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1. Stock Markets: Ukraine and the World

The **developed stock markets of the world**, which failed sharply in February-March 2020 due to the introduction of large-scale and tough measures in many countries to combat Covid-19 and expectations of further economic recession, began to reverse in early Q2, in April. At the same time, China's economic growth was naturally constrained by the situation in Western countries, China's largest trading partners.

While in Western Europe and the United States morbidity has only increased and threatened the health systems and economic survival of certain industries and industries, certain sectors of the economy, including technology and communications, have received additional impetus for growth and accelerated development in most businesses to work from home or other forms of remote work. Also, the rapid rebound of stock indices in these conditions depended on the readiness of certain countries to cancel the quarantine as soon as possible or to introduce additional easing for critical sectors of their economies, despite the epidemiological situation in the country.

Tensions in the markets during this period were compounded by the US election campaign, which was significantly affected by the presidential administration's pandemic policy as opposed to its intention to sustain economic growth. According to the results of Q1, the country's GDP fell by 4.8% year on year, which was the largest reduction since the Great Recession, and in Q2 it was expected to be about -30%[1].

In the Eurozone, which includes the countries most affected by coronavirus, according to April data, GDP lost 3.8% in the Q1, which was unprecedented for peacetime, according to the ECB, but in Q2 was expected 15 % drop[2].

Finally, in April-June 2020, the world's largest economies lost 11-15% year on year. At the same time, the International Monetary Fund in June lowered its forecast for global economic growth in 2020 to -4.9% overall, -8% for developed markets and -5% for developing countries, except China, for which the figure remained positive - + 1% (decrease, respectively, from -3% for the world as a whole, according to the April forecast, -6.1%, -2.1% and + 1.2%). According to the IMF, 95% of the world's countries in 2020 will have a reduction in GDP[3].

