Contents

1. Stock Markets: Ukraine and the World

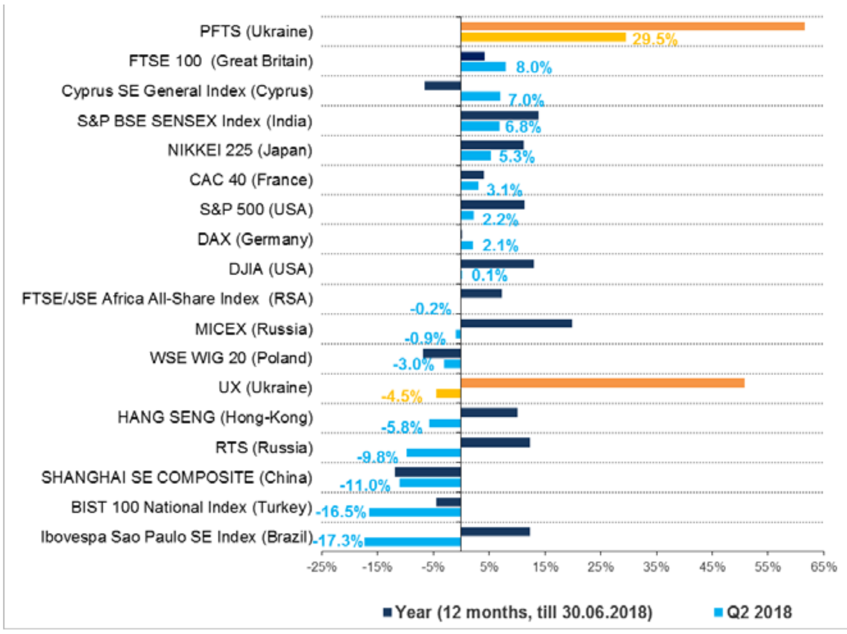
In Q2 2018, the **world's leading stock markets** were predominantly growing, partly due to recovery from the hard first quarter.

During April-June, indices of all key world markets grew, and the most among them - *in the Great Britain*, where growth almost compensated for the fall in Q1 2018 (+8.0%). This happened against the backdrop of continuation of country's negotiations with the EU on the format of relations between the parties after Brexit, which has to be happened in less than a year. Investors' shock in the British market in February, caused by the EU's rigid position regarding the future access of the country's financial sector to the Single Market of the EU, has changed with optimism. The rise, however, continued only until the middle of the quarter. By the end of May, several national regulators of the EU Member States had already appealed to British companies operating in their markets with request to inform about their plans for further activities in these countries after the UK's withdrawal from the EU. This increased the tension in the markets again. In these circumstances, the Bank of England left its rates very low (0.5%), despite relatively high inflation (2.5%) and evidence of the country economy's growth against the backdrop of positive global dynamics.

The downward pressure on markets in the 2nd quarter was caused by confrontation in trade relations of the USA with China and the EU, initiated by the Trump's administration in March, which continued also throughout April-June. The parties increased the volume of mutual import, which was the subject for tariffs, starting with import of steel and aluminum into the USA, and threatened with further actions in response. As the head of the WTO noted, trade warfare is a threat to the world economy. According to analysts, in case of a full-scale multilateral trade war, broad stock indices may fall by 15% -20%, with the largest losses from the side of transnational and technology companies; in case of a bilateral war, global equity markets may fall by 30% -50%, with particularly high losses of the above-mentioned companies, as well as of producers of commodity (consumer goods).

In June, such an alarming development of events increased investors' pessimism about the prospects for the global economy and financial markets: optimism about future growth was at its lowest level for almost four last years, having fallen from the peak after election of Trump during the US president elections in late 2016, which has shaped expectations of substantial fiscal stimulus.

This pessimism is currently reflected only in lowering of expectations from stock markets of developing countries, but has not yet touched developed equity markets. Key market indices *in France and Germany* rose by 3.1% and 2.1%, respectively, in Q2 2018, with German equities still losing since the beginning of 2018 (-4.4%), and their annual rate was close to zero. *In the USA*, the main indexes showed +0.1-2.2% for the quarter and +11-13% for the year, although from the beginning of the year they had multi-directional results. *Japanese equities* returned to growth and were among the leaders f the second quarter with +5.3%. This was connected with the reaction of international investors to the increased turbulence of other developed markets, which gives a short-term impetus to the main Asian market. Its annual rate remained at the level of the USA's one (+11.2%, Chart 1), although it recorded losses from the beginning of the year (-2.2%).



