

Financial markets survey

13 July 2020

BUYERS DOMINATE

The reporting season is starting in the US: surprises are possible
Consumer inflation accelerated to 2.4% year-on-year
Investors are not interested in domestic government bonds

GLOBAL MARKET

During the previous week, global financial markets were demonstrating multidirectional dynamics spurred by an ambiguous news stream. Statistical data on the coronavirus spread have remained the main concern of investors. At the same time, several macroeconomic indicators turned out to be better than expected. One more thing added to the existing destabilizing factors that are influencing financial markets. In particular, the Supreme Court of the United States forced US President Donald Trump to disclose financial statements for the last nine years, which bears a direct threat for the incumbent president on the eve of presidential election and now introduces additional uncertainty on the political front as well.

In June, the Producer Price Index in the US unexpectedly declined to minus 0.8% in annual terms.

The number of primary applications for unemployment benefit in the US has been shrinking for the fourteenth consecutive week: 1.3 million against 1.4 million (over the previous week). During the first half of 2020, the total number of primary applications went above 50.0 million.

The corporate reporting season is starting in the US. According to forecast data supplied by Refinitiv, a global financial market data provider, the financial sector may demonstrate profits falling 52.0%. In general, it is expected that financial performance indicators of companies included in the S&P 500 list will drop 44.0%.

UK Chancellor of the Exchequer Rishi Sunak proposed a radical plan for saving jobs and supporting vital functions of the country's economy. The plan provides for lowering taxes on residential real estate purchases, supporting public catering enterprises, as well as bonuses for employers that are not firing their employees. The package of incentives is estimated at GBP 30.0 billion.

Petroleum prices grew on Friday, 10 July, after falling during the previous days and finished the previous week with a slight growth (Brent). Petroleum prices went down spurred by growing numbers of new coronavirus cases in the US and other countries, which may limit demand. Over the previous week, crude oil inventories in the US grew almost 6.0 million barrels, whereas analysts forecast a drop by more than 3.0 million barrels. According to a report by the International Energy Agency (IEA), the compliance rate with the OPEC+ agreement for curtailing crude oil output was 108.0% in June 2020. At that, the compliance rate among the OPEC member states was 112.0%, while the similar indicator for non-OPEC countries landed at 99.0%.

During the previous week, trading in the "EUR/USD" pair ranged within the limits of USD 1.1238-1.1370/EUR.

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WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1276	0.5	-0.9	0.4
GBP/USD	1.2622	1.1	-1.0	-4.8
USD/RUB	70.8800	0.5	3.2	14.5
USD/UAH	26.9505	-0.8	1.2	13.8

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3185.0	1.8	-0.2	-1.4
FTSE 100 (UK)	6095.4	-1.0	-3.7	-19.2
MXME (East. Eur.)	147.8	0.7	-4.1	-23.4
PFTS (Ukraine)	499.5	0.0	0.0	-2.0
RTS (Russia)	1245.7	0.8	-2.5	-19.6

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.480	-5.0	-25.6	-75.9
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	187.5	1.6	-2.1	-8.1
Brent. USD/barrel	43.2	1.0	3.1	-30.8
WTI. USD/barrel	40.6	-0.2	1.9	-30.5
Gold. USD/ounce	1803.1	1.7	4.7	19.0

Source: Bloomberg

MACROECONOMICS

Consumer prices

According to information of the State Statistics Service, the Consumer Price Index landed at 0.2% in June 2020 compared to May 2020. Compared to June of the previous year, consumer prices rose 2.4%. Since the beginning of the current year, consumer prices grew 2.0%.

In June 2020, core inflation landed at 0.0% compared to the previous month and at 1.5% since the beginning of the current year.

The consumer market registered that prices for the entire group of food products and non-alcoholic beverages went up 0.4% in June 2020. Prices fruits grew the most – 8.4%. Prices for poultry meat, butter, bread, sunflower oil, beef, and sour cream rose 2.3-0.4%. At the same time, prices for vegetables shrank 4.7%, while prices for milk, sugar, rice, lard, and pork went down 1.3-0.9%.

