

WEEKLY MARKET UPDATE

2018.10.01-10.05

GLOBAL MARKET PERFORMANCE

United States: The major benchmarks ended lower, and the technology-heavy Nasdaq Composite Index rallied. Within the S&P 500 Index, energy shares were among the best performers, boosted by a rise in oil prices as traders braced for the implementation of new sanctions on Iran in early November. Financials shares also outperformed, helped by a surge in longer-term interest rates, which bodes well for bank lending margins.

Consumer discretionary shares lagged due to weakness in Amazon.com, which now makes up roughly one-third of the sector, following the transfer of fellow Internet giants Netflix and Facebook to the new communication services sector. Amazon shares fell in the wake of news that it had raised its internal minimum hourly wage to \$15 and a Bloomberg report—disputed by Amazon—that the company’s servers had been hacked by the Chinese military through the use of tiny chips implanted in motherboards.

The Labor Department reported that employers added 134,000 jobs in September, the smallest gain in a year. However, the unemployment rate fell to 3.7%, its lowest level in nearly five decades.

Europe: European stocks followed U.S. equities lower amid a rise in global bond yields and continued worries about the Italian government’s spending plans.

The yield on 10-year Italian government bonds rose as high as 3.45% as Italy’s coalition government outlined its main policies and fiscal targets. Policymakers held fast to their wider-than-expected 2.4% budget deficit target, which investors fear will put Italy on a collision course with the European Union and trigger downgrades from credit ratings agencies. Italian banking stocks traded near their lowest levels of the year amid worries that Italy’s sovereign debt would be downgraded.

Japan: Japanese stocks rose for the week. At the close of trading on Friday, the yen stood at ¥113.89 per U.S. dollar, modestly weaker for the week and a bit above ¥112.70, where it stood at the start of 2018.

The International Monetary Fund expressed concern about a potential slowdown in economic growth due to the consumption tax increase (to 10% from 8%) next year. The IMF also noted that trade or geopolitical events could lead to an increase in the yen. The IMF intimated that Japan should eventually increase the consumption tax to at least 15%, noting that the country’s economic challenges will increase with the projected demographic shift. Japan’s population is expected to decrease by 25% over the coming four decades, reducing economic growth and productivity.

China: Trade tensions loomed in the background as Beijing said it would cut tariffs on a wide range of products to soften the impact of U.S. tariffs.

Source: Reuters, Troweprice

WORLD INDICES			
Index	Country	Last Price	Change /w/
MSE TOP 20	Mongolia	20,399.08	0.34% ▲
Dow Jones	USA	26,447.05	-1.07% ▼
S&P 500	USA	2,885.57	-0.54% ▼
Nasdaq	USA	7,788.45	0.74% ▲
S&P/TSX	Canada	15,946.17	-0.93% ▼
FTSE 100	GB	7,318.54	0.27% ▲
S&P/ASX 200	Australia	6,185.50	-0.36% ▼
Nikkei 225	Japan	23,783.72	1.05% ▲
Hang Seng	Hong Kong	26,572.57	-0.59% ▼

MONGOLIA RELATED BONDS			
Issuer	Currency	Coupon	Last Price
Mongol 2024 (Khuraldai)	USD	8.7%	109.40
Mongol 2023 (Gerege)	USD	5.6%	97.15
Mongol 2022 (Chinggis)	USD	5.1%	96.21
Mongol 2021 (Mazalai)	USD	10.8%	112.87
DBM’ 23 (Samurai)	JPY	1.5%	104.39
TDBM’ 2020	USD	9.3%	105.86

MARKET RATES			
Rates	Last	Change /w/	
Libor 1M	2.277	0.02	▲
Libor 3M	2.408	0.01	▲
Libor 6M	2.623	0.02	▲
Libor 1YR	2.958	0.04	▲
US 6M Bond	2.405	0.05	▲
US 2YR Bond	2.885	0.06	▲
US 3YR Bond	2.982	0.09	▲
US 5YR Bond	3.069	0.11	▲
US 10YR Bond	3.233	0.16	▲

EXCHANGE RATES			
Against MNT	2018.10.05	Change /w/	
USD	2,567.15	0.59%	▲
CNY	373.74	0.78%	▲
EUR	2,953.76	-0.39%	▼
RUB	38.54	-0.93%	▼
KRW	2.27	-1.30%	▼
JPY	22.55	0.22%	▲
CAD	1,984.65	1.19%	▲

