maturing in three months. The requested yield reached 7.24% p.a. The MoF set the accepted yield at 7.24% p.a. and partially satisfied all bids.

Bonds maturing in six months scored two bids for the total of UAH 0.8 billion. The requested yield stood at 7.74% p.a. The MoF set the accepted yield at 7.74% p.a. and partially satisfied both bids.

Six bids for the total of UAH 0.3 billion were submitted for purchasing bonds maturing in two years. The requested yields ranged within the limits of 10.29-10.49% p.a. The MoF set the accepted yield at 10.40% p.a. and rejected one bid.

Demand for bonds maturing in three years consisted of one uncompetitive bid for the total of UAH 5.0 million. The MoF set the accepted yield at 10.47% p.a. and satisfied the above-mentioned bid.

As a result of the auction held on 30 June 2020, the MoF managed to raise UAH 1.3 billion to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went up UAH 3.5 billion and, as of 03 July 2020, totaled UAH 884.1 billion (according to the total principal).

During the current week, the MoF will have to pay out one issue of domestic bonds for the total of UAH 6.3 billion (due on 08 July) and one issue of domestic bonds for the total of USD 0.7 billion (due on 09 July).

In June 2020, Ukraine's total budget revenues came to UAH 112.9 billion, while VAT refunds totaled UAH 11.6 billion in June. As of 01 July 2020, the balance at the Single Treasury Account (STA) was registered at UAH 75.7 billion.

NBU TRANSACTIONS

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 139.0 billion, including overnight certificates of deposit for the total of UAH 57.1 billion (the interest rate for overnight certificates of deposit stood at 5.00% p.a.).

As a result of the NBU quantitative liquidity-providing tender to refinance banks, which was held on Friday, 03 July, bids of two banks for the total of UAH 1.4 billion were satisfied. The interest rate reached 6.00% p.a. The funds were provided for the period of eighty-four days.

On Friday, 03 July, the National Bank placed deposit certificates maturing in seven days for the total of UAH 81.9 billion. The interest rate stood at 6.00% p.a.

Banks used the standing NBU refinancing line (overnight loans) for the total of UAH 2.0 billion over the previous week (the interest rate - 7.00% p.a.).

A negative balance of the State Treasury transactions landed at UAH 6.5 billion over 30 June – 03 July.

The banking system liquidity has shrunk even more, but it is staying at a sufficient level.

THE RESULTS OF PLACING DOMESTIC BONDS

Date of placement	Type of Domestic Bonds	Weight-average yield	Submit./satisfied bids	Funds raised, UAH millions
30 Jun.	91 days	7,24%	3/3	533,56
30 Jun.	147 days	7,74%	2/2	484,89
30 Jun.	602 days	10,39%	6/5	248,62
30 Jun.	959 days	10,47%	1/1	5,11

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	420.9	0.9	6.3	25.1
Legal entities	30.7	0.9	-42.1	16.5
Private individ.	7.8	1.8	-2.0	-20.5
Non-residents	100.1	-0.6	-5.4	-14.9

Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator		last	week ch.. %	mon. ch.. %	YTD. %
The balance on c/a. UAH billions		46.6	3.0	-3.5	-11.1
NBU refinancing. UAH billions		44.4	2.4	-7.3	-1.3
NBU deposit certi- ficates	O/N. UAH billions	17.6	15.7	-1.1	-70.0
	Total. UAH billions	99.5	-5.0	-25.3	-34.5

Source: the National Bank of Ukraine

TRADING VOLUMES (USD MILLIONS)



Source: NBU

INTERBANK LENDING MARKET

The interbank lending market was stable during the previous week. Rates for overnight lending resources in the national currency were ranging within the limits of 4.00-6.00% p.a.

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian hryvnia was under pressure and that pressure was, first of all, psychological. NBU Governor Jakiv Smoliy submitting his letter of resignation and the Ministry of Finance cancelling the placement of Eurobonds almost after the quotation process was over resulted in rapid appreciation of the US dollar quotations that went above the psychological benchmark of UAH 27.00/USD. The National Bank quickly entered the interbank foreign exchange market with interventions to sell US dollars and calmed down the market. As a result, on Friday, 03 July, the situation stabilized and the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.1716/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.65-26.70/USD on Tuesday, 30 June, UAH 26.72-26.80/USD on Wednesday, 01 July, UAH 27.12-27.22/USD on Thursday, 02 July, and UAH 27.05-27.25/USD on Friday, 03 July.

Over 30 June – 03 July, the National Bank purchased USD 169.8 million from banks and sold USD 150.9 million to banks by way of the single exchange rate interventions.

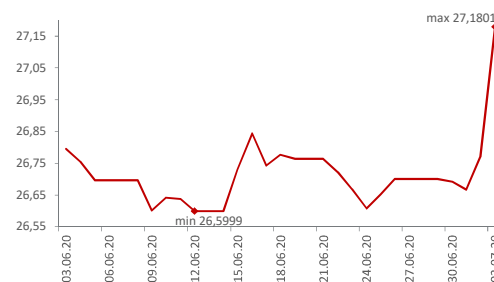
The overall foreign currency sales on the interbank foreign exchange market reached USD 1.8 billion over the previous week.