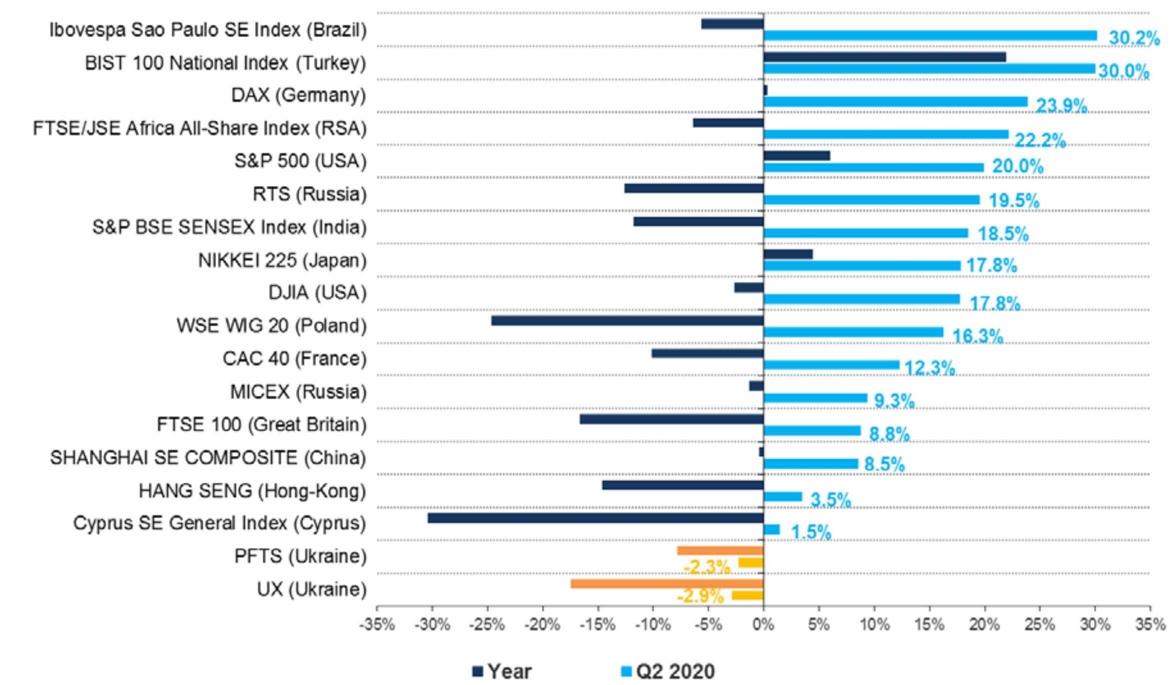

*Chart 1. Dynamics of the world stock indices in Q2 2020**

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

[1] https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwj---TpzcrrAhVhlYsKHfeGAOIQFjAAegQIAxAB&url=https%3A%2F%2Fwww.washingtonpost.com%2Fbusiness%2F2020%2F04%2F29%2Fgdp-coronavirus%2F&usg=AOvVaw28sYEAReiXX04z6E3x0lra

[2] https://www.theguardian.com/business/2020/apr/30/eurozone-suffers-record-slump-as-coronavirus-lockdown-reverses-growth

[3] https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020?fbclid=IwAR3b0Nv40V7hZOKSfujUwYErEnLUBhqSW_HdrhhgBw2fMQGe5SLVmNRxhhk

Nevertheless, the active intentions of the governments and central banks of the countries concerned, the Eurozone and international financial institutions to stimulate growth, jobs, production and consumption were unprecedented in scale (more than $ 10 trillion in total for the first block of measures) and the speed of implementation, despite the difficult political negotiations that preceded them, provoked the recovery of stock indices in the leading US and European markets. Also, optimism in the markets was supported by news from China about the alleged achievement of overcoming the epidemic in the country and the abolition of quarantine and increasing production there in April-May.

In general, for Q2 2020 the shares of leading companies in the USA and Japan grew by 17.8-20.0% (after -20.0-23.2% in Q1), UK - by 8.8% (after -24.8%), Germany - 23.9% (after -25.0%), France - 12.3% (after -26.5%), Poland - by 16.3% (after -29.6%).

Thus, key indices of developed markets ended the first half of the year below their levels in early 2020, some - with a double-digit decline. In the one-year period, however, German, American and Japanese blue chips managed to enter the positive zone at the end of June.

Among **emerging markets**, leaders swapped places with outsiders in dynamics and performance in Q2 2020 compared to Q1, once again showing increased volatility even in extreme global conditions, when it is growing in all markets. However, China has become an exception to the rule at this time. The Chinese economy, according to official data, contracted by 6.8% year on year in Q1, began to grow rapidly in Q2 and finally gained + 3.2%, exceeding expectations (+ 2.5% by consensus forecast) [4]. At the same time, amid the (geo)political conflict with Hong Kong against the background of the suppression of protests in it, the Chinese authorities changed the rules of the game for foreign investors, easing or removing restrictions on foreign investment, expanding previously introduced special mechanisms for "qualified" foreign investors interested in Chinese assets. The key Chinese index showed a relatively moderate increase in Q2 2020 – +8.5% (after also relatively restrained -9.8% in Q1), which left it with a negative indicator since the beginning of the year (-2.1%) and only approached level of annual prescription. In Hong Kong, key equities rose by only 3.5% in April-June (after falling by 16.3%), recording a loss of almost 15% for the year.

The leaders of Q2 were the Brazilian index, which jumped by 30.2% after failing by 36.9% (-5.6% for the year), as well as the Turkish - by 30%, after -21.7% (+ 21.9% for the year).

Among Russian indicators, the ruble index of the Moscow Stock Exchange (MICEX) added 9.3% in April-June (after -17.6% in January-March), while the dollar RTS recovered faster, by 19.5%, after a larger failure (-34.5%). This occurred against the background of a rebound in oil prices almost twice, partially offsetting the fall in three times in Q1, and with the appreciation of the ruble against the US dollar by 10.6% (after -21.2%).

In April-June 2020, the **Ukrainian stock market** continued its mostly downward movement, against the background of the fight against the COVID-19 pandemic in Ukraine and the world. However, unlike its foreign counterparts, its key indicators failed to recover at least partially from previous losses in March (UX index), so the April fall of 2-9% on the two stock indices was decisive for the quarterly result, despite some volatility in May. Thus, the domestic blue chips from the world leaders in the quarterly results in January-March 2020 again moved to the outsiders in April-June.

