

Financial markets survey

25 August 2020

MARKETS ARE ON THE POSITIVE SIDE

**Minutes of the FRS: additional incentives are needed
Unemployment in Ukraine is shrinking
Demand for the interest-rate swap with the NBU is growing**

GLOBAL MARKET

For global stock markets, the previous trading week finished on a positive side. The majority of indices managed to update their long-standing and even historical record-highs. The key stock index – the S&P 500 Index – several times updated its record-highs that were registered on the eve of the pandemic and finished the previous week with a new historical record-high. The American market is rising thanks to growing shares of hi-tech companies.

Apple Inc. became the first public company in the US with capitalization above USD 2.0 trillion. Two years ago, the company's market value surpassed USD 1.0 trillion for the first time. Since the beginning of the current year, the price for Apple shares went up 60.0%.

On Wednesday, 19 August, minutes of the FRS July meeting were published. The minutes emphasized weakness of the economy and pointed to the need to institute additional fiscal incentives. The regulator also mentioned the potential monetary policy tool – control over the “profit curve”. According to the above-mentioned approach, the FRS will buy out US Treasuries in such amounts as to keep yields at certain levels.

Minutes of the ECB July meeting published on Thursday, 20 August, stated that the ECB did not exclude that the euro-area economy would need additional incentives in the fall of 2020. Participants in the meeting emphasized the presence of risks for the economy connected with the fact that the euro-area countries started cutting down measures introduced for the purpose of supporting businesses and households in the coronavirus pandemic environment.

Germany's Federal Ministry of Finance placed bonds maturing in thirty years for the total of EUR 1.5 billion. However, the total amount of bids reached EUR 3.6 billion. The securities will yield minus 0.05% per annum. For the German market, yields of government bonds that are below zero have been quite normal in recent years.

In July, annual inflation in the euro-area and the European Union accelerated and reached 0.4% and 0.9% respectively. Compared to June 2020, the rate of inflation landed at 0.3% and 0.2% respectively.

On 19 August, the OPEC+ meeting left the conditions of the petroleum output reduction agreement unchanged. It is expected that petroleum demand will recover to 97.0% of the pre-crisis level in the fourth quarter of the current year. At the same time, the OPEC+ statement points out that the second wave of the coronavirus pandemic poses a serious threat for the petroleum market recovery.

During the previous week, trading in the “EUR/USD” pair ranged within the limits of USD 1.1755-1.1968/EUR.

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WEEKLY ISSUE

EXCHANGE RATES

Foreign currency	last	week ch.. %	mon. ch.. %	YTD. %
EUR/USD	1.1769	-0.4	2.8	4.8
GBP/USD	1.3090	0.0	2.8	-1.3
USD/RUB	73.7711	0.2	2.5	19.2
USD/UAH	27.3942	0.2	-1.0	15.7

STOCK MARKETS

Index	last	week ch.. %	mon. ch.. %	YTD. %
S&P 500 (US)	3397.2	0.7	4.3	5.1
FTSE 100 (UK)	6001.9	-1.4	-4.3	-20.4
MXME (East. Eur.)	148.9	-5.1	-0.1	-22.8
PFTS (Ukraine)	500.2	0.0	0.0	-1.9
RTS (Russia)	1262.0	-4.7	0.2	-18.5

KEY RATES

Rate	last	week ch.. %	mon. ch.. %	YTD. %
Libor 1Y. % p.a.	0.441	-4.3	-5.0	-77.9
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	0.0	-55.6
CB RF. % p.a.	4.250	0.0	-5.6	-32.0

COMMODITY MARKETS

Commodity	last	week ch.. %	mon. ch.. %	YTD. %
Wheat. USD/ton	195.5	-2.5	-1.0	-4.2
Brent. USD/barrel	44.4	-1.0	-0.4	-28.5
WTI. USD/barrel	42.3	0.1	0.7	-26.1
Gold. USD/ounce	1924.4	-1.0	4.4	27.0

Source: Bloomberg

MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 411.1% in July 2020 compared to June of the current year. Compared to July of the previous year, the country registered a 5.8% drop in agricultural output.

Over January-July 2020, the Agricultural Output Index in Ukraine reached 88.8% compared to the relevant period of the previous year.

