Contents

1. Stock Markets: Ukraine and the World

In Q3 2019, **the world's leading stock markets** mostly maintained the upward trend, and some even accelerated growth compared to Q2 and showed the highest performance since the beginning of the year. Although at the annual interval in September, not all of them had positive results (Chart 1).

At the beginning of the quarter, investors in the global markets significantly increased their risk appetite by investing more in equities compared to June, and reduced the holdings of cash in their portfolios (however, it remained higher than the average over the past 10 years). This occurred even in the face of unfavorable international trade conditions and, in their view, the central bank's monetary policy, which was not sufficiently successful, was significantly curtailed by virtually zero rates beforehand. At the same time, emerging markets continued to lead the list of the most popular for investing regions of the world, and the US and the eurozone shared the second position. Sustainable development finance has attracted increasing investor attention in the world, including through investment-focused funds that have grown substantially in volume and new ones launched by an increasing number of leading management companies, particularly in Europe.

At the end of July, the *US* Federal Reserve, for the first time since December 2008, decided to reduce its rates, albeit to a conservative 0.25%, according to several market participants. The reason for this was the US central bank's weak global growth, uncertainty about international trade policy and relations (especially the US and *China*) and weakened inflation. And in August, the US Treasury declared China a currency manipulator, which only exacerbated the situation and pushed further into the possible date of a "peaceful" trade agreement between the countries.

In August, what was feared, but many international investors expected in the stock markets: the inversion of the US Treasury bond yield curve, when rates (yields) on longer-term securities became lower than on shorter-term securities. This was the first time since 2007 that it has been one of the key and credible indicators of the approaching recession: it "worked" for the previous 7 recessions (between six months and two years before them). An additional negative signal was the beginning of a slowdown in the growth of dividends of public companies[1]. August was marked by a large capital outflow from equity funds (including ETFs).

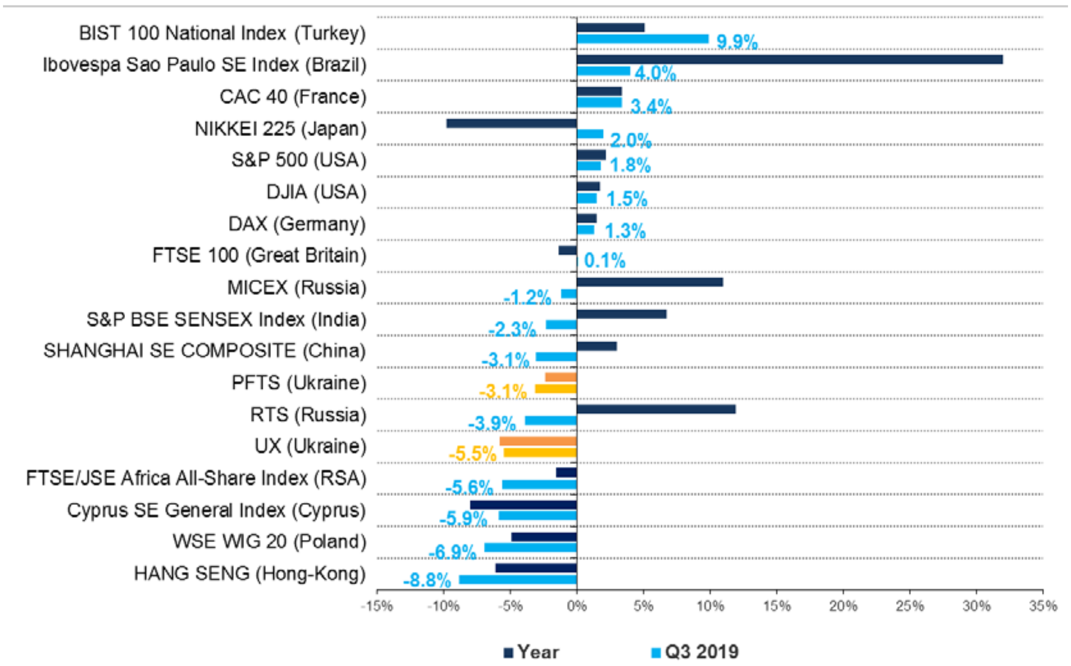

*Chart 1. Dynamics of the world stock indices in Q3 2019**

** Based on the data of exchanges and Bloomberg Agency. Ranking in the chart is based on annual indicator.*

[1] *However, a number of experts believe that inversion can also serve as an impetus for markets to weaken monetary policy (including a more substantial fall in rates) and not necessarily followed by a recession, especially since most major economies continue to show a trend growth.*

In September, the Organization for Economic Co-operation and Development (OECD) released an interim economic forecast, indicating that it sees the causes of increased vulnerability and weakening global economic growth in increasing tensions in trade relations and uncertainty in international trade policy. The organization lowered its previous May forecasts for both developed and developing countries, and now predicts that the global economy will grow by 2.9% in 2019, and by 3.0% in 2020, the lowest annual rate since then. The Global Financial Crisis (the Great Recession)[2]. The OECD noted that growth could remain at such low levels for some time if governments did not take decisive action.

Already at the end of the quarter, the IMF once again lowered its quarterly forecast for global economic growth in 2019 - from 3.3% to 3.0%, and in 2020 - from 3.6% to 3.4%.

However, despite turbulence in August and slowing growth, *US* core indexes rose 1.5-2% in July-September 2019 (after + 2.3-3.2% in April-June), although their annual growth slowed significantly in September compared to June (+ 2% vs. + 8-10%).