During Q2, Ukraine regularly changed the legislation to limit and overcome the negative effects of the pandemic on society and the economy. In addition to the UAH 65 billion fund created by the Government of Ukraine, the Council of the European Union decided in May to provide EUR 3 billion in macro-financial assistance to ten enlargement and neighborhood partners to help combat the negative economic consequences of the COVID-19 pandemic. Among these countries was Ukraine, which was to receive the largest share – EUR 1.2 billion.

The main legislative news of Q2 for the stock market of Ukraine was the adoption by the Verkhovna Rada in mid-June of the draft law № 2284 "On Amendments to Certain Legislative Acts of Ukraine to Facilitate Investment and Introduction of New Financial Instruments" (the so-called Law on Derivatives) . The law aims to comprehensively regulate a number of issues related to the functioning of capital markets, derivatives and organized commodity markets, as well as their infrastructure, and to approximate Ukrainian legislation in this area to European legislation in accordance with the EU-Ukraine Association Agreement. It will enter into force on July 1, 2021, except for certain rules that will work after its publication or in 2022 and 2023.

[4] https://www.cnbc.com/2020/07/16/china-economy-beijing-reports-q2-2020-gdp.html

In preparation for the entry into force of the law "on the split" of the functions of National Commission for State Regulation of Financial Services Markets between the NBU and the NSSMC and, accordingly, the transition of administrators of private pension funds and NPFs themselves under the regulation and supervision of the latter, the Association sent to the NSSMC comments and proposals on prudential standards (Decision of the NSSMC №1597) on NPF administrators, which were fully taken into account. Thus, the two new indicators for administrators will correspond to those already calculated by the AMC, and the requirements for compliance with their regulatory values will apply only from January 1, 2021.

Also in this context, during Q2 UAIB prepared amendments to its internal documents to ensure the admission of new members - NPF administrators and the acquisition of the status of OPU and SRO professional stock market participants in the second type of professional activity - NPF administration.

In May, UAIB, among other unions, organizations and associations, appealed to the Prime Minister of Ukraine to support pension reform and the introduction of the second level of the pension system, and in June re-sent a joint letter with the EU UA CSP[5] to the newly appointed Deputy Prime Minister European integration in the financial sector, in particular in the field of mutual investment, under the Association Agreement with the EU.

Also, during the quarter, some laws and regulations of the NSSMC came into force, which regulate the activities of professional stock market participants: on financial monitoring, on the valuation of CII assets, etc.

As for the macroeconomic situation and important events for Ukraine in the international financial markets in April-June 2020, at this time, after a month-long break, the Ministry of Finance resumed weekly auctions for the sale of OVDPs on April 28 and continued to attract significant resources to the budget at rates that returned to acceptable levels. Thus, for the entire Q2, the Ministry of Finance placed OVDPs for a total of UAH 91.5 billion (37% more than for Q1), including UAH 66.6 billion for hryvnia bonds alone, which corresponded to the total volume of borrowings for the previous quarter. Currency OVDPs worth USD 533 million and EUR 353 million were also sold, the rates of which changed insignificantly compared to Q1: 3.00% per annum in dollars for 3-month 3.3-3.5% per annum in dollars for 6-8 months and 2.2 % per annum in euros - for 11-month OVDPs)[6]. At the same time, according to the NBU, the share of government bonds in circulation at their value in hryvnia equivalent, which at the end of June 2020 was owned by the NBU, local enterprises, individuals and nonresidents, decreased compared to March (for all except the NBU - including by reducing the total cost of packages purchased by OVDPs). Instead, in Q2, the volume of public debt placed through OVDPs was due to banks, which already owned 47.2% in June (after from 40.5% in March). The share of OVDPs owned by non-residents decreased from 14% in March to 11.4% in June and excluding those owned by the NBU from 30% to 22.2%.