COMMODITY PRICE			
Commodity	Unit	Last Price	Change /w/
Gold /spot/	USD/t oz.	1,196.19	0.48% ▲
Silver /spot/	USD/t oz.	14.46	-1.23% ▼
Copper	USD/lb.	274.35	-2.09% ▼
Coal	USD/MT	114.32	-0.07% ▼
Crude Oil WTI	USD/bbl.	73.72	0.31% ▲
Crude Oil Brent	USD/bbl.	83.28	0.26% ▲
Natural Gas	USD/MMBtu	3.18	5.30% ▲

MONGOLIAN MACRO ECONOMIC INDICATORS			
Indicators	Reference	Amount	
Inflation Rate	2018. VIII	6.00%	
Policy Rate	2018. VIII	10.00%	
Interbank Rate	2018. VIII	10.00%	
Deposit Interest Rate /MNT/	2018. VIII	12.30%	
Deposit Interest Rate /Foreign currency/	2018. VIII	5.10%	
Loan Interest Rate /MNT/	2018. VIII	17.60%	
Loan Interest Rate /Foreign currency/	2018. VIII	10.60%	

Source: National Statistical Office, Bank of Mongolia, Bloomberg

MSE TRADING UPDATE

In this week, a total of 40 companies' 11,843,142 shares worth MNT 2,775.5 million were traded.

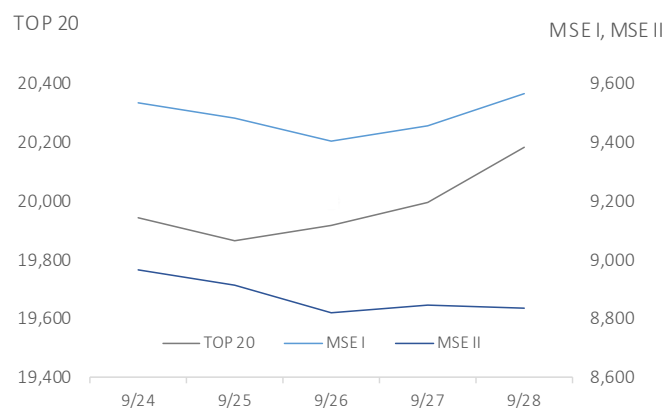
'Ard Insurance' /AIC/ company's share rose 28.50 percent to MNT 899.48 while 'Ikh Barilga' /IBA/ company's share fell 14.49 percent to MNT 2,950.

No government securities were traded on the primary market during this week.

On the secondary market of Government securities, 154 units of securities were traded for MNT 15.5 million.

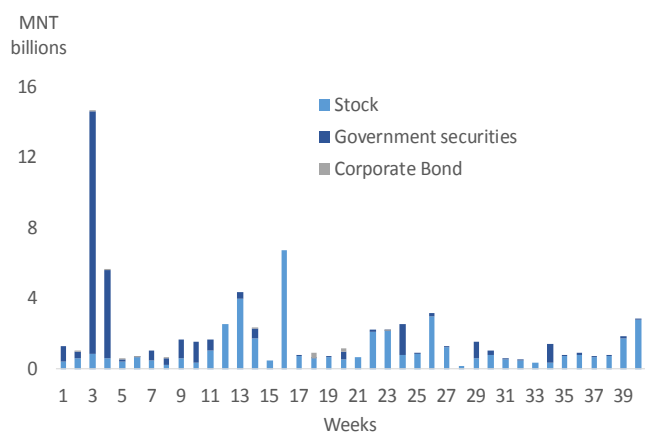
As of October 5, total market capitalization of MSE is MNT 2,406.0 billion. The TOP-20 index increased by 0.34% to stand at 20,399.08 units.