In *Europe*, the dynamics of markets in August were more pronounced, amid slowing growth of the Chinese economy and trade wars with the United States. During this period, one of the Danish banks was the first in the world to introduce negative mortgage rates, after Denmark (like Sweden and Switzerland) introduced negative rates in the money market in previous years: the base (credit) rate of the Danish central bank at this time was -0.4%. It was 0.75% at the Bank of England and 0% at the ECB.

This has forced institutional investors in Europe to pay even more attention to emerging-market bonds that offer higher yields and, in particular, can secure future payouts by their investing insurance companies, unlike high-grade investment grade securities, issued by governments and companies from developed countries (yields on 10-year US Treasury bonds and German government bonds fell more than 1 percentage point over the last year to 1.6% and -0.6%, respectively). Overall, in the coming months, investors' priority was to earn income on financial instruments as opposed to their concern with (macro)economic performance in traditional markets.

In August, official data on the contraction of the *German* economy by 0.1% in Q2 2019 compared to Q1 and a slowdown in annual growth to 0.4% appeared, which signaled a possible recession in the country in Q3 - the first since 2013[3].

Given the increasingly complex macroeconomic and geopolitical context and the steps already taken by the Fed, the ECB's decision to recalibrate the stimulus monetary policy was expected in September. It consisted in lowering the Eurozone regulator's deposit rate even further into the negative zone (from -0.4% to -0.5%), reducing long-term loans to banks, resuming the bond repurchase program in the euro area, albeit by a reduced amount (20 billion euros a month starting in November - less than economists expected). In doing so, the ECB sought to curb the already dangerous decline in inflationary expectations hampering economic growth and to avert a recession (in Germany, in particular), to curb the negative impact of the global trade war, which is eroding economic confidence in local eurozone markets[4].

Regarding financial regulation, the German government and business organizations have criticized the MiFID II and its related MiFIR Regulation, as well as the EU's Package Retail Investment and Insurance (PRIIPs) [5] Regulation. In late August, the German Finance Ministry submitted to the European Commission its proposals for the revision of MiFID II (due in 2020), for which it held public consultations with investment firms, investors and other market participants[6]. The German Association of Funds (BVI) has confirmed that these proposals are the first step in making the necessary changes to the Directive[7].

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[2] *OECD sees rising trade tensions and policy uncertainty further weakening global growth: https://www.oecd.org/economy/oecd-sees-rising-trade-tensions-and-policy-uncertainty-further-weakening-global-growth.htm*

[3] *Germany's GDP was expected to increase by 0.1% in July-September, but according to official statistics released in November, Germany's GDP grew by 0.1% over the same period and by 0.5% year-on-year, although the "economic growth in the region remained vulnerable" (Federal Minister of Economy).*

[4] *Germany itself is gaining popularity over the need for the government to use fiscal stimulus to avoid a recession in the future or even a prolonged slowdown in growth, especially with a significant budget surplus (€ 58 billion in 2018). However, the chancellor saw no need for additional steps, although the government plans to continue to allocate significant funds to public investment.*

[5] *Federel Ministry of Finance has expressed its strong intention to correct their "excess" during negotiations with the European Parliament and with consumer protection organizations, in particular on the requirements for the collection and disclosure of information. This position was supported by the German fund industry represented by the relevant association (BVI), which believes that MiFID II, introduced since January 1, 2018 and supposedly intended to protect consumers of financial services, has in fact led to them getting more product information and less - investment advice, which is why the Directive has obviously not achieved its objective: http://www.funds-europe.com/news/german-government-steps-up-criticism-of-mifid-ii.*

[6] *As a result, according to a statement from the Federal Ministry of Finance, in general, very critical responses were received regarding the breadth of MiFID II / MiFIR provisions, the cost of implementing them and the short term (especially for Level 2 acts implementing the Directive and the Regulation), and also lack of coordination with other legislation (eg PRIIPs): ibid.*

[7] *Later, in November, public information emerged that the European Commission was examining "on-point, technical changes to issues such as the value and dissemination of market data, investor protection rules and small business analysis and research," and that "no decision has been taken to review MiFID II at this time, although the European Commission acknowledges that it*

Following a large-scale outflow in August, investors returned to the stock markets in September. However, due to the slow economic growth due to strong external factors, the key index of German stocks in Q3 2019 again increased significantly less than in the previous three months - by 1.3% (after + 6.5% Q2 and + 9.2% in Q1), but moved into the positive zone by year on year growth (+ 1.5%).

But the *French* stocks, after relatively restrained growth in Q2 (+ 2.7%), rose more actively in Q3 and were less subject to the downward pressure of external factors, while the domestic situation in the country stabilized somewhat - the key index rose by 3.4% in July-September - the largest among developed markets. This is the same as its annual growth since September 2018 (also more than + 3.1% in June).

Against the backdrop of a political crisis around the conditions and the prospect of a Brexit withdrawal, which was previously postponed to October 31, 2019, British investors have avoided active strategies and mainly opted for passive investment products with less volatility and cost, and the popularity of strategies Interest rate hedging and inflation rose sharply during this period. At the end of July, the British government announced additional funding to prepare for a possible Brexit without an EU deal (£ 2.1bn), doubling the amount it had already allocated earlier this year. However, investor confidence in British assets continued to decline. In August, the pound failed again, and the weight of British investment funds in international markets dropped to new lows (7.9%) - below the level it fell immediately after the 2016 referendum. Government bonds were most attractive to international investors in the UK in August.