Prices for alcoholic beverages and tobacco products rose 0.5% over the previous month, which is connected with prices for tobacco products growing 1.1%.

Prices for clothes and footwear declined 2.8% over the previous month.

Prices (rates) for housing, water supply, electricity, gas, and other types of fuel went down 0.4% in June 2020, which was mainly the result of lower prices for natural gas (-4.3%). At the same time, rates for hot water supply grew 4.4%.

In June 2020, transport prices went up 1.2% chiefly due to passenger fare in railway transport rising 6.1%, prices for fuel and lubricants increasing 2.1% and prices for motor vehicles growing 1.3%.

Despite the fact that the Consumer Price Index in June accelerated in annual terms (from 1.7% year-on-year in May), it stayed below the NBU's targeted range of 5.0% +/- 1 percentage point and remained lower than forecast. Weak domestic demand, a favorable situation on the foreign exchange market and relatively low prices for energy resources restrained growing prices. At the same time, price for raw products went up because of unfavorable weather conditions. Weak domestic demand and a stable situation on the foreign exchange market kept back fundamental inflationary pressure.

Producer prices

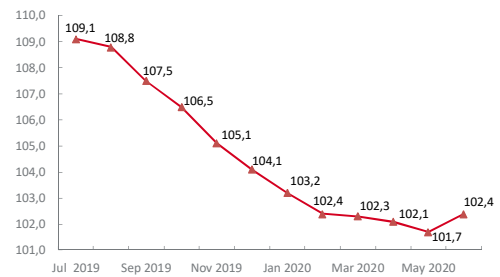
According to information of the State Statistics Services, the Producer Price Index went down 2.0% in June 2020 compared to May 2020. Compared to June of the previous year, producer prices declined 4.6%.

In June 2020, the country registered that producer prices declined 5.2% in mining and quarrying. Prices in manufacturing of black coal went down 2.5%, prices in the extraction of crude petroleum and natural gas dropped 19.1%. At the same time, prices in mining of metal ores went up 3.4% in June 2020.

Producer prices went up 0.6% in manufacturing in June 2020. The country registered growing prices in manufacture of food products, beverages and tobacco products (+0.7%), in manufacture of coke and refined petroleum products (+11.4%), in manufacture of chemicals and chemical products (+8.4%), and in manufacture of pharmaceuticals, medicinal chemical and botanical products (+0.6%). At the same time, prices shrank in steel industry (-3.1%) and in machine-building (-0.4%).

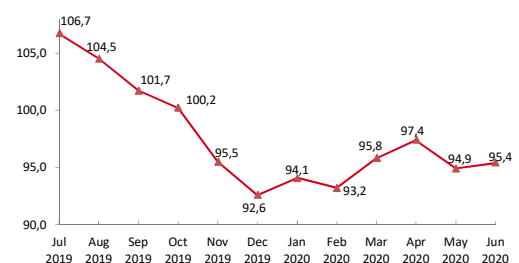
Prices in electricity, gas, steam and air-conditioning supply dropped 7.0%.

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

Unlike previous auctions for placing domestic government bonds, the one held on 07 July did not really raise interest among investors, which is confirmed by a small size and number of bids submitted.

Three bids for the total of UAH 272.8 million were submitted for purchasing bonds maturing in three months. The requested yields ranged within the limits of 7.10-7.24% p.a. The Ministry of Finance set the accepted yield at 7.24% p.a. and satisfied the entire demand in full.

Instruments maturing in twelve months scored one bid for the total of UAH 4.8 million. The requested yield stood at 9.50% p.a. The Ministry of Finance satisfied the above-mentioned bid in full.

Three bids for the total of UAH 15.6 million were submitted for purchasing bonds maturing in two years. The single requested yield ranged stood at 10.20% p.a. The Ministry of Finance also satisfied the entire demand in full.