MSE Indices



Source: Mongolian Stock Exchange

Trading Value /week by week/



Source: Mongolian Stock Exchange

STOCK MARKET REVIEW

Review	Total amount /MNT mln/
Total Value	2,791.0
Market Capitalization	2,405,993.0

STOCK MARKET INDICES

Index	Last Price	Change /w/
MSE Top 20	20,399.08	0.34% ▲
MSE I Index	9,792.76	2.19% ▲
MSE II Index	9,170.47	3.22% ▲

ACTIVELY TRADED SECURITIES

Company	Volume	Turnover /MNT/
Gobi	21,458	690,805,580
Ard Insurance	785,719	637,847,277
Itools	4,119,523	494,372,782
LendMN	6,252,971	399,853,674
APU	242,528	139,665,852

SECURITIES WITH MOST GROWTH

Company	Last Price /MNT/	Change /w/
Ard Insurance	899.48	28.50% ▲
Genco Tour Bureau	75.00	25.00% ▲
Shivee Ovoo	2,000.00	17.65% ▲
Baganuur	1,552.00	14.96% ▲
Atar Urguu	80,000.00	14.29% ▲

SECURITIES WITH MOST DECLINE

Company	Last Price /MNT/	Change /w/
Ikh Barilga	2,950.00	-14.49% ▼
Gutal	19,500.00	-9.30% ▼
Takhi Ko	12,000.00	-7.69% ▼
UB BUM	337.00	-3.71% ▼
Bayangol Hotel	29,000.00	-3.33% ▼

MOST ACTIVE BROKERAGE FIRMS

Company	Trading amount /MNT/
Standard Investment	1,688,513,366
Mirae Asset Securities Mongolia	763,785,984
Ard Securities	672,203,422
Bumbat-Altai	409,147,431
BDSec	408,461,972

COMPANIES WITH HIGHEST MARKET CAPITALIZATION

Company	Last Price /MNT/	Market Cap. /MNT mln/
APU	571.94	608,648
Tavan Tolgoi	7,715.00	406,312
Gobi	33,080.00	258,061
Mongolian Mortgage Corporation	10,970.00	227,181
Suu	226.04	77,758

GOVERNMENT SECURITY TRADING

Government securities /primary market/

Nº	Name	Volume	Turnover /MNT/	Minimum /MNT/	Maximum /MNT/	Weeks	Annual interest rate
-	-	-	-	-	-	-	-

Government securities /secondary market/

Nº	Name	Volume	Turnover /MNT/	Minimum /MNT/	Maximum /MNT/	Weeks	Annual interest rate
1	ZGEB-BD-04/07/19-A0266-14.82	153	15,76,500	100,500	100,500	104	14.820%
2	ZGEB-BD-06/06/19-A0254-15.49	1	103,000	103,000	103,000	104	15.490%

DIVIDEND INFORMATION

Nº	Ticker	Company name	Dividend per share /MNT/	Total dividend /MNT mln/	Date of resolution	Record date	Payment date
1	HRM	Hermes Center	5.00	392.72	2018.08.31	2018.09.10	2018.10.01-2018.11.30
2	ERS	Mongol Alt	150.00	39.88	2018.04.27	2018.04.05	within 2018.12.31
3	TEE	Teever Darkhan	500.00	81.67	2018.04.27	2018.04.05	within 2018.12.31
4	TTL	Tavan Tolgoi	2,410.00	126,923.13	2018.04.16	2018.04.03	paid on 2018.06.12
5	EER	Arig Gal	21.33	74.21	2018.04.25	2018.04.02	from 2018.09.01
6	BDL	Mogoin gol	100.00	82.96	2018.04.26	2018.01.18	paid on 2018.06.26
7	DSS	Darkhan Selengiin tsakhilgaan tugeekh suljee	56.60	7.66	2018.03.07	2018.03.27	from 2018.07.02
8	TAL	Talyn Gal	50.00	34.71	2018.03.05	2018.04.26	within 2018.12.31
9	BRC	Barilga Corporation	700.00	28.46	2018.02.24	2018.03.16	N/A
10	AND	And Energy	1.27	99.15	2018.02.24	2018.03.16	N/A
11	SUL	Juulchin Duty Free	10,000.00	653.62	2018.02.23	2018.04.11	from 2018.05.01
12	GTL	Gutal	1,270.00	83.01	2018.02.19	2018.03.18	from 2018.07.06
13	BNG	Bayangol Hotel	355.00	150.19	2018.02.19	2018.04.06	from 2018.09.01
14	APU	APU	10.00	10,641.82	2018.02.19	2018.03.29	paid on 2018.05.17
15	BTG	Bayanteeg	100.00	25.26	2018.02.19	2018.03.12	within 2018.06.01
16	MIE	Materialimpex	10.00	13.68	2018.02.19	2018.03.26	paid on 2018.04.17
17	HRD	Khurd	497.00	67.23	2018.02.15	2018.02.23	within 2018 .06.30
18	SUU	Suu	3.00	1,032.00	2018.02.14	2018.04.05	paid on 2018.06.04
19	MNP	Mongol Post	3.68	366.48	2018.02.13	2018.04.13	paid on 2018.06.05
20	MMX	Makhimpex	100.00	380.07	2018.02.13	2018.04.05	from 2018.10.01
21	TCK	Talkh Chikher	170.00	174.03	2018.02.12	2018.04.06	from 2018.07.01
22	GHC	Gan Khiits	100.00	24.25	2018.02.09	N/A	N/A
23	ADL	Aduunchuluun	130.00	409.67	2018.02.07	2018.03.01	paid on 2018.06.26
24	TAH	Takhi Ko	108.00	128.52	2018.02.05	2018.03.30	within 2018.05.01
25	UBH	Ulaanbaatar Khivs	100.00	40.48	2018.02.05	2018.02.26	from 2018.05.01
26	GOV	Gobi	220.00	1,716.25	2018.02.02	2018.03.27	paid on 2018.04.24
27	HRM	Hermes Center	5.00	392.72	2018.01.24	2018.02.15	paid on 2018.04.12