In September, the Prime Minister suspended parliament after unsuccessfully trying to approve the text of the EU exit agreement, together with a timetable for that exit (earlier parliamentarians had already decided to refuse to leave without an EU agreement and to request the EU to extend its exit date after 31 October)[8]. In doing so, it caused an even greater escalation of internal political conflict and a threat of further capital flight. The lion's share of investment managers in Britain and the EU, according to a survey by the CFA Institute, believed that Brexit had damaged the country's competitiveness and threatened London's status as one of the world's major financial hubs[9]. Finally, the UK experienced a record for its Q3 outflow from its financial markets, especially from equity funds. For Q1, the UK's main stock index rose only 0.1% (after + 1.7% in Q2), but continued to increase at the level of 10% since the beginning of the year and slowed down to an annual fall of -1.4% at the end of September (from -3% in June).

Japan's leading stocks in Q3 2019 retained their volatility in other markets at this time, although at the end of September they managed to recover and increase by 2.0% (after + 0.6% in April-June). However, in September, they lost 9.8% (after -4.2% in June) - the worst year-on-year result not only among developed markets but also the leading emerging markets. The yen has strengthened against the US dollar by 5.2% this year.

In Poland, the blue-chip index in Q3 2019 was even more volatile than in Q2, eventually falling into the red zone, falling by 6.9% in July-September (after + 1.0% in April-June). and year-on-year growth of 4.9% (after + 9.0% in June).

Emerging markets in Q3 2019 once again witnessed their extraordinary heterogeneity, demonstrating diversified results and even greater dependence on the domestic environment than for developed ones.

The leaders of Q2 of the *Russian i*ndices had an unsuccessful Q3, falling by 1.2-3.9% (after + 11.3-15.9%), but maintaining a double-digit annual increase (+ 11-12%). For the second time this year, the Bank of Russia lowered its key rate - another 25 bp to 7% pa, taking into account the steady decline in inflation and the growth rate of the Russian economy, which do not meet the expectations of the Bank, but at the same time raise inflation expectations. The ruble remained in the top three currencies in terms of appreciation against the US dollar in 2019 (+ 7.3% for 9 months) but fell by 2.7% in Q3. Oil fell almost 9% in the quarter and 27% year over year (up 16% since the beginning of the year).

The *Turkish* index soared sharply, even after a rather optimistic Q2, adding almost 10% (after + 1.9%), bringing annual dynamics to the green zone (+ 5.1% in September, after -0.4% in June). The recession in the country and the fall of the lira (-6.4% against the US dollar in 9 months of 2019, after almost -30% in 2018) worried investors in the local market, but the Turkish banking regulator in September ordered banks to write off bad loans for $8 billions to clear the effects of the currency crisis and restart lending, which will increase the weight of

may need some adjustments.": http://www.funds-europe.com/news/eu-set-to-revise-mifid-ii-following-backlash

[8] *The early parliamentary elections for December 12 were scheduled and the EU's next postponement of the Brexit date for January 31, 2020 was agreed. At the same time, some political forces, such as the Liberal Democrats, continued to count on canceling the results of the 2016 referendum and/or holding a repeat referendum.*

[9] *https://www.pionline.com/article/20180919/ONLINE/180919818/concerns-over-hard-brexit-growing-for-u-k-cfa-members-but-majority-still-expect-soft-exit*

bad loans (NPLs) from 4.6% to 6.3%. It was expected that this would allay doubts about the undervaluation of bad debt by banks and increase confidence in them from international investors who overwhelmingly appreciated the move by the regulator.

The second-most profitable market in July-September 2019 was the Brazilian market, which, however, continued to slow down: in Q2, it grew by 4.0% after + 5.6% in Q2 and having + 19.2% since the beginning of the year. It remained the leader in annual yield, although by the end of June it had fallen to + 32% (from + 42.7% in June). During this time, the Brazilian currency fell 2.6% against the US dollar.

China continued to wrangle with the US and argue for a slowdown in the economy. In addition, a protest movement to assert its rights under the autonomy status by 2047 deepened in Hong Kong at this time, with another sharpening in August. All this kept the key Chinese index in the negative zone, with a nearly identical to Q2 result in Q3 (-3.1% after 3.0%), while in Hong Kong the blue chips fell by 8.8% (after -1.5%). At the same time, indicators of the "continental" and "offshore" Chinese markets still had positive indicators since the beginning of the year, and the first indicator also for the year (+ 3.0%), while the second indicator lost 6.1% since September 2018.

In Q3 2019, **the Ukrainian stock market** continued its downward movement and as of the end of September moved to the negative zone on an annual basis (-3.1-5.5%, after -4.1-5.5% in Q2, -2.4-5.8% for year).

Such dynamics of the domestic market were largely driven by external factors, as well as the absence of tangible changes in the regulation of the stock market in Ukraine that would stimulate its development, while the macroeconomic conditions were overwhelmingly favorable. Thus, the State Statistics Committee confirmed the real GDP growth of Ukraine in Q2 2019 at + 4.6% yoy, and according to preliminary data of Q3 - estimated it at the level of + 4.2%. This has led to an increase in GDP growth projections based on the results of 2019 and the next two years by both Ukrainian and international financial institutions and experts (up to 3.0-3.7%)[10] and attracted more foreign investors' attention to Ukraine.

Their interest was also bolstered by expectations of increased efforts by new Ukrainian authorities, parliament, following mid-summer elections aimed at reforming the legal system, privatization and land reform (on the possibility of selling agricultural land). National Bank of Ukraine decisions on currency liberalization, including the definitive abolition of the dividend repatriation limit in July, as well as repatriation limits on securities and corporate rights in September, added to foreign investors' optimism.

