



Financial markets survey

10 February 2014

“Good old-fashioned correction”

WEEKLY ISSUE

GLOBAL MARKETS

Last week, indices of the leading stock platforms across the world stopped falling. Laurence Fink, Chairman and Chief Executive Officer of BlackRock, an American multinational investment management corporation, which has USD 4.3 trillion in assets under management, said he looked at the recent market decline “as a good old-fashioned correction.” He also said that he was not seeing long-term investors change their behavior, and that volatility was being caused by hedge funds that had made correlated trades.

On the whole, the first trading week of February was rather quiet both in Europe and in the US. Statistical data that was published over the previous week were of mixed nature. However, they did not raise much confusion among investors.

Again, there were warnings regarding investment into developing markets. As before, analysts do not see good prospects in this segment since they expect that tapering of the quantitative easing program will, in the first place, adversely affect asset liquidity of namely developing markets.

There is a growing anxiety in the US again regarding the national debt ceiling. Within the next three weeks, the Congress will have to raise the national debt ceiling again in order to avoid another Federal Government shutdown.

During the current week, investors will expect publication of statistical data on retail trade in the US. Also, there will be publication of data on industrial output in the euro-area.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,797.0	0.8%	-2.2%	-2.8%
FTSE 100 (UK)	6,571.7	0.9%	-2.7%	-2.6%
MXME (East. Eur.)	187.9	3.0%	-2.9%	-6.1%
UX (Ukraine)	900.4	1.2%	-1.1%	-1.1%
RTS (Russia)	1,341.5	3.1%	-3.4%	-7.0%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	257.0	0.0%	-1.2%	-4.1%
Steel. USD/ton	495.0	0.0%	-1.5%	-1.5%
Oil. USD/barrel	109.6	3.0%	2.4%	-0.9%
Gold. USD/ounce	1,259.3	0.7%	2.6%	4.6%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, consumer prices in January 2014 grew 0.2% compared to the previous month. Compared to January 2013, the rate of inflation was registered at 0.5%.

Consumer prices in January rose mainly as a result of growing prices for food products. Compared to December 2013, food prices inched up 0.4%. Prices for vegetables and fruits, as well as sugar grew the most tangibly. Also, January registered prices for tobacco products growing 1.8%.

In January 2014, producer prices grew 0.5% compared to the previous month and went up 1.9% year-on-year. In January, producer prices grew in connection with electricity rates rising 2.8%.

BOND MARKET

In connection with a significant complication of the situation on the country's financial market, there is practically no demand for internal government bonds offered at primary placement tenders held by the Ministry of Finance. The Government has continued to close cash gaps in the State Budget by way of selling long-term internal government bonds to state-owned banks.

Over the previous week, the Ministry of Finance managed to raise UAH 209.3 billion to the State Budget of Ukraine by way of selling internal government bonds maturing in five years to two participants who submitted bids at a tender held on 4 February. A tender held on 6 February did not yield any results because no bids were submitted for purchasing internal government bonds. The announcement about holding this tender on 6 February was made on the same day.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 11 February. The Ministry of Finance will offer seven types of internal government bonds, including two types of bonds denominated in US dollars.

EQUITY MARKET

the Ukrainian Exchange (UX) Index grew 1.2% and closed at 900.39 points on Friday, 7 February.

In terms of political aspects, the previous week was relatively quiet. Probably, traders decided to take advantage of political slackening in the country, attaching no special importance to the shocks registered on the foreign exchange market of the country.

FOREIGN EXCHANGE MARKET

Last week saw new record-highs in terms of many indicators. The USD/UAH exchange demonstrated rapid growth during the first four days of the previous week and then fell dramatically on Friday. Trading ranged within the limits of UAH 8.70-8.75/USD on Monday, 3 February, UAH 8.80-8.85/USD on Tuesday, UAH 9.00-9.20/USD on Wednesday, UAH 8.90-8.95/USD on Thursday. On Friday, 7 February, the market saw a record-high drop of the USD/UAH exchange rate to UAH 8.40-8.70/USD. After the publication of a new NBU Resolution No.49, which limits foreign exchange purchases, the interbank foreign exchange market registered only foreign exchange supply. The National Bank of Ukraine carried out

LATEST MACROECONOMIC DATA

Indicator	Value
Consumer price change in January 2014, %	0.2

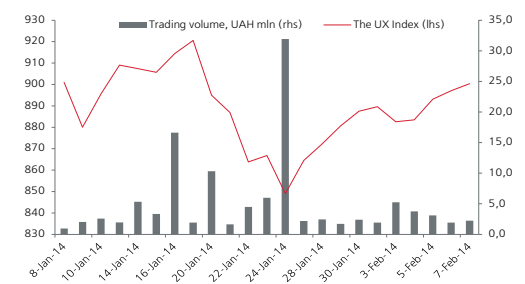
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
4 Feb.	1,813 days	14.25%	2/2	209.3

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



interventions three times over the previous week. On Tuesday, 4 February, and Wednesday, 5 February, the National Bank sold foreign exchange. On Friday, 7 February, the regulator carried out its intervention to buy foreign exchange.

The maximum foreign exchange sales volumes were registered on Monday, 3 February: above USD 4.5 billion (all currencies), including sales of the American currency alone for more than USD 4.3 billion.

Also, on Friday, 7 February, the National Bank fixed the official exchange rate of the hryvnia against the US dollar at UAH 8.71/USD, raising it from UAH 7.99/USD, which has been unchanged since 2012. Further on, the official UAH/USD exchange rate will be established on the basis of the exchange rate registered at the interbank foreign exchange market. Thus, the National Bank of Ukraine introduced a floating UAH/USD exchange rate.

INTERBANK LENDING MARKET

Swift appreciation of the UAH/USD exchange rate and agitation of the foreign exchange market resulted in rapid growth of rates on the interbank lending market during 6-7 February. On Friday, 7 February, overnight rates soared to 10-25%.

According to our expectations, rates for interbank resources will continue to be high during the current week, at least for several days, until the situation with operations on the foreign exchange market in the new environment becomes clearer.



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