CAPITAL MARKET NEWS

Millenium CSD system to be operational on weekends

In relation to the government decisions on trading of Erdenes Tavantolgoi JSC's shares on domestic and foreign exchanges, the account opening process of citizens have been rising sharply. For instance, during the first half of the year, 5000-6000 accounts have been opened on average per month, while, 8902 accounts in August and 24682 accounts have been opened in September respectively.

Thus, the CSD system which manages client accounts will be operational during the weekends until November 2018 by the CEO's Order No.A/109 of Mongolian Stock Exchange dated October.

Source: Mongolian Stock Exchnage



Government bond prices declined by 4-6 percent since January

Currently four Mongolian government bonds are being traded on international markets. In 2018 the prices have declined by 4-6 percent. However it is still being traded above par.

Overall, price movements indicate a rebalancing from when it increased due to the International Monetary Fund's "Extended Fund Facility" 1st and 2nd review. For example, "Gerege" bond which was issued last year with a 5.625 percent rate decreased by 4 percent and reached USD 97.1.

"Gerege" bond was issued during a difficult time to refinance "Chingis" and "Dim sum" bonds and according to plan the 5 year Chingis bond and the CNY denominated Dim Sum bonds were both paid this year.

"Mazaalai" bond with the highest rate and nearest in maturity also declined by 4 percent since January. When Government expenses increased in 2016 and commodity prices took a fall, in order to finance the budget USD 500 million "Mazaalai" bond was issued in March 2016 with a maturity of 5 years and 10.875 percent rate. "Khuraldai" and "Chingis" bonds also declined in price.

Main holders of Mongolian government bonds include "JPMorgan Chase", "UBS", and "Blackrock". According to Bloomberg's analysts investors interest in high yield developing country bonds are increasing. Especially bonds from countries with financing from donors such as IMF that has increased risk protection.

Source: BloombergTv.mn

In September, securities trading increased by 6 times from the previous month

In September, securities worth MNT 20 billion were traded on the domestic capital market, which is six times more than in August, due to a rise in the primary market trading worth MNT 16.5 billion.

Three companies attracted fund from the domestic capital market though IPO issuance. Lastly, in January of this year, securities worth about MNT 23 billion was traded. At that time, 88.3 percent of total trade was made by Government securities. In September, 98.5 percent of total trade was made solely by securities trading.

Main weight of the secondary market stock trading was generated by shares of 'HBOil' and 'Makhimpex' companies. For instance, 11% of shares of 'Makhimpex' JSC were traded for MNT 1 billion in one day. In September, shares of 'And Energy' JSC worth 5.3 million were traded on the Mongolian Securities Exchange. According to the 'And Energy' JSC, it is slightly behind the sales revenue plan. The company, which opened its branch in Ulaanbaatar city, said that it expects sales plan to be completed at the end of the year. Also, D.Munkhbayar, a founder and a member of the Board of Directors, expressed his support for shareholders to distribute dividends from net profit of 2018. However, the decision must be made at the Board meeting.