**Based on the data of exchanges and Bloomberg Agency. Ranking is based on quartely indicator*

Chart 1. Dynamics of the World Stock Indices in Q2 2018

Among the key **emerging markets**, the main news in the 2nd quarter was the announcement of Argentina's return and of the Saudi Arabia's first inclusion to the relevant key equity index of such markets - MSCI emerging markets index, which guarantees them investments from global investors, who use this index as a benchmark. The decision will be implemented in mid-2019, and is linked, in particular, with the expectations of IPO of the Saudi's Energy Company Aramco, which should become the largest publicly traded company in the world. Argentina has to return after its lowering to the level of marginal market ("frontier market") in 2009 as a result of introduction of control over the flow of capital due to internal reforms of capital market during the last year.

At the same time, the deterioration of investors' expectations regarding mentioned above global economic development, in the context of global trade wars, has hit the emerging markets. In June, they approached the "bear market", falling from the January 10-years' peak.

Chinese equities, according to the Shanghai Stock Exchange index, fell in Q2 2018 by 11.0%, fixing losses for the third consecutive quarter. From the beginning of 2018 the index fell by almost 15%, and for the year - by 12% - the largest among the main markets.

The Turkish index, together with the leader of Q1 2018-*Brazilian* key indicator of equity market- were among outsiders (-16.5% and -17.3%, respectively). Among reasons for the fall, in addition to external pressure, there was deterioration of the domestic economic situation in Turkey, in particular, the imbalance of the credit market and deepening deficit of the payments balance.

Polish equities, which occupied the lower level of rates of return in Q1 2018, continued to decline in the 2nd quarter (-3.0%). Thus, they have shown one of the worst results for the last year, which in June turned into negative zone (-6.8%).

Russian indicators, on the contrary, after leadership by growth in Q1 2018, showed losses for the 2nd quarter - in the range from 1% to 10%, with the deepest fall of the RTS dollar index. Thus, pessimistic mood of international investors in relation to emerging markets, as well as slowdown of Russian economy's growth and strengthening of sanctions against Russia by major international players outweighed the growth of energy prices in May to next record highs over the past three years. This also happened against the backdrop of RF Government's radical decisions to raise VAT for a range of goods and retirement age for all citizens. The results of the two key indices of the Russian market since the beginning of 2018 were divergent, but for the year they both maintained positive returns (+12-20%).

Ukrainian stock market in the 2nd quarter of 2018 demonstrated mixed dynamics, on the background of some improvement of macroeconomic conditions and, at the same time, sudden challenges for its infrastructure entities' activities.

Real GDP of Ukraine, according to the State Statistics Committee, in Q2 2018 accelerated growth to 3.6% in annual terms (from 3.1% in Q1 2018). Inflation (CPI) in June continued to slow down for the fifth consecutive month - from 13.2% in March in annual terms, to 13.2% in April, 11.7% in May and 9.9% in June. In this conditions the National Bank of Ukraine maintained its interest rate unchanged during the whole quarter (17% per annum). In June, the Ukrainian hryvnia became the world leader in terms of growth rate against the US dollar, despite the fact that the currencies of other emerging markets fell as a result of outflow of capital from them. Despite increase of balance of payments deficit in these countries, Ukraine had a surplus in April. In the first half of 2018, hryvnia added 7.5%, being ahead of the Georgian lari and Colombian peso. In foreign markets the situation for Ukraine was favorable, as the economy of trade partners was restoring and commodity prices were high.

At the same time, Ukraine's international reserves continued to decline moderately - from USD 18.2 bln. in March to USD 18.0 bln. in June.

An important news on international markets of capital during this period was the fact, that in April "Metinvest"- a vertically integrated steel group - announced completion of refinancing of debt in the amount of USD 2.27 M, which became the largest refinancing agreement among Ukrainian corporations. And already in late May, the EU Council approved an agreement with the European Parliament on a new macrofinancial assistance package for Ukraine: another EUR 1 bln. of loans should cover the Ukraine's needs for financing for two and a half years to support the stabilization of the economy and the program of structural reforms, complementing the resources provided by the IMF and other donors.

This happened shortly after the Head of the NBU announced fulfillment of all obligations under the current memorandum with the International Monetary Fund (IMF).