Similar enthusiasm has been shown by local businesses, according to a survey by the NBU, despite the slowdown in global economic growth inevitably affecting demand for Ukrainian metals and agricultural products. An additional test to maintain the accelerated growth rate of the domestic economy will be the need to maintain restrained monetary and fiscal policies in the post-election period in the face of the risk of not meeting the overly optimistic expectations of Ukrainian citizens, whose consumer spending continued to increase at this time. At the same time, inflation (CPI) continued to decline during Q3 2019, falling from 9.0% in June year-on-year to 7.5% in September (though rising to 9.1% in July)[11]. According to the NBU, this indicates a weakening of inflationary pressure through tight monetary policy, accompanied by a strengthening of the hryvnia.

The hryvnia is headed by the world currency TOP 2019 at the rate of appreciation against the US dollar, which exceeded the expectations of both leading local experts and international financial institutions (+ 8.7% for the quarter and + 15% since the beginning of the year). This continued to stimulate demand for foreign currency hryvnia by foreigners. Thus, during the mid-September one-week government placement auctions, the Ministry of Finance raised UAH 16.5 billion from the sale of these bonds, which is nearly $0.7 billion. nearly UAH 46 billion was attracted to the state budget. in equivalent, more than 84% of them are on hryvnia bonds, with almost UAH 41 billion. non-residents purchased them. Total government bonds held by non-residents reached UAH 97.8 billion at the end of September, or 74% more than in June and more than 15 times more than at the beginning of 2019. The share of non-residents in all placed hryvnia bonds

[10] *At the end of July, the National Bank of Ukraine improved its estimate of economic growth in 2019 (from 2.5% to 3.0%) and in 2020 (from 2.9% to 3.2%) due to "more robust domestic demand, better trading conditions and an expected increase in grain yield" , and in 2020-2021 (3.2% and 3.7%, respectively), also due to the "softening of monetary policy and economic recovery in the world": https://bank.gov.ua/control/uk/publish/article?art_id=99977772&cat_id=55838. And in October, the NBU raised its GDP forecast in 2019 from 3.0% to 5%, in 2020 - from 3.2% to 3.5% and in 2021 - from 3.7% to 4.0%: https://bank.gov.ua/admin_uploads/article/Macroeconomic_Forecast_table_2019-Q4.xlsx?v=4 According to the World Bank, in 2021 Ukraine's economy may grow by 4.2%:https://www.worldbank.org/en/news/press-release/2019/11/19/ambitious-reforms-for-stronger-economic-growth-in-ukraine#*

[11] *Also in July, the NBU maintained its inflation forecast for 2019-2021 (6.3% at the end of the current year, 5% ± 1 pp in early 2020 and 5% at the end of 2020). Already in October inflation slowed to 6.5%: https://bank.gov.ua/news/all/komentar-natsionalnogo-banku-schodo-rivnya-inflyatsiyi-u-jovtni-2019-roku.*

increased from Q3 to 8.2% in Q3 (about 1% at the beginning of the year) and excluding NBU-owned bonds from 16.5% to 25.9%[12]. More than a third of UAH government bonds (or 2/3, if not considered by the NBU) were owned by local banks.

Due to the continued inflow of foreign currency due to the sale of hryvnia government bonds in July-August, the NBU continued to increase Ukraine's international foreign exchange reserves, which reached their maximum level this year ($ 22 billion). However, in September, the inflow of dollars as a result of the government bonds auctions slept, and the traditional seasonality associated with the activities of importers began to hit the hryvnia, so the NBU entered the market with interventions to smooth exchange rate fluctuations. Accordingly, international reserves rose from $ 20.6 billion to $ 21.4 billion in July-September (+ 3.9%).

Following the successful placement of both domestic hryvnia government bonds and Eurobonds in national currency, following the example of a number of pre-existing sovereign papers with their own specific names, the hryvnia eurobonds of Ukraine were offered to give the unofficial international name "Trident bonds" (according to the results, conducted among market participants by a local news agency)[13].

In September, a mission of the International Monetary Fund was held in Kyiv to discuss with the NBU a new program for Ukraine, but it was only agreed to continue negotiations until the end of the year, after Ukraine fulfilled several key requirements of the Fund, in particular, to ensure the stability of the banking system and independence of the National Bank from political pressure. The NBU has projected a potential volume of a new program of $ 5-10 billion and receiving the first two billion more this year. At the same time, the Ministry of Finance hoped that this program would be the last, since Ukraine would already have enough resources to cope with the IMF's support. However, the NBU left the risk of termination of cooperation with the IMF and the corresponding currency and inflation risks in its forecasts but did not consider them significant. So, in September, for the second time in a quarter and for the third time in 2019, it lowered its discount rate by another 0.5 percent. to 16.5% pa, which was in line with market expectations.

Also in September, Fitch Ratings upgraded Ukraine's sovereign credit rating from B- to B, followed by a similar increase in the long-term foreign currency issuer (RDE)[14] ratings of seven Ukrainian banks, as well as a long-term defaults of the issuer in foreign and national currency of Kyiv, Lviv, Odessa, Dnipro and Kharkiv.