Agricultural output declined over January-July 2020 due to agricultural output shrinking 15.3% at agricultural enterprises and 4.2% at households. At that, plant growing output dropped 15.7%, while livestock breeding output declined 2.5%.

Over the first seven months of the current year, agricultural output went up in three Ukrainian oblasts and declined in twenty-one oblasts. Agricultural output grew the most in Kharkiv oblast (+7.3%), Donetsk oblast (+6.9%) and Zakarpattya oblast (+2.1%). Agricultural output shrank the most in Odesa oblast (-47.0%), Khmelnytskyi oblast (-22.8%) and Mykolayiv oblast (-21.9%).

Unemployment

The total number of registered unemployed went down 11,700 individuals in July 2020 compared to June 2020 and landed at 506,000 individuals by the end of July 2020.

In July, the majority of registered unemployed were women, totaling 294,900 individuals. The total number of registered unemployed aged under 35 shrank 1,000 individuals in July 2020 and landed at 158,700 individuals by the end of the previous month.

In July, the number of vacant positions grew 2,500 and landed at 60,400 vacancies. There were eight registered unemployed per each vacancy in July 2020.

The total number of registered unemployed receiving unemployment benefit also shrank in July 2020. By the end of July 2020, the above-mentioned indicator reached at 426,400 individuals.

The average size of unemployment benefit increased UAH 88.00 in July 2020 compared to the previous month and stood at UAH 3,579.00.

Demographic situation

According to estimates of the State Statistics Service, Ukraine's present population stood at 41,762,138 people as of 1 July 2020.

The number of deaths continues to seriously outpace the number of live births: 48 newborns per every 100 deceased.

Ukraine's resident population totaled 41,592,501 people as of 1 July 2020 (according to estimates). The average resident population reached 41,662,640 people over January-June 2020.

Over January-June of the current year, Ukraine's population shrank 140,278 people.

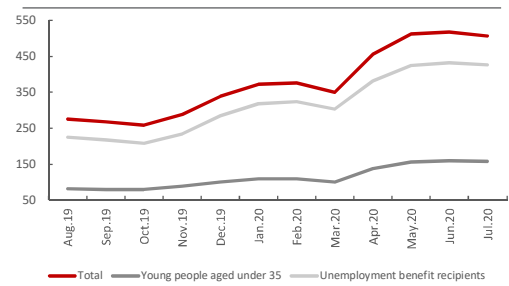
Migration helped increase population numbers by 7,598 people over January-June 2020.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output in July 2020, % year-on-year	-5.8

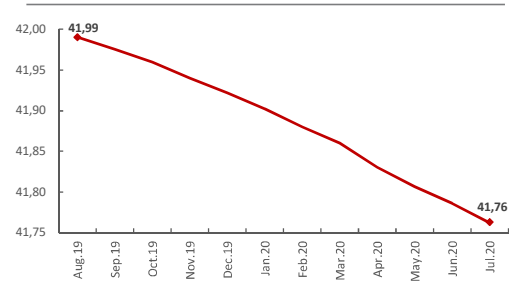
Source: the State Statistics Service

REGISTERED UNEMPLOYED (thousands of people)



Source: the State Statistics Service

POPULATION (MILLIONS OF PEOPLE)



Source: the State Statistics Service

BOND MARKET AND PUBLIC FINANCE

At a scheduled auction for placing domestic government bonds, which was held on 18 August, the Ministry of Finance offered three issues of securities – two of them denominated in the national currency and one issue denominated in US dollars.

Two bids for the total of UAH 1.1 billion (at face-value) were submitted for purchasing bonds denominated in hryvnia and maturing in six months. The requested yields ranged within the limits of 7.82-10.00% per annum. The Ministry of Finance rejected one bid with a higher rate, setting the accepted yield at 7.82% per annum.

Bonds denominated in hryvnia and maturing in two years scored twelve bids for the total of UAH 704.3 million (at face-value). The requested yields ranged within the limits of 10.00-13.00% per annum. The Ministry of Finance set the accepted yield at 10.25% per annum and rejected two bids.

Market participants submitted twenty-six bids for the total of USD 31.9 million (at face-value) for purchasing instruments denominated in US dollars and maturing in April 2021. The requested yields ranged within the limits of 3.39-4.00% per annum. The Ministry of Finance set the accepted yield at 3.39% per annum and rejected three bids.