In these conditions, in June, the Verkhovna Rada of Ukraine adopted the long-awaited *Law "On Currency and Currency Transactions"* (2473-VIII of June 21, 2018), the draft of which was prepared by the NBU in consultation with the European Commission, taking into account the EU Council regulations. This Law is called for the first time in 25 years to modernize

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and liberalize currency regulation and supervision, bringing it closer to current international standards. In particular, it is intended to minimize the administrative burden during implementation of foreign exchange operations or repatriation of profits, to ensure free exercise both of currency transactions in the territory of Ukraine and of cross-border transfer and movement of currency values, in particular through simplified licensing of currency transactions by the National Bank and introduction of the rule "everything is allowed that is not prohibited directly". It is expected that implementation of this Law will really improve the investment climate in the country and bring it closer to the regime of free movement of capital, which is stipulated by international agreements of Ukraine and is necessary for development of modern economy. Besides this, the law provides powers and instruments for the NBU to prevent and overcome crises, regardless of their origin and development, that was positively perceived by the IMF.

At the same time, in Q2 2018 a force majeure situation arose in work of the Ukrainian stock market infrastructure. In May, the National Security and Defense Council (NSDC) approved the decision "On Application and Revocation of Personal Special Economic and Other Restrictive Measures (Sanctions)", which was enacted by the Decree of the President of Ukraine and contained a list of legal and natural persons to whom sanctions have to be applied. In particular, it lists the Moscow Exchange "MICEX-RTS", to which the regime of sanctions, in addition to blocking assets and restricting trade, also forbade the transfer of technology and intellectual property rights, prohibition for Ukrainian companies to use in their activities the electronic trading systems "Plaza" and "Forts" etc. The Moscow Stock Exchange in 2016 left the capital of Ukrainian exchanges, in particular of the Ukrainian Exchange (UX), but the Moscow Exchange software was the key to UX, so NSSMC had the fear that its software was still dependent on the Moscow Exchange, although alredy in the beginning of 2018 the UX announced the start of planned implementation of an internal software replacement project.

In this situation, the UX equity index temporarily lost its status of key indicator of the Ukrainian stock market (in July agency Bloomberg stopped to publish it), although the exchange continued to calculate the index each working day, according to a specially developed methodology (once a day). According to the results of Q2 2018, the ***UX index lost 4.5%*** (after +21.4% in the 1-st quarter).

The PFTS index increased even more rapidly in the 2nd quarter than in the 1-st one - it added ***29.5%*** (after +13.4%). During the first half of 2018, both indices showed a significant increase (+16-47%), and for the year they increased at least in one and a half times (+51-62%).

Composition of the index basket of UX index and PFTS index in Q2 2018 did not change: the first included the same 6 equities (4 of energy enterprises, one of the machine building enterprise and one of the bank); the second one had 7 components (all 5 components of the UX index, and also one equity of the machine-building enterpris and one - of the telecommunication company).

The stock market in the 2nd quarter of 2018 changed the dynamics: the total number of issues of securities traded on stock exchanges increased (due to non-listed instruments), but the volume of trades fell in all segments. The consolidated stock exchange list of all active exchanges in April-June of 2018 increased by 23.4%, partially recovering after a decline in Q1 2018 (-6.6% since the beginning of the year, Table 1).

Among listing securities, the number of corporate bonds' issues increased symbolically (by one), that, however, was a relatively significant increase (+9.1%). At that, the number of listing bonds has not changed since the beginning of the year, and for the year it has decreased almost twice (-47.8%).

The number of "listing" *equities* was formally unchanged during the year (6), although at the end of April UX suspended trading of JSC 'MOTOR SICH" equities because of the court decision and stopping of these equities' registration by the National Depositary, while in May it fixed the value of their price prior to the restoration of the turnover.

Dynamics of listing as a whole (the 1-st and the 2-nd levels of exchanges' lists) remained negative in Q2 2018 (-1.4%, after -1.1% in Q1 2018), as the number of *OVDPs* in this period decreased by another 2.4% (after -0.3% in Q1 2018). Over the past year, number of state bonds in listing of exchanges increased by almost 20% (and of all listing instruments together - by 14%). In June, OVDP accounted for 93% of the aggregate listing of stock exchanges.