As for changes in the stock market infrastructure of Ukraine, in August the National Depository of Ukraine launched the business model of the depository system, which, according to NDU, should be more flexible and effective. Thus, additional new types of accounts (aggregated, segregated and separated) are introduced, NDU can make changes in the technology of execution of operations independently, and its clients - to choose a convenient accounting system for themselves[15]. In addition, the NBU Depository for the first time introduced API technologies that opened the opportunity for stock market participants to conduct online transactions with government securities for investors through their own automated systems that will interact directly with the NBU depositary accounting system. Cross-cutting processes have also been implemented for their new products and services (including mobile applications).

On the other hand, during Q3 2019 there was a lively discussion between professional stock market participants of Ukraine and state authorities regarding the previously adopted amendments to the law on joint stock companies regarding the compulsory redemption of minority shareholders of joint stock companies (the so-called “squeeze-out” procedure). In July, nearly 50 MPs filed a petition with the Constitutional Court of Ukraine to review and declare the relevant provisions of national legislation unconstitutional. A group of stock market participants also prepared an appeal to the CCU in which, based on their own experience, she supported the deputy's submission. Following these legislative changes, as of the end of September, 298 Ukrainian issuers of shares made decisions on squeeze-outs and the transition to a private form of joint stock company, which significantly narrowed the possibilities for institutional investors to search for qualitative and relevant regulatory requirements of assets to form their portfolios and became an example of a failed transposition European rules in Ukraine.

In September, the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Improvement of

[12] *As of 30.11.2019, the volume of government bonds owned by non-residents increased to UAH 104.1 billion, ie to 12.9% of all government bonds in circulation (21.9% excluding government bonds owned by the NBU in general and 27.7% for hryvnia government bonds outside the NBU in particular).*

[13] *«Borsch, Bandera, Salo. Unofficial international name for Ukrainian hryvnia Eurobonds»:https://nv.ua/ukr/biz/finance/borshch-bandera-salo-dlya-ukrajinskih-grivnevih-yevroobligaciy-vibrali-neoficiynu-mizhnarodnu-nazvu-50037876.html*

[14] *Oschadbank, Ukreximbank, PrivatBank, Ukrgasbank, Credit Agricole Bank, ProCredit Bank and Pravex Bank.*

[15] *The relevant changes are enshrined in the amendments to the Regulation on Depository Activity (NCSSMM Decision No. 735 of 23.04.2013), effective from 06.08.2019.*

Functions for State Regulation of Financial Services Markets" (on "Split") No. 79-IX was adopted, which, in the opinion of the National Bank of Ukraine and the National Securities and Exchange Commission the stock market, as well as international lenders and donors of Ukraine (in particular the EBRD and the IMF) should strengthen the oversight of the non-banking financial sector and ensure its transparency, reliability and efficiency. According to this Law, the National Commission for State Regulation in the Field of Financial Services Markets is liquidated, and its powers will be shared between the NBU and the NCSSMC. Since the adoption of this draft law in the first reading in July 2016, its text has been amended and eventually provided that the markets of insurance, leasing and factoring companies, credit unions, credit bureaus, pawnshops and other financial companies will be regulated by the NBU and regulated by the SSMSC. non-governmental funds: pension funds (NPFs), construction financing funds (FFBs) and real estate operations funds (FONs). The law will enter into force on July 1, 2020, after a transitional period during which the necessary processes will be adjusted and the structure for the NBU and NCSSMCs to take over the respective functions from the National Financial Services Commission will be adopted. The expert community and business associations of the non-banking financial market of Ukraine are divided in their views on this law in terms of the expected real effectiveness of oversight of the relevant market sectors in this model.

Also at the end of the quarter, the Verkhovna Rada passed the Law on Protection of Consumers of Financial Services No. 122-IX, which establishes clearly regulated and rigid mechanisms of control by the NBU and other state regulators on the compliance of the consumer financial market players with the requirements of the legislation on the protection of consumers of such services , in particular, regarding the mandatory and accessible disclosure of the true value of financial products and services. In addition, in Q3 2019, the bills that were important for the Ukrainian society as well as for foreign investors and creditors were adopted in the first reading, in particular: "On the perpetrators of corruption" No. 1010[16], "On illicit enrichment" No. 1031 (restores criminal liability for illegal enrichment, which was abolished in February this year by the Constitutional Court of Ukraine)[17] and "On Prevention of Corruption" No. 1029 (including automatic access of the NAPC to a few registers for verification of e-declarations).

The stock market in Q3 2019 continued to narrow in terms of the total number of securities issued on the stock exchanges, the number of "listed" securities, while the volume of trades on the exchanges increased slightly.

In July, according to a statement by Ukrainian investors filed on their behalf by the National Depository of Ukraine, the shares of Ferrexpo Plc (UK) were admitted to the NCSSMB in Ukraine (the London Stock Exchange, LSE) remains the main platform for their sale. This possibility is envisaged by the "Regulation on the admission of securities of foreign issuers to circulation in the territory of Ukraine", which was approved by the Commission decision No. 871 two years ago. However, in general, the number of foreign instruments on the Ukrainian market remained negligible, and the consolidated stock list of all existing exchanges in July-September 2019 decreased by another 5.5% (after -11.0% in April-June, Table 1). As of September 30, 2019, it numbered 655 issues of securities - 33% less than a year ago (after -28.6% as of the end of June).

At the same time, the number of "listed" securities (included in the stock registers) decreased by 4.7% (after -18.4% in Q2) - mainly due to government bonds (-4.6%, after -19.3%), so in the end the share of government bonds in listing of exchanges at the end of September 2019 remained almost unchanged compared to June – 94%[18]. The number of *corporate* bonds' listing issues also decreased (-10% in Q3 and -25% in September, after -16.7% in June). There were three shares listed on the exchanges (considering the depository receipts of MHP S.A.) - twice less than a year ago.