TOP 20 index was below 20,000 points since May. In September, the TOP 20 index rose 2.4 percent as unit share price of large-cap companies rallied. For instance, shares of 'Talkh Chikher' were up by 9 percent over a month, while 'Gobi' JSC's shares rose 14 percent over the same period. Also, the MSE A index which includes Tier I companies, increased, while the MSE B index of Tier II fell.

There were several changes to the listing status of the Mongolian Stock Exchange in September. Ard Insurance' and 'Mandal Insurance' companies were newly listed in the Tier I, and 'BDSec' and 'Bayangol Hotel' JSC increased their classification to the Tier I. As a result there are 13 companies registered in Tier I on the Mongolia Stock Exchange.

Source: BloombergTv.mn



COMMODITY MARKET NEWS

MACE: Washed white long wool trade increased 2.9 times than previous year

In September, on the Mongolian Commodity Exchange washed white long wool prices increased by 2.5 times compared to the previous year reaching an all-time high of MNT 5,530 per kilogram. Lamb washed white long wool trade reached 11.5 thousand tons in the first 9 months which was 2.9 times than the previous year's. In July the MCE increased washed wool commission by 15 percent from 0.32 percent, and decreased commission of combed wool to 0.2 percent. "This is a move to support local manufacturers" said Mr. Baatar the CEO of the commodities exchange.

Lamb wool prices were stable in 2017, but in 2018 every type of wool price increased. The price increase in local commodities has affected manufacturing costs and thus will affect prices according to "Ecowool". "Ecowool" processes lamb wool locally and manufactures building insulation materials. On top of providing goods locally 27 percent of their total sales are from exports. Their sales increased by 7 percent compared to the previous according to "Ecowool". They are working to export to the US and Europe in the future.

Another company operating in this sector "Standard noos" JSC listed on the MSE announced that they are improving equipment. The company is planning to commence a new wool washing plant in the 3rd quarter of 2019. They noted that if they are able to increase local presence they could expand further and export their products.

Source: BloombergTv.mn



Grain harvesting at 22.1 percent

As of October 1, 107.6 thousand tons of wheat has been harvested from 75.3 thousand hectares of area, which means that wheat harvesting is running at 22.1 percent.

As for potatoes and vegetables, 125.7 thousand tons of potatoes and 67.7 thousand tons of vegetables or about 73.0-81.1 percent have been harvested at nationwide.

Due to the weather conditions in farmlands, harvesting is temporarily put on hold.

Source: Montsame.mn

Central banks' gold purchases reaching a 3 year high

"World Gold Council" noted in its latest reports that Central banks' gold purchases have reached a 3 year high. In the first half of 2018, gold purchases of Central banks increased by 8 percent year to year reaching 193 tons.

Russia, Turkey, Kazakhstan and developing countries are showing this trend more and accounted for 86 percent of the total purchases. According to the IMF's report Egypt bought gold for the first time since 1978 while India, Indonesia, Thailand and the Philippines participated in the gold market after a long time. The increase in gold demand is to decrease sensitivity to the US dollar explains analysts.

In times of difficult economies and unstable politics storing gold is considered safe. Moreover with global debts increasing Central banks have interest in increasing their gold reserves according to a "Forbes" report.

In the World gold council report Central banks with the most gold reserves are led by the Federal Reserves. In the first half of 2018 the United States Central bank had gold reserves of 8,133 tons. This accounts for over 75 percent of their foreign exchange reserves. Following the US, the German central bank had reserves of 3,370 tons with France coming in third with 2,450 tons. In other words the Federal Reserve bank had more gold reserves than the next three banks combined.

Interestingly, since 2000 the US gold reserves were stable within 8,100-8,150 tons. Meanwhile strategic competitors such as China and Russia increased their reserves by about 5 times during the period.

For Mongolia's case the Central bank reported that in the first 9 months they have purchased 14.3 tons of gold. This year they have made a goal to purchase 22 tons of gold which is 10 percent more than last year's. The Central bank purchased 20 tons of gold in 2017 last year which increased foreign exchange reserves by USD 700 million.

Bank of Mongolia's foreign exchange reserves have USD 475 million or 17 percent in gold according to the Central bank. This year just from gold deposits they have planned to increase exchange reserves by USD 700-800 million.