Table 1. Dynamics of Ukrainian Stock Exchange Market in Q2 2018

Indicator/ Date	30.06.2017 (Q2 2017)	31.12.2017 (Q4 2017)	31.03.2018 (Q1 2018)	30.06.2018 (Q2 2018)	Q2 2018 Change	YTD 2018 Change	Annual Change in Q2 2018
Number of Securities (CB) in the listing of stock exchanges, incl:	1058	982	743	917	23.4%	-6.6%	-13.3%
Number of securities in the registers (listing) of stock exchanges, including:	304	355	351	346	-1.4%	-2.5%	13.8%
state bonds (OVDP)	269	331	330	322	-2.4%	-2.7%	19.7%
equities*	6	6	6	6	0.0%	0.0%	0.0%
corporate bonds	23	12	11	12	9.1%	0.0%	-47.8%
municipal bonds**	0	0	0	0	x	x	x
NBU deposit certificates	0	0	0	0	x	x	x
Trading volume on the stock exchanges (total) for the year, UAH M, including:	40 416.4	58 610.3	67 252.8	56 932.3	-15.3%	-2.9%	40.9%
OVDP	37 813.9	53 224.2	62 706.3	54 725.4	-12.7%	2.8%	44.7%
equities	412.1	637.8	565.8	326.5	-42.3%	-48.8%	-20.8%
corporate bonds	1 037.3	2 505.5	2 499.5	1 262.1	-49.5%	-49.6%	21.7%
municipal bonds	0.0	0.0	0.0	0.0	x	x	x
NBU deposit certificates	0.0	0.0	0.0	0.0	x	x	x
investment certificates	13.8	18.8	36.5	24.9	-31.7%	32.6%	80.8%
derivatives (excl. state derivatives)	1 139.8	2 224.0	1 444.7	593.4	-58.9%	-73.3%	-47.9%

Sources: data on securities in the stock exchanges' lists and on the volumes of trading – NSSMC, stock exchanges; calculations – UAIB.
** Including the depositary receipts of MHP S.A., which were in the tier 2 of the "listing" (i.e. tiers 1 and 2 of a total lists of a SE); excluding CIFs shares and investment certificates of UIFs (as at 30.06.2018 there were 6 such securities in the tier 2 – shares of three CIFs and certificates of one UIF).*
*** As at 30.06.2018 there were two issues of municipal bonds in the stock exchanges' lists (both by the Lviv City Council), which were listed beyond the tiers 1 and 2 ("out-of-the-listing").*

The aggregate quarterly trading volume on all exchanges in Q2 2018 decreased by 15.3% (after +14.7% in the 1-st quarter) and amounted to ***UAH 56.9 bln.*** More than 96% of the total volume fell on deals with *OVDP* - an increase from 93% in January-March, that was the result of a less rapid decline of the volume of trading in government bonds compared to all other instruments (-12.7% for Q2 2018, after +17.8% for Q1 2018).

Volume of transactions with *corporate bonds* decreased relatively the most - twofold - after the stable 1-st quarter, and volume of transactions with *equities* in Q2 2018 fell again, at that significantly more than in the 1-st quarter (-42.3%, after -11.3%).

Trade *with investment certificates* significantly weakened in April-June of 2018 (-31.7%, after +94.2% in January-March), and trade *with derivatives* fell even more significantly (-58.9%, after -35%).

In annual terms, the aggregate volume of trades on stock exchanges in Ukraine in Q2 2018 increased by 40.9% (by results of Q1 2018 it increased by 14.5%). *OVDP* remained the motor of growth (+44.7%), the annual dynamics of trade with *corporate bonds* on exchanges remained in the positive zone as well (+21.7%). Agreements with *equities* for the 2nd quarter of 2018 were less by 20.8% in annual terms, and with de*rivatives* they were almost twice less.

2. Asset Management Industry

2.1. Number of AMCs, CIIs, NPFs and ICs Under Management

In Q2 2018, the number of asset management companies decreased to 291 (Chart 2). During April-June new AMCs did not enter the market.

During this period, 21 new CII were registered (after 16 in Q1 2018) - all of them were venture funds, one of which was a unit fund (PIF), and all the rest – corporate ones (CIF).

Taking into account funds, which were closed during the quarter, t*he total number of registered CII* as at June 30, 2018, increased by 0.9% to 1,729.

*The **number of CII that have reached the normative for minimal volume of assets** (established, or recognized funds)* increased for the third consecutive quarter - to 1,203 (+3.2%), so concentration on the CIIs' asset management market continued to grow.

