



Financial markets survey

20 January 2014

Europe gets ahead

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the leading stock trading platforms began to get out of the quiet mode, and markets became more dynamic. Noticeable turbulence could be observed on the American stock market.

The US indices crumbled dramatically on Monday, 13 January, because of poor expectations of corporate reporting. However, this dip did not last long. On the next day, these losses were won back "with interest" thanks to good statistical data on retail trade in the US. On Wednesday, 15 January, the S&P 500 Index set a new record-high. However, over the next days, this index adjusted and lost 0.2% by the end of the previous week.

Since the beginning of the year, the European stock market has been demonstrating a better dynamics than the American market. Over the previous week, the British FTSE 100 Index grew 1.3%. In monthly terms, this index rose 3.4%. This growth of the European market was influenced by an upgraded forecast for global economic growth published by the World Bank. According to this forecast, global economy will grow 3.2% in 2014, 3.4% in 2015 and 3.5% in 2016. Also, good news for the euro-area was the decision of the Basel Committee on Banking Supervision of the Bank for International Settlements regarding softer rules for the leverage ratio (the ratio of fixed capital to total risks) requirements, which will make it possible to extenuate the rigidity of the new bank supervisory requirements.

During the current week, as before, market will continue to analyze the results of corporate reporting. The US will publish statistical data on the real estate sector, as well as the Composite Index of Leading Indicators. European investors will be interested in statistical data on the PMI Survey results and consumer confidence in the euro-area.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1838.7	-0.2%	1.1%	-0.5%
FTSE 100 (UK)	6829.3	1.3%	3.4%	1.2%
MXME (East. Eur.)	193.3	-0.3%	-2.8%	-3.4%
UX (Ukraine)	920.6	2.8%	1.8%	1.2%
RTS (Russia)	1395.8	0.0%	-2.4%	-3.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	260.0	0.0%	-3.4%	-3.0%
Steel. USD/ton	500.0	-0.5%	-0.5%	-0.5%
Oil. USD/barrel	107.1	-0.1%	-4.2%	-3.3%
Gold. USD/ounce	1250.0	0.5%	4.6%	3.8%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, industrial output dropped 4.7% in 2013. In December 2013, industrial output was shrinking at a more sluggish pace, at 0.5% year-on-year, mainly as a result of the low baseline of the previous year.

Output in processing industry shrank 7.7% in 2013. The most serious losses were registered in machine-building (-13.8%) and steel industry (-5.8%), as external demand for their products was low.

Output in mining industry climbed 0.4% by the end of 2013. The main factor behind this positive result was an increase in mining of iron ores.

Deliveries of electric energy, gas, steam, and conditioned air slipped 1.3% in 2013.

BOND MARKET

As a result of a tender for primary placement of internal government bonds held on 14 January 2014, the Ministry of Finance managed to raise UAH 1.2 billion to the State Budget of Ukraine.

Bonds maturing in October 2014 enjoyed the highest demand among participants in this tender. However, out of 14 bids submitted for purchasing these bonds, only one bid was satisfied, since the earning rate requested by participants in this tender was much higher than the earning rate the Government was prepared to offer. The earning rate for the above-mentioned bonds totaled 8.75%, while the maximum yield requested by participants reached 11.75% per annum.

At this tender, the Ministry of Finance also satisfied five bids for purchasing internal government bonds maturing in five years. The earning rate at 14.25% per annum offered by the Government coincided with the earning rate requested by market participants.

During the current week, the Ministry of Finance plans to hold a tender on 21 January. The Ministry of Finance will offer five types of internal government bonds, including those denominated in hryvnia and maturing in October 2014, as well as those denominated in US dollars and maturing in two years.

EQUITY MARKET

Despite the current aggravation of the political situation in the country, the Ukrainian stock market has been mainly on the rise in the course of the previous week. On Monday, 13 January, the Ukrainian Exchange (UX) Index grew back to values above 900 points. By the end of the previous week, the UX Index grew 1.8% and closed at 920.57 points on Friday, 17 January. The highest trading volumes were registered on Thursday, when the Verkhovna Rada of Ukraine passed the State Budget for 2014.

FOREIGN EXCHANGE MARKET

Last week, the trend towards depreciation of the hryvnia exchange rate, which started at the beginning of the year, went on. Trading ranged within the limits of UAH 8.2950-8.3050/USD on Monday, UAH 8.31-8.33/USD on Tuesday, UAH 8.3250-8.3350/USD on Wednesday, UAH 8.33-8.34/USD on Thursday, and UAH 8.3550-8.3750/USD on Friday. Also, on Friday, the exchange rate grew record-high since the fall of 2009.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in 2013, %	-4.7

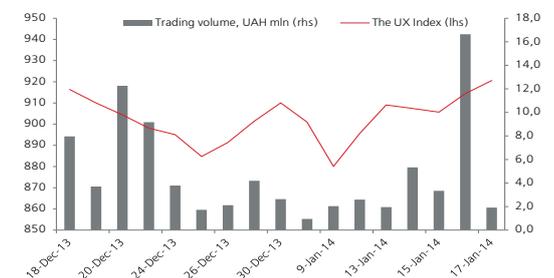
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
14 Jan	273 days	8.75%	14/1	23.5
14 Jan	1,820 days	14.25%	5/5	1127.3

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



The market was expecting interventions of the National Bank of Ukraine, which have not been carried out so far in 2014. State owned-banks that regulated the market over the previous year have not demonstrated serious activity so far as well. The market registers prevailing foreign exchange demand; this is why the hryvnia exchange rate continues to depreciate.

The maximum foreign exchange sales volumes were registered on Friday, 17 January: above USD 1.8 billion (all currencies), including sales of the American currency alone for the total of USD 1.5 billion.

INTERBANK LENDING MARKET

Last week, the balance on correspondent accounts remained at a high level, totaling approximately UAH 30 billion. For the most part of the previous week, the market registered a surplus of hryvnia resources, which resulted in rates for swap transactions on the interbank lending market declining to negative values.



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