As a result of the auction to place domestic government bonds held on 18 August 2020, the Ministry of Finance managed to raise UAH 2.5 billion to the State Budget of Ukraine (according to the official NBU exchange rate).

Over the previous week, the volume of outstanding domestic government bonds went down UAH 9.4 billion and, as of 21 August 2020, totaled UAH 861.8 billion (according to the total principal).

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

NBU TRANSACTIONS

The National Bank held another interest-rate swap auction on 19 August 2020. Six banks participated in the auction. The total amount of bids reached UAH 5.3 billion. Bids of six banks for the total of UAH 5.0 billion 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 204.9 billion, including overnight certificates of deposit for the total of UAH 116.4 billion (the interest rate for overnight certificates of deposit stood at 5.00% per annum).

As a result of the NBU quantitative liquidity-providing tender to refinance banks held on Friday, 21 August, a bid of one bank for the total of UAH 0.6 billion was satisfied. The interest rate reached 6.00% per annum. The resources were provided for the period of eighty-four days.

On Friday, 21 August, the National Bank placed deposit certificates maturing in seven days for the total of UAH 88.5 billion, satisfying bids of fifty-five banks. The interest rate stood at 6.00% per annum.

Banks did not use the standing NBU refinancing line (overnight loans) over the previous week.

The balance of the State Treasury transactions landed at UAH 0.4 billion over 17-21 August.

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
18 Aug	189 days	7.82%	2/1	999.52
18 Aug	714 days	10.14%	12/10	663.77
18 Aug	232 days	3.39%	26/23	30.91*

* USD 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	413.3	-2.2	-0.3	22.8
Legal entities	27.9	3.8	-4.5	6.0
Private individ.	7.4	-1.4	0.4	-23.8
Non-residents	88.6	-1.0	-5.6	-24.8

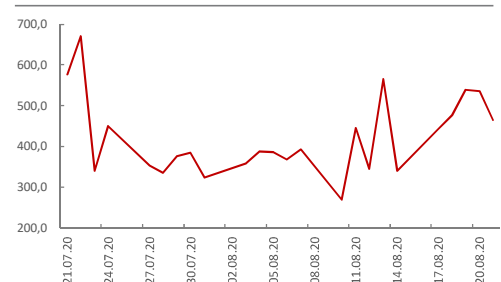
Source: the National Bank of Ukraine

MARKET INDICATORS

Indicator	last	week ch.. %	mon. ch.. %	YTD. %	
The balance on c/a. UAH billions	56.3	-17.5	8.3	7.4	
NBU refinancing. UAH billions	53.9	-0.4	10.6	19.7	
NBU deposit certificates	O/N. UAH billions	16.1	-21.5	-15.0	-72.6
	Total. UAH billions	104.6	14.5	-5.3	-31.2

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% per annum.

FOREIGN EXCHANGE MARKET

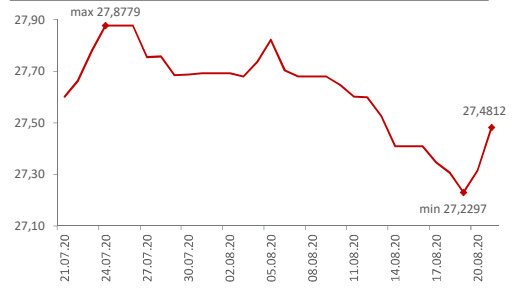
The previous week was rather dynamic for the Ukrainian interbank foreign exchange market. At the beginning of the previous week, the market registered that foreign currency supply was exceeding demand, which was caused by settlements that the majority of large companies were making with the State Budget. This made it possible for the National Bank to purchase surplus foreign currency to replenish its reserves. Starting from Thursday, 20 August, a situational foreign currency deficit contributed to higher US dollar quotations. As a result, on Friday, 21 August, the weighted average exchange rate on the interbank foreign exchange market was registered at UAH 27.3942/USD.

In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 27.27-27.35/USD on Monday, 17 August, UAH 27.20-27.27/USD on Tuesday, 18 August, UAH 27.27-27.37/USD on Wednesday, 19 August, UAH 27.44-27.54/USD on Thursday, 20 August, and UAH 27.35-27.45/USD on Friday, 21 August.