Ukraine's international reserves, according to the NBU, at the end of June 2020 increased to USD 28.5 billion (in equivalent) from USD 24.9 billion in March (+ 14.5%, and only in June - by 12.4%). The last time they were at this level was in autumn 2012. This was due to several factors, most notably the first tranche of the new Stand-By program with the IMF (equivalent to more than USD 2 billion) and related EU funding (EUR 500 million), as well as the increase in the NBU's purchase of foreign currency on the interbank foreign exchange market (by a total of USD 1,155 million) in the context of the supply of foreign currency by business, which continued to exceed demand. In addition, the government placed foreign currency denominated OVDPs for EUR 353 million and spent USD 1,192 million on servicing and repaying public debt in foreign currency. USA (equivalent). Thus, the volume of international reserves at the end of Q2 covered 4.8 months of future imports, which was one of the best indicators in the history of Ukraine. The official exchange rate of hryvnia against the US dollar and the euro strengthened by 5.1% and 3.4%, respectively (after -15.6% and -14.7% in Q1).

According to the State Statistics Committee, Ukraine's real GDP decreased for the second time in a row in Q2 2020 - by 11.4% year on year (data for Q1 were adjusted to -1.3%). Thus, Ukraine has officially entered a state of recession. However, such a decline, although significant and like the most difficult historical moments for the country's economy, was still smaller than what was observed in developed markets and the world's largest economies.

[5] The EU-Ukraine Civil Society Platform (CSP) is one of the official bodies established under the EU-Ukraine Association Agreement. The CSP is a platform through which civil society organizations of both parties monitor the implementation of the Agreement from the point of view of civil society, as well as make recommendations to the relevant authorities. The CSP is composed of thirty members, fifteen on each side, representing civil society in Ukraine and the European Social and Economic Committee (ESEC). The CSP has six Working Groups. UAIB is a member of Working Group 3 "Economic Cooperation, Free Trade Area, Cross-Border Cooperation". More details – at the link.

[6] https://mof.gov.ua/uk/ogoloshennja-ta-rezultati-aukcioniv

At the same time, the Economic Sentiment Indicator published by the State Statistics Committee as part of the survey of enterprises' expectations regarding the prospects for the development of their business activity was much worse than in Q2 (73.1 after 105.6) for all 5 components: manufacturing, construction, retail, services and consumer confidence. However, relative to Q3, it improved slightly both in general (to 81.4) and in 4 components - in addition to consumer confidence.

In fact, industrial production in Ukraine in January-June 2020 fell by 8.3% compared to the same period last year (after -5.1% in January-March), construction - by 5.5% in general as in January-March), agricultural sector lost 18.7% (after -1.8% in January-March). At the same time, inflation remained almost stable year on year: 2.4% in June, after 2.3% in March, although consumer prices grew by 1.3% in Q2, after 0.7% in Q1. Such fairly stable inflation, which was even lower than the target corridor set by the NBU earlier this year, as well as the need to support the economy in anti-epidemic quarantine measures and further reduce public debt to Ukraine's budget, prompted the NBU to further reduce its key rate more dynamically. than he had previously planned: during the quarter it was reduced from 10% in March to 8% in April and 6% in June.

Against the background of the global recession and unprecedented fluctuations in the world's leading stock markets, *in April-June 2020 the leading stock market indices of Ukraine moved from international leaders to outsiders: the UX index lost 2.9% (after -7.5% in Q1), PFTS index - 2.3% (after + 0.3%).* Thus, the domestic blue chips in this period caught up with the effect of the COVID-19 pandemic. In the half-year period and in the dynamics of the last year, they also remained in the negative zone, losing, respectively, 2-10% and 8-17% (with world averages -11% for six months and -7% per year, and in particular for the Polish market - -18% and -25%, for Russia - -10% and -1% respectively, according to the ruble index).

The composition of index baskets of Ukrainian stock indices remained constant: the UX index included 6 equities (4 energy companies, one - machine-building and one bank); PFTS index - 7: in addition to 5 equities from the UX index (energy and banking), there is also one machine-building and one telecommunications company.