In total, by the end of June of 2018, 278 AMCs managed from one to 35 funds, and almost 95% of all such AMCs managed at least one venture fund.

Number of pension funds under management remained in total **58** as at 30.06.2018 (excluding the NBU CNPF) –- the same as a year ago. The share of open NPFs by number of funds under management (excluding the NBU CNPF), with the closure of one of such funds and emergence of one another corporate fund, decreased from 79.3% to 77.6%.

Number of insurance companies (ICs) which transferred their assets under AMC management fell to **4** by the end of June (from 6 in March), while the number of companies that managed them did not change during this period – such services for IC were provided by 2 AMCs.

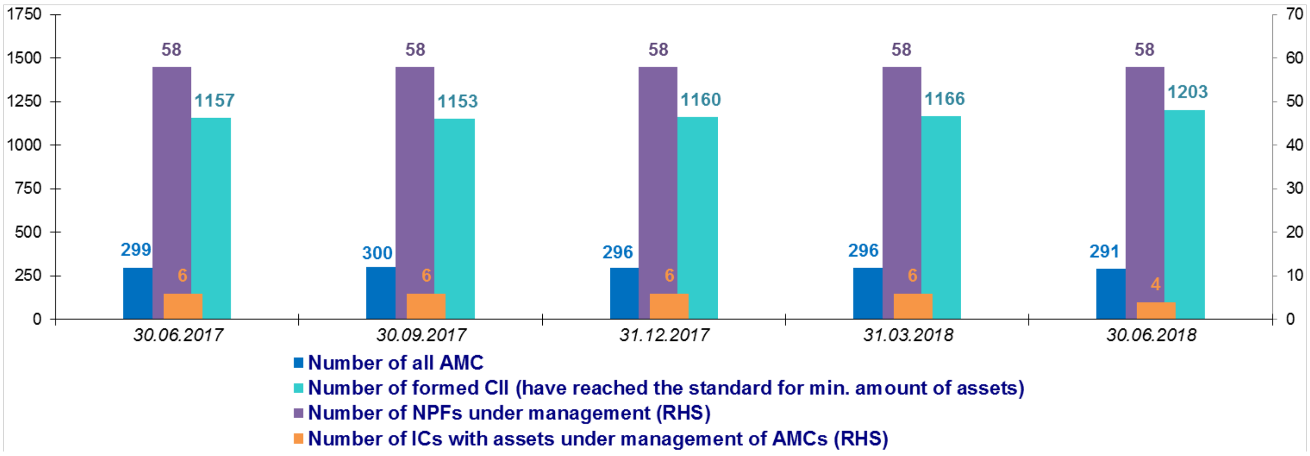

Chart 2. Dynamics on the number of AMCs, CIIs, NPFs and ICs under management of AMCs in Q2 2017-2018

2.2. Assets Under Management, CII NAV and Net Flow of Capital in Open-Ended CII

Total value of assets under management of AMCs amounted to **UAH 289 351.5 million** as at 30.06.2018**.**

Total CII assets under management, including the funds which have not yet reached the standard for minimal asset volume, **grew by 4.5%, to UAH 287 977.6 million** in the 2nd quarter of 2018**.**

Assets of acting CIIs which had reached the minimal asset volume standard (formed, or "established" CII) **increased by 1.9%** (after -0.9% in Q1 2018). As at June 30, 2018 they amounted **to UAH 266,234.1 M**. This was accompanied by an increased number of funds which had reached the standards by the end of the quarter and filed the reports (+0.8%).

The aggregate assets *of venture CII* for the second quarter increased by 2.1% (after -1.0% for Q1 2018), at that the number of funds in the sector which provided data for this period increased by 1.3%. As at June 30, 2018, assets of *venture CII* amounted to *UAH 257 881.5 M*. (chart 3).

Since the beginning of 2018, total assets of "established" CII have grown by 1.1% at the end of June, and ***over the past year (June 2017 through June 2018)***, they have grown by 10.0%.

NPF assets under AMC management increased by 3.9% in Q2 2018 (after +1.9% in Q1 2018) and accelerated annual growth to +13.7% (from 10.9% in Q1 2018). As at June 30, 2018, it reached **UAH 1,264.6 M.**

IC assets under management for the 2nd quarter of 2018 **increased by 1.0%** (after -13.8% for the 1-st quarter). Thus, the annual dynamics of the sector from at the end of June remained positive (+29.1% in June, after 54.1% in March, Table 14). As at June 30, 2018 these assets amounted to **UAH 107.6 M**.

