

Financial markets survey

10 July 2017

Recovered tranquility

WEEKLY ISSUE

GLOBAL MARKET

Last week, the leading stock markets across the world recovered tranquility. The American S&P 500 Index did not sustain any statistically important changes by the end of the previous week, whereas the British FTSE 100 Index grew 0.5%. However, in monthly terms, both indices continue to register a negative dynamics.

In the course of the previous week, the US stock market was under the influence of multidirectional factors, which managed to balance each other in the end. A negative dynamics was registered on Thursday, 6 July, when market participants were dissatisfied with data on employment. In addition, minutes of the meetings of the Federal Reserve System (FRS) and the European Central Bank (ECB) published the day before demonstrated a growing inclination among top management of the two central banks to reject incentive measures. Next day, negative moods were compensated thanks to good statistical data on the US labor market. The number of jobs in the US economy rose 222,000 in June 2017, whereas analysts expected a less serious growth – 174,000 jobs on the average.

European news items were mainly positive. Based on the value of the Composite Purchasing Managers' Index (PMI) for the nineteen countries of the euro-area over April-June 2017, analysts from IHS Markit, a research company, assumed that the euro-area economy grew 0.7% in the second quarter of 2017. In the first quarter of 2017, the euro-area GDP rose 0.6% compared to the previous three months. In annual terms, GDP grew 1.9%. According to preliminary forecasts, economic growth in the UK accelerated to 0.3% in the second quarter of 2017. However, this indicator was lower than the average long-term level and was weaker than economic growth in the euro-area.

From Monday through Wednesday of the previous week, the US dollar was actively recovering its positions against the common European currency. However, on Thursday, 6 July, the market made a sudden U-turn under the impact of ambiguous data on the US labor market. The losses of Thursday were partially won back on Friday, and the US dollar appreciated by the end of the previous week. On Friday, 7 July, trading in the "USD/EUR" pair closed at USD 1.1401/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,425.2	0.1%	-0.3%	8.3%
FTSE 100 (UK)	7,350.9	0.5%	-1.7%	2.9%
MXME (East. Eur.)	140.4	-0.4%	-2.4%	-4.3%
UX (Ukraine)	1,038.7	-0.9%	3.1%	30.5%
RTS (Russia)	995.2	-0.6%	-3.8%	-13.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	168.5	1.0%	-4.3%	-2.6%
Steel, USD/ton	497.0	0.0%	0.0%	20.1%
Oil, USD/barrel	26.5%	6.6%	-4.5%	-17.1%
Gold, USD/ounce	46.7	-4.2%	-3.6%	-20.6%

Source: Bloomberg

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices went up 1.6% in June 2017 compared to the previous month. In annual terms, consumer inflation accelerated to 15.6%. Since the beginning of the current year, consumer prices grew 7.9%.

Accelerating inflation in June was caused mainly by growing prices for food products (3.3%). Prices for eggs (18.3%), vegetables (16.4%) and fruits (13.5%) grew the most. Growing prices for some food products were caused by abnormally cold weather over May-June, as well as by changes in the methodology for calculating this index. Prices for residential and utility services rose 0.5% in June 2017, as a result of rates for maintaining houses and adjoining territory growing 8.9%.

In June 2017, producer prices shrank 0.6%. In annual terms, inflation of producer prices slowed down to 26.3%. Since the beginning of the current year, producer prices grew 6.1%. Deflation of producer prices was the result of lower prices in mining industry (-3.4%). In particular, prices in metallic ores production shrank 7.4%. Prices in processing industry went down 0.5%. In particular, prices in steel industry slipped 1.5%, while prices in coke production and oil refining dropped 3.0%.

BOND MARKET

As a result of a tender to place internal government bonds denominated in hryvnia, the Ministry of Finance of Ukraine managed to raise UAH 241 million to the State Budget of Ukraine against UAH 712 million raised a week earlier. Market participants showed no interest in purchasing bonds maturing in two years and submitted bids for purchasing internal government bonds maturing in six and thirty-six months. The Ministry of Finance satisfied all three bids submitted at this tender. The weighted average interest rate landed at 13.85% per annum for the short-term bonds and at 14.54% per annum for internal government bonds maturing in three years.

The Ministry of Finance plans to hold the next tender to place internal government bonds on 11 July. The Ministry of Finance will offer bonds maturing in six, twelve, twenty-four, and thirty-six months.