The stock market in Q2 2020 remained active at the level of Q1, with slight changes in the number of issues of securities admitted to trading on stock exchanges in general, and "listed" instruments. The consolidated stock exchange list of all current stock exchanges in April-June 2020 expanded by 3.2% (after -5.4% in Q1) to 523, although from the beginning of the year and for the last year the dynamics remained negative (-2.4% and - 20.2%, respectively, Table 1).

Table 1. Dynamics of the stock market of Ukraine in Q2 2020

Indicator / Date	30.06.2019 (Q2 2019)	31.12.2019 (Q4 2019)	31.03.2020 (Q1 2020)	30.06.2020 (Q2 2020)	Q2 2020 change	YTD	Annual change in Q2 2020
Number of Securities in the listing of stock exchanges, incl.:	**655**	**536**	**507**	**523**	**3.2%**	**-2.4%**	**-20.2%**
Number of securities in the registers (listing) of stock exchanges, incl.:	**298**	**216**	**212**	**209**	**-1.4%**	**-3.2%**	**-29.9%**
State bonds (OVDP)	**280**	**201**	**196**	**194**	**-1.0%**	**-3.5%**	**-30.7%**
municipal bonds	0	2	2	2	0.0%	0.0%	x
corporate bonds	10	9	10	9	-10.0%	0.0%	-10.0%
equities*	3	3	3	3	0.0%	0.0%	0.0%
CIFs equities	4	1	1	1	0.0%	0.0%	-75.0%
investment certificates	1	0	0	0	x	x	-100.0%
Trading volume on all stock exchanges in total, UAH M, incl.:	**72 141.4**	**73 158.2**	**78 293.8**	**78 311.0**	**0.0%**	**7.0%**	**8.6%**
State bonds (OVDP+OZDP)	**70 347.1**	**71 914.2**	**77 336.0**	**77 486.1**	**0.2%**	**7.7%**	**10.1%**
municipal bonds	5.4	0.0	52.3	588.8	1026.1%	x	10783.9%
corporate bonds	1 478.3	1 136.9	533.3	38.1	-92.9%	-96.6%	-97.4%
equities	98.2	22.4	326.8	11.4	-96.5%	-49.1%	-88.4%
investment certificates	131.0	0.1	43.6	5.6	-87.1%	5009.1%	-95.7%
derivatives (excl. state derivatives)	**45.3**	**72.5**	**1.1**	**53.3**	**4830.6%**	**-26.5%**	**17.5%**

Sources: data on securities in lists of stock exchanges and trading volumes – NSSMC, stock exchanges; calculations – UAIB.
** Including depositary receipts of MHP S.A.*

At the same time, the “listing” (securities in stock exchange registers) decreased further: -1.4% for Q2, after -1.9% for Q1. This was due to both government bonds (-2 OVDPs issues, -1.0%) and corporate bonds (-1 issue, -10.0%). During the year, the number of listed securities decreased by almost a third, mainly due to OVDPs (-30.7%), while the number of high-level corporate instruments on the stock exchanges of Ukraine did not exceed 10 for each category during this period[7].

As of the end of June 2020, OVDPs accounted for almost 93% of all listed instruments on stock exchanges (after 92% in March). Some increase in their weight in the stock exchanges was due to a relatively stronger reduction in the number of listed corporate bonds, as mentioned above, to the level in early 2020 (9). The number of other instruments in the stock exchange listing in Q1 did not change.*The total quarterly volume of trades* on all exchanges in Q2 2020 was almost equal to the indicator for Q1 and amounted to UAH 78.3 billion. Almost 99% of trades in the value of transactions were conducted with government bonds, the volume of which in April-June slightly increased compared to the previous quarter (+ 0.2%). Instead, according to the NSSMC, trade in municipal securities sharply increased during this period: the total value of transactions with them increased more than 11 times, to UAH 589 million. At the same time, trade in corporate bonds decreased 14 times (after more than doubling in Q1), and equities - 29 times (after an increase of 14.5 times).

Also in April-June 2020, there was a pendulum-like movement in the dynamics of exchange trading in other instruments, which accounted for a small market share: the volume of transactions with certificates and equities of investment funds decreased several times, and derivatives increased.