Over 17-21 August, the National Bank purchased USD 129.5 million from banks by way of the single exchange rate interventions.

The overall foreign currency sales on the interbank foreign exchange market reached USD 2.3 billion over the previous week.

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	99,82	100,22	-17,35	USD
Ukraine-2021	7,75	01.09.2021	103,70	104,53	3,15	USD
Ukraine-2022	7,75	01.09.2022	104,93	105,60	4,79	USD
Ukraine-2023	7,75	01.09.2023	106,55	107,22	5,13	USD
Ukraine-2024	8,99	01.02.2024	108,60	109,58	5,86	USD
Ukraine-2024	7,75	01.09.2024	105,62	106,60	5,88	USD
Ukraine-2025	7,75	01.09.2025	105,38	106,34	6,26	USD
Ukraine-2026	6,75	20.06.2026	100,65	101,42	6,44	EUR
Ukraine-2026	7,75	01.09.2026	105,42	106,09	6,51	USD
Ukraine-2027	7,75	01.09.2027	105,17	105,92	6,68	USD
Ukraine-2028	9,75	01.11.2028	113,85	114,60	7,34	USD
Ukraine-2030	4,38	27.01.2030	85,76	86,70	6,43	EUR
Ukraine-2032	7,38	25.09.2032	100,75	101,72	7,16	USD
Ukraine-2033	7,253	15.03.2033	99,36	100,19	7,23	USD
Ukreximbank	16,50	02.03.2021	99,01	101,13	14,12	UAH
Ukreximbank	9,63	27.04.2022	102,64	103,68	7,23	USD
Ukreximbank	9,05	09.02.2023	99,39	101,06	6,81	USD
Ukreximbank	9,75	22.01.2025	103,38	105,27	8,29	USD
Oschadbank	9,38	10.03.2023	102,87	103,06	8,01	USD
Oschadbank	9,07	19.01.2024	94,74	97,91	7,89	USD
Oschadbank	9,63	20.03.2025	102,59	102,99	8,81	USD
Metinvest BV	7,50	31.12.2021	99,23	100,94	6,68	USD
Metinvest BV	7,75	23.04.2023	100,41	100,65	7,48	USD
Metinvest BV	5,63	17.06.2025	92,01	93,30	7,30	EUR
Metinvest BV	8,50	23.04.2026	100,95	101,60	8,14	USD
Metinvest BV	7,75	17.10.2029	95,97	97,11	8,20	USD
DTEK Finance	10,75	31.12.2024	69,27	69,27	21,47	USD
MHP SE	7,75	10.05.2024	106,15	106,51	5,77	USD
MHP Lux SA	6,95	03.04.2026	102,90	103,51	6,20	USD
MHP Lux SA	6,25	19.09.2029	95,96	98,72	6,44	USD
Kernel Holding	8,75	31.01.2022	103,62	103,77	5,94	USD
Kernel Holding	6,50	17.10.2024	98,80	100,62	6,32	USD
Ukraine Railways	9,88	15.09.2021	101,25	101,48	8,36	USD
Ukraine Railways	8,25	09.07.2024	101,71	102,08	7,61	USD
NAK Naftogaz	7,38	19.07.2022	99,68	99,87	7,44	USD
NAK Naftogaz	7,13	19.07.2024	97,81	98,84	7,47	EUR
NAK Naftogaz	7,625	08.11.2026	97,39	98,45	7,94	USD

Source: Bloomberg

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2016	2017	2018	2019	2020
GDP. %	2.3	2.5	3.3	3.2	-11.4 (second quarter, preliminary data)
Industrial output. %	2.4	-0.1	1.1	-1.8	-5.6 (June)
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	-7.5 (July)
Balance of payments (consolidated). USD billions	1.3	2.6	2.9	6.0 (preliminary data)	1.0 (June, preliminary estimate)
Current account balance. USD billions	-1.3	-2.4	-4.4	-1.1 (preliminary data)	0.8 (June, 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	28.8 (July, 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	10.1 (January-July)
Exchange rate. by year end. UAH/USD	27.19	28.07	27.69	23.69	27.69 (July)
Exchange rate. annual average. UAH/USD	25.55	26.60	27.20	25.85	26.16 (January-July)

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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