As a result of the auction held on 07 July 2020, the Ministry of Finance managed to raise UAH 312.9 million to the State Budget of Ukraine.

Over the previous week, the volume of outstanding domestic government bonds went down UAH 25.1 billion and, as of 10 July 2020, totaled UAH 859.0 billion (according to the total principal). Portfolios of banks and non-residents shrank the most (UAH 18.3 billion and UAH 3.5 billion respectively).

There are no pay-outs of domestic government bonds scheduled for the current week.

JSC FUIB was listed among the TOP-10 primary dealers of the Ministry of Finance over the first half of 2020 (in terms of the size of domestic government bonds purchased).

NBU TRANSACTIONS

The National Bank will hold the second interest-rate swap auction among banks on 15 July 2020. Given the test mode of the first auction and a growing number of banks that have already signed the relevant general contracts for the interest-rate swap with the NBU, the decision was made not to postpone the second auction until August as was planned earlier.

The first interest-rate swap auction took place on 02 July 2020. Four banks participated in the auction. The total amount of bids reached UAH 1.38 billion. Bids of two banks for the total of UAH 20.0 million were satisfied. The weighted average fixed interest rate offered by these banks in exchange of the floating rate determined subject to the UONIA Index landed at 6.5%.

Over the previous week, market participants purchased NBU deposit certificates for the total of UAH 214.8 billion, including overnight certificates of deposit for the total of UAH 128.1 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, 10 July, bids of seven banks for the total of UAH 5.1 billion were satisfied. The interest rate reached 6.00% p.a. The loans were provided for the period of 1,820 days (five years).

On Friday, 10 July, the National Bank placed deposit certificates maturing in seven days for the total of UAH 86.7 billion. The interest rate stood at 6.00% p.a.

The balance of the State Treasury transactions landed at UAH 19.5 billion over 06-10 July.

The banking system liquidity 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
07 July	84 days	7.24%	3/3	291.51
07 July	357 days	9.50%	1/1	5.12
07 July	595 days	10.20%	3/3	16.25

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	402.6	-4.3	2.5	19.6
Legal entities	28.2	-8.2	-47.1	7.0
Private individ.	7.0	-10.5	-11.4	-28.9
Non-residents	96.7	-3.5	-8.0	-17.9

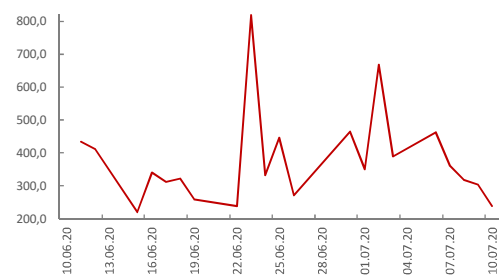
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	65.6	40.8	23.5	25.2	
NBU refinancing. UAH billions	48.6	9.4	1.4	8.0	
NBU deposit certificates	O/N. UAH billions	10.1	-42.6	-53.2	-82.8
	Total. UAH billions	96.8	-2.7	-34.8	-36.3

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

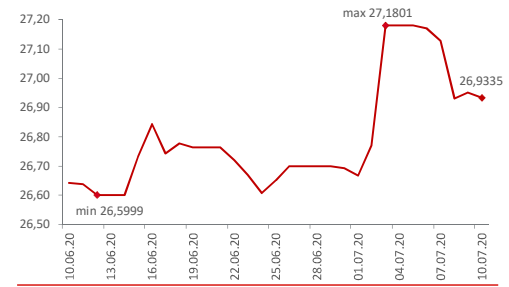
The previous week was rather positive for the Ukrainian national currency on the interbank foreign exchange market. On Monday and Tuesday, 06-07 July, foreign currency supply exceeded demand, which made it possible for the National Bank to buy out excessive foreign currency to replenish its reserves. Agricultural and steel producers were the main foreign currency sellers. Starting from Wednesday, 08 July, demand and supply were relatively balanced and the market reached equilibrium without the regulator's participation. As a result, on Friday, 10 July, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 26.9505/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.05-27.20/USD on Monday, 06 July, UAH 26.89-26.99/USD on Tuesday, 07 July, UAH 26.92-27.00/USD on Wednesday, 08 July, UAH 26.89-26.97/USD on Thursday, 09 July, and UAH 26.90-26.98/USD on Friday, 10 July.