Over the last year, only the volumes of trades in government and, especially, municipal bonds, as well as derivatives, increased on the stock exchanges. At the same time, trading in corporate instruments has decreased 9-39 times since June last year.

2. Asset Management Industry

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

During Q2 2020, the Ukrainian asset management industry of institutional investors maintained a growth trend - mainly due to an increase in the number of funds (CII).

In April-June, according to UAIB, 50 new CII were registered. Considering the funds that closed during this quarter, as of the end of June the total number of ***registered CII*** increased to ***1971*** (+ 2.3% for Q2).

The number of ***formed CII***, which reached the minimum asset ratio, increased in the 11th consecutive quarter - to ***1397*** (+40 funds, or + 2.9% in Q2 2020).

At the same time, the number of ***operating asset management companies*** in April-June did not change and as of 30.06.2020, as in March, in Ukraine, according to UAIB, there were ***297*** AMCs (Chart 2).

At the time of writing, UAIB also included 15 non-state pension fund administrators, including 13 companies that combine this activity with asset management and have already been members of the Association. UAIB received the official status of association of professional stock market participants and SRO for the second type of professional activity - the activity of administration of private pension funds after the relevant registration with the NSSMC on August 27, 2020[8]. In the future, the Association will supplement its analytical materials with data on the activities of NPF administrators.

The number of ***non-state pension funds (NPFs)*** in management as of 30.06.2020 also did not change – ***60*** (excluding the corporate fund of the NBU), including 48 open, 6 corporate and 6 professional. NPF assets were still managed by 34 AMCs.

The number of ***insurance companies (ICs)*** that transferred their assets to AMC management in April-June 2020 was also constant: the assets of ***two*** insurance companies were managed by one AMC.

[7] In total, as of June 30, 2020, the lists of UX, including "listing", included 147 issues of equities, 14 - equities of CIF, 34 - investment certificates, 77 - corporate bonds, 10 municipal bonds.

[8] https://www.uaib.com.ua/about-uaib/uaib-stala-opu-ta-sro-za-drugim-vidom-profdiyalnosti-diyalnist-z-administruvannya-npf