During Q2, the composition of the index basket remained unchanged (6 shares: 4 power companies, one - machine building and one bank) and again only the weight of four shares in it was changed. Also, with no changes in its composition and with slight changes in the weights at the end of September there was a basket of PFTS index: only 7 stocks, 5 of which were in the UB index, one machine-building and one telecommunications company.

[16] *Public and international organizations are urging MPs to amend some of the rules of the bill that threaten transgressors (Transparancy international).*

[17] *Analysis of the legal advisor of TI Ukraine Maxim Kostecki.*

[18] *As of September 30, 2019, there were 167 issues of shares in the total number of listed securities, including 163 ordinary ones (after, respectively, 186 and 182 in June) and 83 – corporate bonds (after 82 in June), and the share of state bonds among all stock exchanges, it increased from Q3 2019 from 42.7% to 43.1%.*

Table 1. Dynamics of the stock market of Ukraine in Q3 2019

Indicator / Date	30.09.2018 (Q3 2018)	31.12.2018 (Q4 2018)	30.06.2019 (Q2 2019)	30.09.2019 (Q3 2019)	*Q3 2019 change*	*YTD*	*Annual change in Q3 2019*
Number of Securities in the listing of stock exchanges, incl.:	**924**	**884**	**655**	**619**	*-5.5%*	*-30.0%*	*-33.0%*
Number of securities in the registers (listing) of stock exchanges, incl.:	**331**	**377**	**298**	**284**	*-4.7%*	*-24.7%*	*-14.2%*
State bonds (OVDP)	**307**	**357**	**280**	**267**	*-4.6%*	*-25.2%*	*-13.0%*
equities*	**6**	**5**	**3**	**3**	*0.0%*	*-40.0%*	*-50.0%*
corporate bonds	**12**	**10**	**10**	**9**	*-10.0%*	*-10.0%*	*-25.0%*
municipal bonds**	0	0	0	2	*x*	*x*	*x*
NBU deposit certificates	0	0	0	0	*x*	*x*	*x*
Trading volume on all stock exchanges in total, UAH M, incl.:	**75 077.0**	**61 608.8**	**72 141.4**	**83 322.0**	*15.5%*	*35.2%*	*11.0%*
State bonds (OVDP+OZDP)	**72 379.8**	**56 663.2**	**70 347.1**	**79 832.8**	*13.5%*	*40.9%*	*10.3%*
equities	**152.1**	**171.6**	**98.2**	**72.0**	*-26.7%*	*-58.0%*	*-52.6%*
corporate bonds	**2 345.5**	**4 160.0**	**1 478.3**	**3 356.6**	*127.1%*	*-19.3%*	*43.1%*
municipal bonds	0.0	0.0	5.4	0.0	*-100.0%*	*x*	*x*
NBU deposit certificates	0.0	0.0	0.0	0.0	*x*	*x*	*x*
investment certificates	10.8	199.8	131.0	31.6	*-75.9%*	*-84.2%*	*192.2%*
derivatives (excl. state derivatives)	188.8	414.3	45.3	29.7	*-34.5%*	*-92.8%*	*-84.3%*

Sources: data on securities in lists of stock exchanges and trading volumes – NSSMC, stock exchanges; calculations – UAIB.

** Including depositary receipts of MHP S.A., excluding CIFs equities and investment certificates of UIFs (as at 30.09.2019 there were 3 of them: equities of 2 CIFs and IC of one UIF). ** As at September 30, 2019, there were four issues of municipal bonds on the SEs lists: two each Lviv and Ivano-Frankivsk City Councils (last one was 'out of the listings').*

The aggregate quarterly trading volume on all exchanges in Q3 2019 increased by 15.5% (after -5.5% in Q2) and amounted to UAH 83.3 billion. At the same time, the share of government bonds was still very significant, but decreased from 97.5% in April-June to 95.8% in July-September, as the increase in the volume of exchange trades was inferior to the growth rate of corporate bonds (+ 13.5% against + 127.1% respectively). The aggregate value of transactions with the latter remained relatively small (UAH 3.4 billion in Q3), but also higher than a year ago (+ 43.1%).

The volume of stock transactions in July-September 2019 fell further (-26.7%, after -40.8% in April-June), with the further decrease in their trading in PFTS. The year-on-year decline in quarterly stock decelerated significantly but remained significant: it was more than half that of Q3 2019 (-53% at the end of September, after -70 % at the end of June). The slowdown in the volume of trading in the stock for the year is because it is no longer affected by the stop of full trades on UB, which took place in Q3 2018 and then led to their sharp decline.

In Q3, the downward trend of trading in investment certificates and derivatives continued: the volume of exchange trades with the former decreased by 75.9% (after -22.5%), the second - by 34.5% (after -27.0%). At the end of September, the volume of trades in investment certificates increased more than tripled (after a 5-fold increase in June) and decreased by more than 6 times in derivatives. However, both these groups of instruments retained a negligible share of the aggregate value of the exchange trades.

2. Asset Management Industry

2.1. Number of AMC, CII, NPF and IC with assets under management

In Q3 2019, the Ukrainian CII asset management industry continued to grow quantitatively and costly. According to UAIB, two new AMCs were created during the quarter, but three were closed and, consequently, the ***number of asset management companies decreased from 295 in June to 294 in September 2019*** (Chart 2).