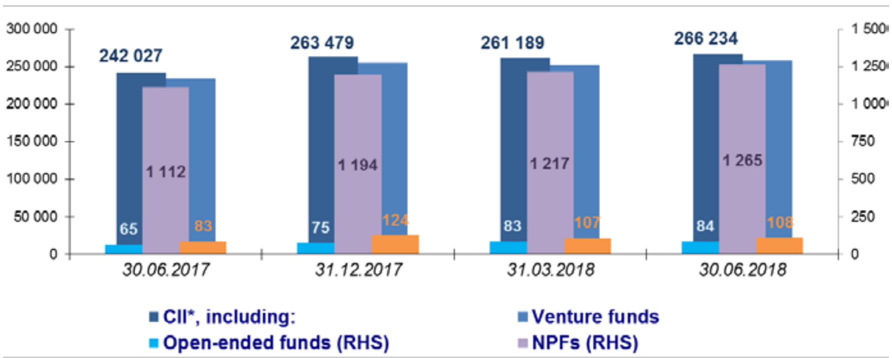

Chart. 3. Dynamics of assets under management of AMCs in Q2 2017-2018, UAH million

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The net asset value of the formed CIIs **increased by UAH 3,058.8 M**, or **by 1.5%** in Q2 2018 (after -2.0% in Q1 2018). As at June 30, 2018 it amounted to **UAH 212,286.3** M (табл. 5).

NAV *of venture* CII added UAH 3,267.1 M (1.6%, after -2.1%) and reached UAH 204,184.7 M, i.e. comprising 96.2% of the total CII NAV.

Open-ended CII increased their net assets by 1.2% (after +10.7% in Q1 2018) to UAH 83.8 M. Net assets of 16 fund, which have provided files for Q2 2018 increased by 2.0%. Growth, in contrast to Q1 2018, was provided by an additional flow of capital into these funds, which was almost three times larger than the growth of sector's NAV for the 2nd quarter and offset the decline of funds' return of portfolio investments.

Since the beginning of 2018, the NAV of formed CIIs in general ***declined by 0.5%***, but in open-ended CIIs it has grown by 12%, in interval funds – by 2.7% (despite a decrease of their total assets by 1%), while the NAV of closed-end CIIs with a public issue added +4.5%.

On an annual basis, in June all sectors by CII types increased NAV. At that open-ended and interval funds remained the growth leaders (+31% and +20%, respectively), although they slowed the annual growth as compared to March. In total, formed CIIs' NAV ***has grown by 6.6% over the year in June***.

Total net inflow of capital into open-ended CIIs amounted to UAH 2.8 M (after UAH 2.1 M in Q1 2018). Thus, it was the largest quarterly inflow into the sector since Q2 2011. The effect of capital movements on the dynamics of open-ended funds' NAV in the 2nd quarter was decisive: the net inflow surpassed the growth of the sector's net assets by almost 3 times (288%, after 27% in Q1 2018).

The annual flow of capital (for the 12 months ended in June of 2018) in open-ended CII was positive for the fourth consecutive quarter and increased to **UAH 7.6 M** (from UAH 5.7 M in March).

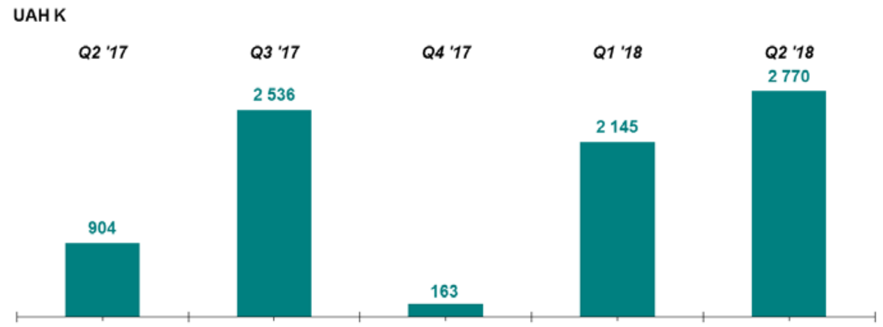

Chart 4. Quarterly Net Flow of Capital of Open-Ended CII in Q2 of 2017-2018

For more detailed information on the results of the asset management of CIIs, NPFs and ICs, please see the respective Reviews of these sectors, which will be published on the UAIB website.

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