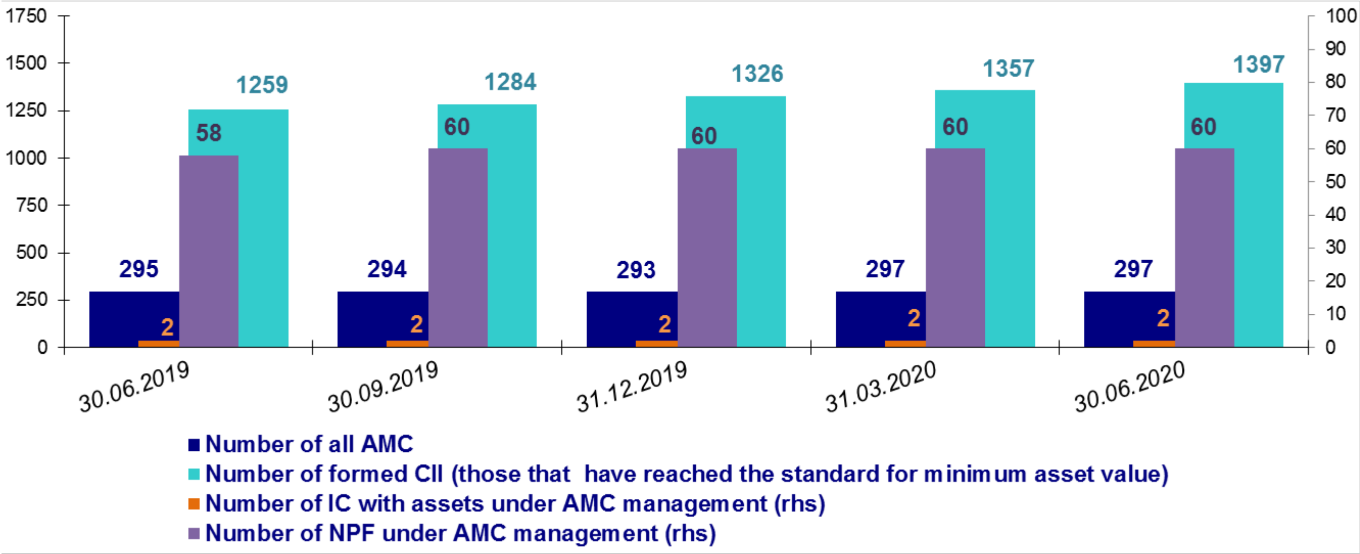

Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in Q2 2019-2020

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

The ***total assets of all institutional investors under AMC management*** slowed down from 3.3% to 2.8% (annual growth accelerated to + 11.3%) in Q2 2020, in the context of the pandemic and the quarantine measures introduced to overcome it. From the beginning of 2020, they added 6.2% and amounted to UAH 377,182 million at the end of June.

CII assets under management, including those that have not yet reached the minimum assets, as of 30.06.2020 reached UAH 375,201 million. In April-June 2020, they also grew by 2.8% and 6.2% in the first half of the year, and the annual dynamics was slightly weaker compared to the total assets of all institutional investors in management, but also accelerated at the end of June compared to March: + 11.2%.

The ***total assets of operating CII, which were managed by AMC and reached the standards ("established" funds)***, slowed down somewhat - to + 4.0% for the quarter, although on an annualized basis - accelerated it to + 12.7% for the year. From the beginning of 2020, the assets of the formed funds added 9.4%. At the end of June, they amounted to UAH 370,998 million (Chart 7).

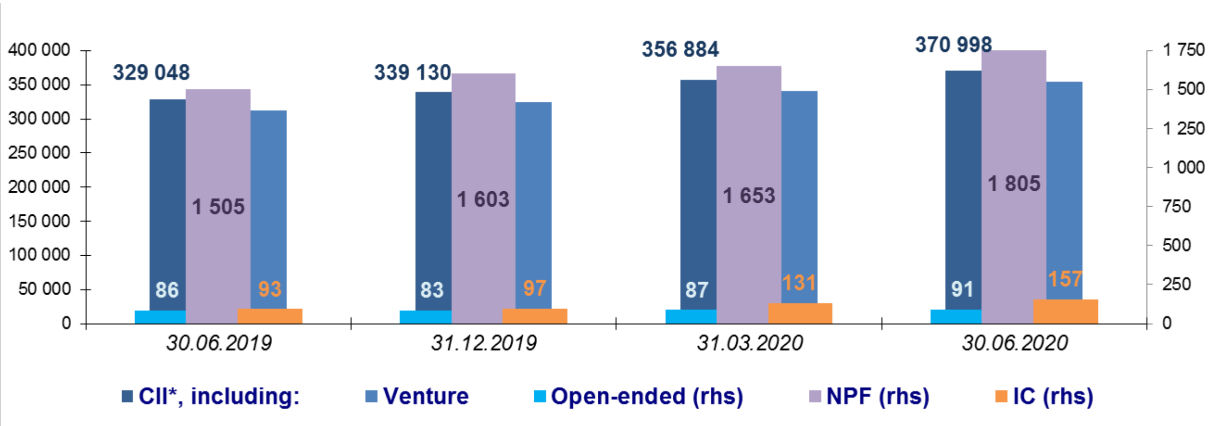

Chart 3. Dynamics of the value of assets under management in Q2 2019-2020, UAH M

The growth of assets in Q2 was recorded in all sectors of CII by types of funds and methods of placement, except for closed-end CII with private placement (except venture), where there was a slight decrease. However, despite the relatively faster growth in some sectors, the engine of the industry as a whole remained venture CII, the number of reports of which increased by 3.1% in Q2 and total assets by 4.1% (by 9.4% in the first half and by 13.7% in the year) up to UAH 354,500 million. Assets of open-ended CII, with the same number of funds in the sector, grew by 4.3% in Q2, and those of closed-end CII - by 5.4%.