Within the "Alt-2" initiative they are planning to increase local gold production by 2-3 tons per year and reach 25 tons in 2020. Moreover within the initiative, the Government announced that they are expecting to increase total gold reserves by 100-150 tons with exploration activities. Local gold productions reached 19.8 tons in 2017, while productions were 11.9 tons by August according to the National statistics office.

In order to increase gold productions, gold reserve tax was reduced to 2.5 percent in 2014 and gold deposits increased rapidly according to Central banks statistics. The Central bank also expressed that the tax deductions should continue after 2019.

Source: BloombergTv.mn

OTHER NEWS

Mining to provide 27 percent of budget income in 2019

In the budget proposal, income from mining in 2019 is budgeted to be MNT 1.3 trillion higher than the 2018 budget and estimated to reach MNT 3 trillion. This accounts for 27 percent of the total budget income 5 percentage points higher than that of 2017 approved budget. The Ministry of Finance stated that in the first 8 months, 26 percent of total budget income was from Mining this year. Next year 86 percent of the mining budget income is going to be from copper and coal. Further estimates are 42 million tons of coal and 1.4 million tons of copper will be exported providing MNT 1.3 million each. The Ministry of Finance believes that coal export increase this year will continue throughout 2019. Coal prices are estimated at USD 75.9 per ton and copper at USD 6,272 per ton. This year's budget income is proposed to be MNT 2.4 trillion more than last year.

Source: BloombergTv.mn

MoF: 78 percent of foreign aid and loans will be spent on investments

In the 2019 budget MNT 1.3 trillion of foreign aid and loans were stated to be used. The Asian Development Bank is providing 38.5 percent or MNT 581 billion of the total. Also the Government of China's discounted loans are providing 24 percent of the total. The Ministry of Finance announced that 78 percent of the aid and loans will be spent on investments. Next year's budget deficit is planned to be MNT 1.9 trillion or 5.4 percent of GDP. Most of the deficit will be financed by discounted loans and aid from foreign entities according to the Ministry. In terms of spending, 21 percent will be spent on environmental issues, building wastewater treatment plant, and clean air initiatives. Another 39 percent will be spend on energy infrastructure development and petroleum plants.

In the prime minister Mr.Khurelsukh's visit to the US the Millennium Challenge Account's second compact contract was finalized and USD 350 million aid was approved. Also from Russia RUB 100 billion discounted loan was secured for the 3rd Thermal Power Plant expansion and improvement plan which is in its feasibility study stage according to the Ministry of Energy.

Also with the discounted loan from China the central wastewater treatment plan improvements are planned. Next year with foreign discounted debts from 111 sources 91 projects, with foreign aid sources 41 projects are planned to be financed.

Source: BloombergTv.mn

World Bank: Mongolian economy estimated to grow by 5.9 percent in 2018

The World Bank increased their estimate of Mongolia's economic growth to 5.9 percent. The increase is due to mining commodity exports and foreign direct investments.

Also the increase in business confidence made a big impact. Private sector consumption, business investment and household income are set to increase. However, political and other outside factor risks are still there.

Although East Asia and Pacific factors are unpleasant economic state is still positive. The area's developing countries' economic growth is estimated to be 6.3 percent a bit lower than the previous year. This is due to changes in China's economic balance and policies.

Last week the Asian Development bank introduced its Development outlook and Mongolia's economy is set grow by 6.4 percent and 6.1 percent in 2018, 2019 respectively. Due to droughts in early summer agricultural production decreased and agricultural economic impact percentage point reduced to 0.5 points. Other factors such as increased coal exports stimulated the mining sector and investments increased.

On the other hand, the Director of International Monetary Fund, Christine Lagarde noted that "Mongolia is still sensitive to global and local shocks and thus must make a better investment environment and reduce budget deficits."

Source: BloombergTv.mn

2019 Budget proposed investments increased twofold compared to this year

In the 2019 budget proposal, investment projects are stated to be over MNT 1.2 trillion. This is twice that of the approved budget of 2018. Also in the proposed budget investments 117 schools, 143 kindergartens, 62 entry level hospital extensions, 34 school dormitories and other infrastructure were put to be financed. Also no additional building and transferring concession agreements will be made to note. Members of parliaments warned not to put unplanned projects into the budget. The opposition also declared that budget should be aligned with development goals and investments should be prioritized in the budget.

Source: BloombergTv.mn

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