UKRAINE ON GLOBAL MARKETS

At the beginning of the previous week, the Ministry of Finance attracted international investment banks to offer an issue of unsecured top priority Eurobonds maturing in twelve years that will be denominated in US dollars and issued under Regulation S/Rule 144A. On Wednesday, 01 July, Ukraine planned to announce an accelerated buyback option for certain unrepaid Eurobonds of Ukraine maturing in 2021 and 2022 for the total of up to USD 750.0 million simultaneously with issuing new bonds.

With due consideration for the unexpected letter of resignation submitted by Governor of the National Bank Jakiv Smoliy, on Thursday morning, 02 July, the Ministry of Finance decided to cancel the earlier announced offers of Eurobonds and the buyback option for the purpose of providing investors with sufficient time to give assessment to the above-mentioned news. "We highly appreciate the investment community's support for Ukraine that it has demonstrated already yesterday and we will continue our open and transparent policy in our market relations". The Ministry of Finance is emphasizing that it continues to stay committed to a weighted fiscal and monetary policy, as well as to a constructive cooperation with the NBU and to further reforms supported by our international partners.

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	100,10	100,60	3,51	USD
Ukraine-2021	7,75	01.09.2021	103,04	103,58	4,50	USD
Ukraine-2022	7,75	01.09.2022	104,26	104,93	5,29	USD
Ukraine-2023	7,75	01.09.2023	105,05	105,75	5,72	USD
Ukraine-2024	8,99	01.02.2024	108,27	109,28	6,06	USD
Ukraine-2024	7,75	01.09.2024	104,83	105,74	6,16	USD
Ukraine-2025	7,75	01.09.2025	104,66	105,62	6,45	USD
Ukraine-2026	6,75	20.06.2026	101,78	102,82	6,17	EUR
Ukraine-2026	7,75	01.09.2026	104,67	105,51	6,64	USD
Ukraine-2027	7,75	01.09.2027	104,67	105,50	6,77	USD
Ukraine-2028	9,75	01.11.2028	114,40	115,23	7,27	USD
Ukraine-2030	4,38	27.01.2030	85,96	87,13	6,38	EUR
Ukraine-2032	7,38	25.09.2032	100,38	101,21	7,22	USD
Ukreximbank	16,50	02.03.2021	100,07	101,99	13,10	UAH
Ukreximbank	9,63	27.04.2022	102,26	103,51	7,49	USD
Ukreximbank	9,05	09.02.2023	98,67	100,51	7,20	USD
Ukreximbank	9,75	22.01.2025	103,12	104,27	8,59	USD
Oschadbank	9,38	10.03.2023	102,71	102,79	8,18	USD
Oschadbank	9,07	19.01.2024	94,13	97,45	8,10	USD
Oschadbank	9,63	20.03.2025	103,43	103,85	8,61	USD
Privatbank CJSC	11,00	09.02.2021	9,25	10,76	1214,8	USD
Metinvest BV	7,50	31.12.2021	99,32	100,27	7,23	USD
Metinvest BV	7,75	23.04.2023	99,37	99,62	7,90	USD
Metinvest BV	5,63	17.06.2025	90,24	91,77	7,66	EUR
Metinvest BV	8,50	23.04.2026	97,89	98,55	8,82	USD
Metinvest BV	7,75	17.10.2029	93,31	94,42	8,64	USD
DTEK Finance	10,75	31.12.2024	58,20	60,40	24,77	USD
MHP SE	7,75	10.05.2024	105,01	105,38	6,15	USD
MHP Lux SA	6,95	03.04.2026	101,40	102,01	6,52	USD
MHP Lux SA	6,25	19.09.2029	91,78	94,43	7,08	USD
Kernel Holding	8,75	31.01.2022	103,37	103,53	6,33	USD
Kernel Holding	6,50	17.10.2024	98,33	100,11	6,47	USD
Ukraine Railways	9,88	15.09.2021	100,96	101,24	8,72	USD
Ukraine Railways	8,25	09.07.2024	99,20	99,58	8,38	USD
NAK Naftogaz	7,38	19.07.2022	99,38	99,54	7,62	USD
NAK Naftogaz	7,13	19.07.2024	97,26	98,23	7,65	EUR
NAK Naftogaz	7,625	08.11.2026	96,80	97,87	8,06	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2016	2017	2018	2019	2020
GDP, %	2.3	2.5	3.3	3.2	-1.3 (first quarter, preliminary data)
Industrial output, %	2.4	-0.1	1.1	-1.8	-12.2 (May)
Consumer price growth, % year-on-year	12.4	13.7	9.8	4.1	1.7 (May)
Producer price growth, % year-on-year	35.7	16.5	14.2	-7.4	-5.1 (May)
Balance of payments (consolidated), USD billions	1.3	2.6	2.9	6.0 (preliminary data)	-0.4 (May, preliminary estimate)
Current account balance, USD billions	-1.3	-2.4	-4.4	-1.1 (preliminary data)	1.4 (May, preliminary estimate)
Balance of trade, USD billions	-6.5	-8.6	-12.7	-14.0 (preliminary data)	0.4 (May, 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)	120.3 (first quarter, preliminary data)
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	26.69 (June)
Exchange rate, annual average, UAH/USD	25.55	26.60	27.20	25.85	25.98 (January-June)

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



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

pr@fuib.com