In Q2 2020, ***Non-State Pension Fund assets under AMC management*** accelerated growth almost threefold to 9.2% (up to 19.9% over the year). From the beginning of 2020, they added 12.6% and as of the end of June reached UAH 1,805 million.

The ***assets of Insurance Companies under AMC management*** continued to grow rapidly, albeit at a slower pace than in Q1: in April-June 2020, they added 19.9%. Thus, from the beginning of the year their growth was 62.7%, and for the last year - 69.5%. As of June 30, 2020, they reached the largest UAH 157 million of all time.

In Q2 2020, ***total net asset value of CIIs that reached the standards*** accelerated to + 5.6%, and for the last 12 months - to 13.7%. In the first half of 2020, NAV CII added 10.9% and as of June 30, 2020 reached UAH 289,685 million.

NAV of venture CII in Q2 2020 made the main contribution to this dynamics, rising by 5.9%, and for the year - by 14.6% (+ 11.0% for six months) and at the end of June amounted to UAH 274,649 million This corresponded to 94.8% of total net assets of all current CII.

In Q2 2020, net assets of open-ended CII slowed down slightly to + 4.3%, but added 9.3% in the first half of the year, two thirds of which provided net capital inflows. The current annual change in the value of net assets of this CII sector entered the positive zone in Q2 and amounted to + 5.1% at the end of June (after -0.8% in March). As of June 30, 2020, the NAV of open-ended CII was equal to UAH 90 million.

The ***total net fllow of capital in open-ended CIIs*** in Q2 2020 was positive, although it slowed down significantly: UAH +1.8 million (Chart 4).

This provided an inflow of UAH 5.2 million from the beginning of the year and, as a result, a change in the sign of the annual flow of capital in open-ended CII, which at the end of June 2020 became positive again: UAH 3.0 million.

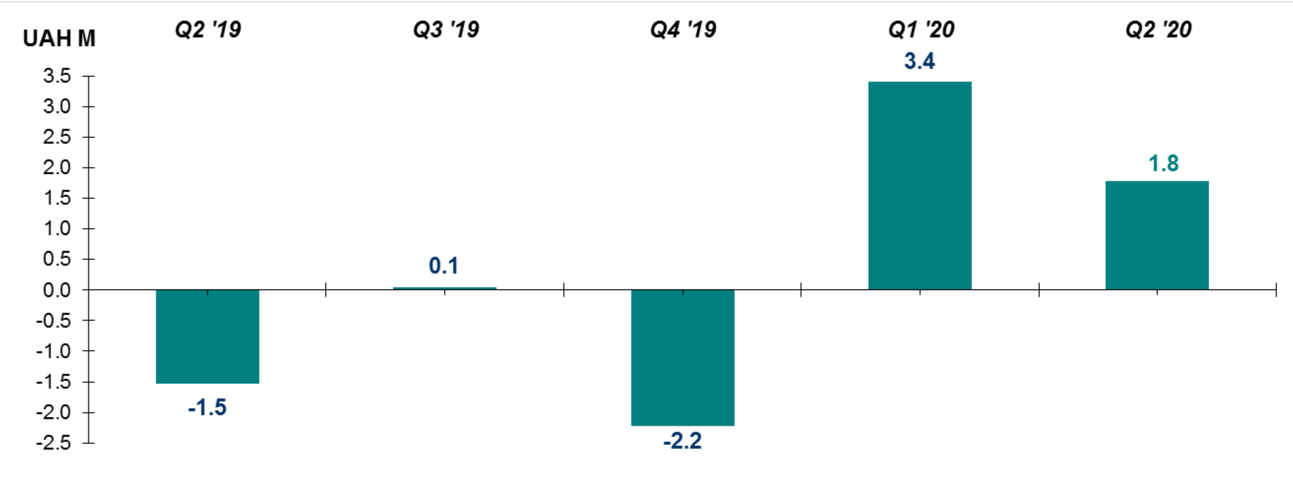

Chart 4. Net inflow/outflow of capital in open-ended CII in Q2 2019-2020

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

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- The Ukrainian Fund Market in Figures

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