



Financial markets survey

17 February 2014

Growing again

WEEKLY ISSUE

GLOBAL MARKETS

Last week fixed the bullish trend on the global stock market. Growth was registered not only on the leading western platforms, but also on many platforms of developing countries.

The main news of the week that made it possible to keep markets within a confident growth trend were economic statistical data from China, as well as a speech made by new Chair of the US Federal Reserve System Janet Yellen.

At the beginning of the previous week, Janet Yellen, who took the office of the US FRS Chair on 1 February, stated that it was necessary to go further to recover the American labor market and to continue tapering the quantitative easing (QE) program "at a moderate pace." Evidently, investors were satisfied that the new FRS Chair promised to stick to the policy implemented by Ben Bernanke, her predecessor in this office.

China's exports and imports accelerated suddenly in January 2014 and significantly outpaced market expectations. China increased its exports 10.6% in January 2014 compared to January 2013, whereas there was a 4.3% growth in December 2013 year on year. Such an unexpected leap in export figures put experts on their guard. They voiced a suggestion that these statistical data could be fabricated by China's authorities, which has happened in the past more than once. Eventually, there was a prevailing opinion that subsequent months will clear the picture of the China's current economic conditions.

During the current week, investors will expect publication of the minutes of the US FRS Federal Open Market Committee (FOMC) meeting that took place in late January 2014. Also, investors will expect publication of a number of statistical data on the US real estate sector. The euro-area will publish its January Purchasing Managers Index (PMI) in the services sector and in the industry.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,838.6	2.3%	0.0%	-0.5%
FTSE 100 (UK)	6,663.6	1.4%	-1.5%	-1.3%
MXME (East. Eur.)	190.5	1.4%	-1.9%	-4.9%
UX (Ukraine)	927.4	3.0%	2.2%	1.9%
RTS (Russia)	1,343.2	0.1%	-3.3%	-6.9%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	266.0	0.0%	2.3%	-0.8%
Steel. USD/ton	495.0	0.0%	-1.0%	-1.5%
Oil. USD/barrel	108.7	-0.8%	3.0%	-1.6%
Gold. USD/ounce	1,320.0	4.8%	5.5%	9.6%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, agricultural output grew 6% in January 2014 compared to January 2013. At the same time, output at agricultural enterprises grew 11.3%, while output at private farms inched up 0.9%.

In the first half of the year, the situation in Ukraine's agriculture is determined mainly by output of livestock-breeding products. In January, meat output grew 8.6%, milk output rose 2.3% and egg output climbed 5.2% year on year.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 2.9 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 11 February, as well as one participant who submitted their bid at a tender held on 13 February. The announcement about holding a tender on 13 February was made on the same day.

In our opinion, buyers of the above-mentioned internal government bonds were state-owned banks. Other participants in the market refrained from purchasing government securities in connection with deteriorating political and economic situation in the country.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 18 February. The Ministry of Finance will offer five types of internal government bonds denominated in the national currency.

EQUITY MARKET

Last week, the Ukrainian stock market continued to grow. By the end of the second week of February, the Ukrainian Exchange (UX) Index grew 3.0% and closed at 927.37 points on Friday, 14 February. Since the beginning of 2014, the UX Index rose 1.4%.

The Ukrainian stock market grew in unison with the leading stock platforms across the world. Nevertheless, neither political nor economic situation in Ukraine give grounds to hope that current growth of the Ukrainian stock market can be in the least bit sustainable.

FOREIGN EXCHANGE MARKET

Last week, the market opened with an exchange rate of UAH 8.40-8.55/USD on Monday, 10 February. This appreciation of the hryvnia exchange rate was caused by a number of restrictions instituted by the regulator on Friday, 7 February. Thereafter, the market grew gradually throughout the entire previous week. Trading ranged within the limits of UAH 8.57-8.65/USD on Tuesday, UAH 8.68-8.73/USD on Wednesday, UAH 8.75-8.80/USD on Thursday, and UAH 8.78-8.83/USD on Friday.

During the current week, we expect more lively buying activity and, respectively, growing demand on the part of clients, which was absent during the previous week due to the institution of restrictions. On the whole, it is expected that the interbank foreign exchange market will need approximately two weeks to adapt to the new regulations introduced on 7 February and to stabilize to a certain extent.

Over the previous week, the National Bank of Ukraine carried out

LATEST MACROECONOMIC DATA

Indicator	Value
Agricultural output change in January 2014, % year-on-year	6.0

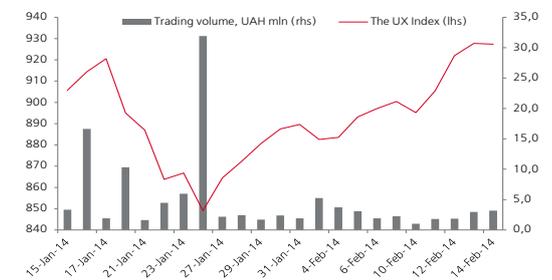
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
11 Feb.	1,806 days	14.25%	2/2	1,151.1
13 Feb.	1,812 days	14.25%	1/1	1,655.0

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



interventions to purchase foreign exchange on Monday and Tuesday. Also, it has to be mentioned that demand for foreign exchange prevailed among state-owned banks.

Foreign exchange sales volumes on the interbank foreign exchange market went down over the previous week. The maximum foreign exchange sales volumes were registered on Thursday, 13 February: above USD 1.2 billion (all currencies), including sales of the American currency alone for more than USD 960 million.

INTERBANK LENDING MARKET

Last week, the interbank lending market continued to fluctuate feverishly. For the most part of the previous week, the upper range limit of overnight loan rates was above 20%. Only on Friday, 14 February, the cost of overnight loans fell to 9-16%, while the cost of weekly resources was 12-18% and monthly resources – 15-21% per annum.

For the most part of the previous week, the balance on correspondent accounts was rather low – UAH 20-21 billion. By the end of the previous week, the balance on correspondent accounts grew a little and reached UAH 24.2 billion as of Friday morning, 14 February.

In our opinion, the cost of loans on the interbank lending market will continue to be high during the current week. However, it will be lower than the rates registered over the previous week.



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