Over 06 -10 July, the National Bank purchased USD 92.0 million from banks by way of the single exchange rate interventions.

The overall foreign currency sales on the interbank foreign exchange market reached USD 1.7 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	99,83	100,33	4,95	USD
Ukraine-2021	7,75	01.09.2021	102,00	102,91	5,05	USD
Ukraine-2022	7,75	01.09.2022	102,73	103,56	5,94	USD
Ukraine-2023	7,75	01.09.2023	103,30	104,13	6,27	USD
Ukraine-2024	8,99	01.02.2024	105,81	106,75	6,81	USD
Ukraine-2024	7,75	01.09.2024	101,64	102,56	7,02	USD
Ukraine-2025	7,75	01.09.2025	101,32	102,24	7,22	USD
Ukraine-2026	6,75	20.06.2026	98,65	99,69	6,81	EUR
Ukraine-2026	7,75	01.09.2026	101,13	101,97	7,34	USD
Ukraine-2027	7,75	01.09.2027	100,59	101,42	7,49	USD
Ukraine- 2028	9,75	01.11.2028	110,14	110,98	7,92	USD
Ukraine- 2030	4,38	27.01.2030	82,00	83,02	7,02	EUR
Ukraine-2032	7,38	25.09.2032	96,04	97,01	7,76	USD
Ukreximbank	16,50	02.03.2021	99,27	101,20	14,34	UAH
Ukreximbank	9,63	27.04.2022	102,13	103,49	7,48	USD
Ukreximbank	9,05	09.02.2023	98,82	100,71	7,08	USD
Ukreximbank	9,75	22.01.2025	102,13	102,13	9,16	USD
Oschadbank	9,38	10.03.2023	102,19	102,27	8,39	USD
Oschadbank	9,07	19.01.2024	94,13	97,46	8,07	USD
Oschadbank	9,63	20.03.2025	102,64	103,05	8,81	USD
Privatbank CJSC	11,00	09.02.2021	9,24	10,77	1312,4	USD
Metinvest BV	7,50	31.12.2021	99,33	100,19	7,28	USD
Metinvest BV	7,75	23.04.2023	98,98	99,23	8,07	USD
Metinvest BV	5,63	17.06.2025	89,18	91,22	7,81	EUR
Metinvest BV	8,50	23.04.2026	97,52	98,17	8,91	USD
Metinvest BV	7,75	17.10.2029	92,12	93,21	8,84	USD
DTEK Finance	10,75	31.12.2024	56,14	58,79	25,75	USD
MHP SE	7,75	10.05.2024	104,64	105,01	6,25	USD
MHP Lux SA	6,95	03.04.2026	99,83	100,44	6,85	USD
MHP Lux SA	6,25	19.09.2029	94,06	96,79	6,72	USD
Kernel Holding	8,75	31.01.2022	103,04	103,20	6,53	USD
Kernel Holding	6,50	17.10.2024	97,78	99,55	6,62	USD
Ukraine Railways	9,88	15.09.2021	100,95	101,24	8,71	USD
Ukraine Railways	8,25	09.07.2024	99,05	99,43	8,42	USD
NAK Naftogaz	7,38	19.07.2022	98,73	98,88	7,99	USD
NAK Naftogaz	7,13	19.07.2024	95,89	97,03	8,02	EUR
NAK Naftogaz	7,625	08.11.2026	95,65	96,70	8,30	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	2.4 (June)
Producer price growth. % year-on-year	35.7	16.5	14.2	-7.4	-4.6 (June)
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	28.5 (June, 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



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