AMCs with funds under management increased by two to 282 in July-September 2019, and the largest number of funds under management increased from 36 in

June to 45 in September. Almost 99% of all AMCs have managed at least one venture CII.

During July-September 2019, 33 new CIIs were registered, including venture ones - 31 (after 30 in Q2; all - venture). Considering the funds closed during Q3, as of September 30, 2019, ***the number of existing registered CIIs, according to UAIB, increased to 1848*** (+ 1.4% for Q3, after + 1.6% in Q2).

At the end of September, t***he number of CII that reached the minimum assets ratio (formed, recognized) reached 1284*** (+25 funds, or + 2.0%). Thus, in Q3 2019, the dynamics of new fund creation remained positive for the 16th quarter in a row and continued to accelerate growth. This was due to the increased demand for venture CIFs during this period: 29 of the 33 newly created CII during July-September and of the 35 that reached the norms during this time were corporate funds, including 28 were venture CIFs. Instead, in Q3 2019, mutual funds were recognized as 6 (including 5 - venture capital).

In general***, the number of formed CII, which reached the minimum asset*** ("recognized") standard, also continued in Q3: up 30.09.2019 reached ***1284*** (+25 funds, or + 2.0%, after + 1.4% in Q2).

The number of non-state pension funds (NPFs) in management as of 30.09.2019 has increased from 58 to ***60*** (excluding the NBU corporate fund) - including 47 open, 7 corporate and 6 professional ones. Total assets of the NPF were still managed by 33 AMCs.

The number of insurance companies (ICs) that transferred their assets to AMC management as well as AMCs that provided such services remained unchanged during July-September 2019 - there were ***two*** such insurance companies as at September 30, 2019, and AMC was one.

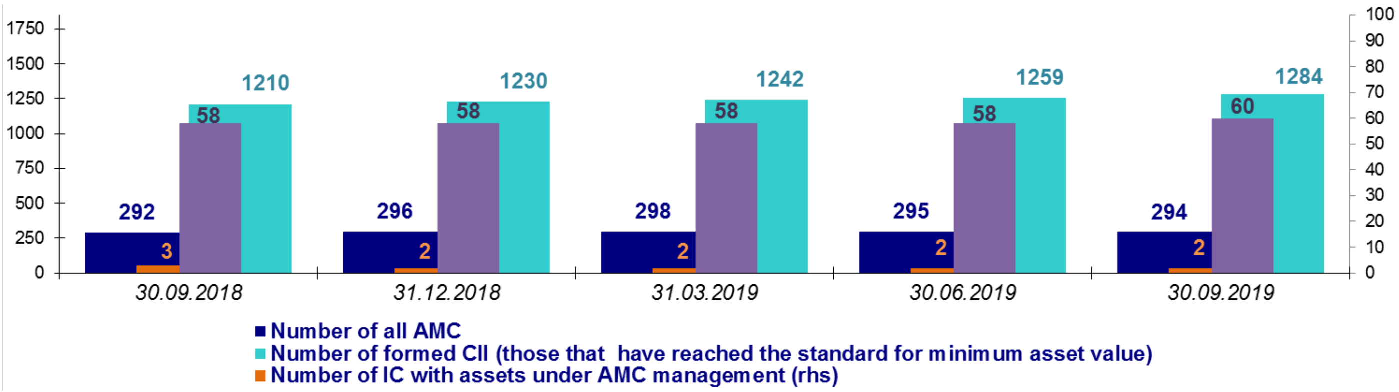

Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in Q3 2018-2019

2.2. Assets under management, CII NAV and Net Inflow of Capital in Open-Ended CII

The aggregate total assets of all institutional investors in the management of AMC in Q3 2019 accelerated to + 3.3% (from + 0.4% in Q2) and reached ***UAH 349 965.9 M*** as of September 30, 2019. Over the 9 months since the beginning of the year, they have increased by 11.2% and have continued to grow, albeit at a slower pace, since September 2018 (+ 16.4%, after + 17.1% in June).

Total CII assets under management, including those that have not yet reached the minimum asset ratio, showed similar changes: they increased by 3.3% in Q3, by 11.2% since the beginning of 2019 and by 16.4% for the year. As of 30.06.2019 they amounted to ***UAH 348 304.6 M.***

Total assets of operating CII managed by AMC and reaching the standards ("recognized" CII) amounted to UAH 339 921.7 M as of 30.09.2019. (Chart 3). In Q3 2019 they had a similar increase - 3.3% (after + 3.7% in Q2), in the 9 months from the beginning of 2019 they added 14.5%, and in the last year - slowed down to + 15.8% at the end of September (from 17.3% in June).

Quarterly growth occurred almost exclusively at the expense of venture funds, whose numbers continued to increase, although interval CIIs also increased during this period. Other sectors, including open-ended funds, saw a decline in assets in Q3 2019 amid further declines in stock indices. At the end of September, the assets of the venture sector amounted to UAH 325 109.9 M. (+ 4.3% for Q3, + 16.2% YoY, + 14.6% YoY).

NPF assets in AMC management in Q3 2019 slowed quarterly and year-on-year growth to 3.0% and 16.6% respectively (from + 5.6% and in Q2 and + 19.0% for the year in June), and for 9 months year - added 13.6%. As of September 30, 2019, they reached ***UAH 1 550.3 M.***

Assets of IC in the management of AMC for Q3 2019 accelerated to 5.4%, and since the beginning of the year increased by 22.4%, which continued slowing their annual fall to -13.2% in September. As of September 30, 2019, these assets amounted to ***UAH 97.7 M***.