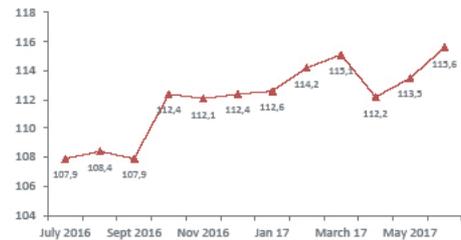
NBU OPERATIONS

During the previous week, 3-7 July, the National Bank provided two overnight loans for the total of UAH 9.4 million. The interest rate for the above-mentioned refinancing loans continues to stay at 14.50% per annum.

The total sum of NBU deposit certificates placed during the previous week, reached UAH 79.3 billion against UAH 41.3 billion placed a week earlier, including overnight certificates of deposit totaling UAH 46.6 billion. The interest rate for overnight certificates of deposit stood at 10.50% per annum. The earning rate for deposit certificates maturing in fourteen days totaled 12.50% per annum.

During the previous week, the overall level of the banking system liquidity went down because of a decline in the balance on correspondent accounts.

CONSUMER PRICE INDEX (month-on-month of the previous year)



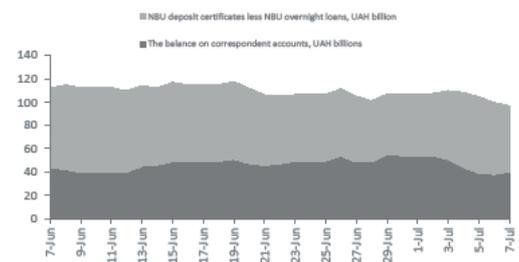
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
4 July	154 days	13.85%	1/1	94.48
4 July	1,071 days	14.54%	2/2	146.12

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

Last week, the Ukrainian Exchange (UX) resumed its operation after it had suffered from the cyber attack on 27 June. The dynamics of the UX Index was not uniform. On Monday, 3 July, the Ukrainian Exchange (UX) Index dropped 0.8%. However, next day, it won back the losses. During subsequent days, the market was registering a downward trend. On Friday, 7 July, the UX Index closed at 1,038.67 points. By the end of the previous week, the UX Index slipped 0.9%.

The UX Index grew 3.1% in monthly terms and 30.5% since the beginning of the current year.

THE UX INDEX



Source: Ukrainian Exchange

FOREIGN EXCHANGE MARKET

During the previous week, the exchange rate of the Ukrainian national currency fluctuated wildly. On Wednesday, 5 July, the exchange rate jumped to UAH 26.12/USD, which is a record-high value since 11 June. Over subsequent days, the exchange rate was sliding down and totaled UAH 26.02/USD on Friday, 7 July.

During the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.95-26.04/USD on Monday, 3 July, UAH 25.97-26.08/USD on Tuesday, 4 July, UAH 25.97-26.08/USD on Wednesday, 5 July, UAH 26.03-26.15/USD on Thursday, 6 July, and UAH 26.01-26.08/USD on Friday, 7 July. The maximum foreign exchange sales volumes were registered on Friday, 7 July: USD 0.188 billion (all currencies), including sales of the American currency alone for the total of USD 0.139 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU

During the previous week, the overall foreign exchange sales on the interbank foreign exchange market totaled USD 0.782 billion against USD 0.463 billion registered a week earlier. On Wednesday, 5 July, the National Bank held a tender to sell foreign exchange to banks. All in all, the NBU sold USD 35.0 million. The weighted average exchange rate at this tender totaled UAH 26.12/USD. The last time when the regulator entered the market to sell foreign exchange was in February of the current year. Then, the National Bank sold USD 27.0 million, and the weighted average exchange rate at that tender stood at UAH 27.23/USD.

INTERBANK LENDING MARKET

Last week, the cost of interbank loans did not change. The overnight and weekly loans costed 9.50-12.50% at 10.00-13.00% per annum respectively. Rates monthly resources stood at per annum and 11.00-13.50% per annum.

As of Thursday morning, 6 July, the balance on correspondent accounts dropped to UAH 38.0 billion, which is a record-low value since March of the previous year. As of Friday morning, 7 July, the balance on correspondent accounts went up and landed at UAH 40.1 billion.

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-9.9	2.3	2.5 (first quarter)
Industrial output, %	-13.4	2.4	1.2 (May)
Consumer price growth, % year-on-year	43.3	12.4	15.6 (June)
Producer price growth, % year-on-year	25.4	35.7	26.3 (June)
Balance of trade, USD billions	-1.7	-5.4	-1.6 (January-April)
Weighted average interbank exchange rate, annual average, UAH/USD	21.85	25.55	26.11 (January-June)
Weighted average interbank exchange rate, by year end, UAH/USD	24.00	27.19	26.02 (June)
Banking system assets, % of growth	-4.7	0.2	-0.5 (January-May)

Source: the State Statistics Service, NBU



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