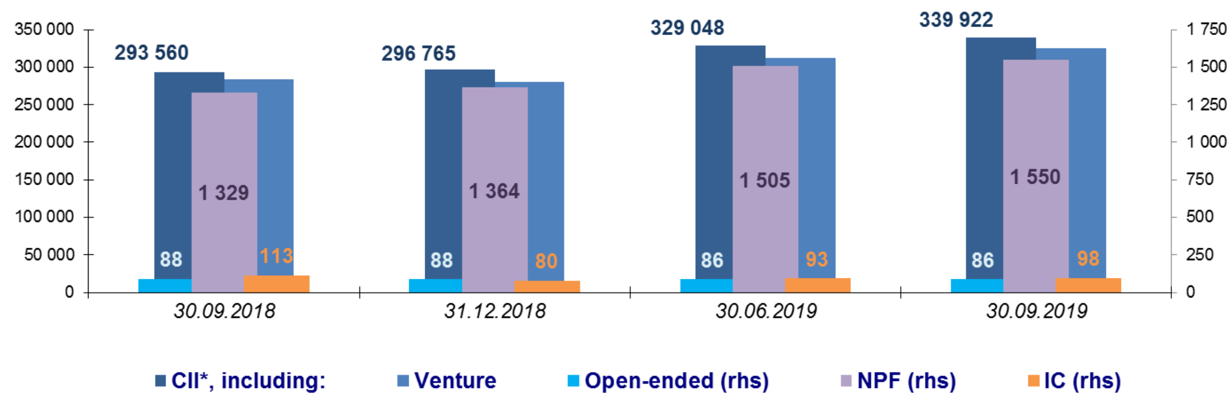

Chart 3. Dynamics of the value of assets under management in Q3 2018-2019, UAH M

The value of net assets (NAVs) of the formed CII, which reached the standards, in Q3 2019 accelerated its growth to 3.7% (after + 3.3% in Q2) and as of 30.09.2019 reached ***UAH 264 302.1 M***. From the beginning of the year to the end of September the NAV of the industry grew by 12.1%, and in the year from September 2018 - slowed down to + 13.6% (from 14.1% in June).

Venture CII in Q3 2019 increased their NAV by 4.7% (after + 3.7% in Q2) to UAH 250 988.3 M. Since the beginning of the year, this sector grew by 13.9% on net assets, and in September - by 11.8% (after + 11.4% in June).

Open-end CII (the same 17 existing funds as in 2019) had almost unchanged net assets value (-0.2%, after -1.5% in Q2). This happened in the context of almost no net capital flow as a result of the quarter and a slight negative impact of the downward trend of the domestic stock market in Q3 (-3-6% on PFTS and UB indexes), limited by the share of these CII in stocks (more than a third of their assets). As of September 30, 2019, the NAV of open-ended funds equaled UAH 85.8 M.

The total net inflow of capital to open-end CII in Q3 2019 equaled ***UAH 0.05 M***. and changed the outflow to UAH 1.5 M in Q2 (Chart 4). This was the first positive quarter for the sector from Q2 2018.

The annual capital movement in open-end CII in September 2019 remained negative but decelerated to ***-UAH3.9 M***. (from -UAH5.4 M in June).

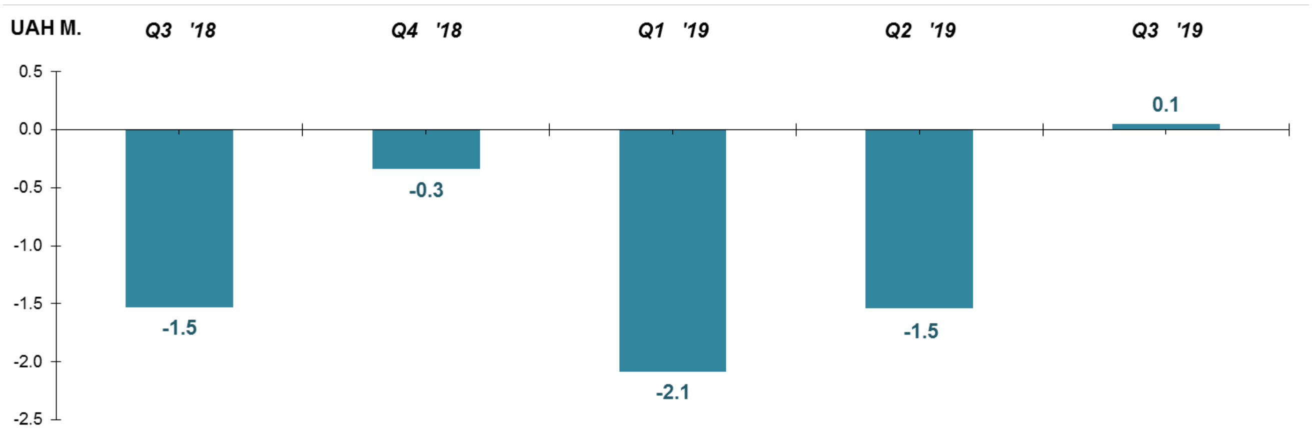

Chart 4. Net inflow/outflow of capital in open-ended CII in Q3 2018-2019

For more detailed information on the performance of CII, NPF and IC asset management markets, see special UAIB reviews, which will be published on the website: http://www.uaib.com.ua/analituaib/publ_ici_quart.html

See additional and statistical information on the UAIB website:

- The Ukrainian Fund Market in Figures, including:
  - Daily Fund Data

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