

Financial markets survey

24 March 2014

A small respite

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the Russian-Ukrainian conflict remained the center of attention for participants in financial markets across the world. The leading western countries did not recognize the outcomes of the referendum held on the territory of the Crimean peninsula on 16 March and condemned the annexation of the peninsula by the Russian Federation.

Nevertheless, investors' anxiety began to subside over the previous week. Investors were satisfied with a statement of Russia's President Vladimir Putin that Russia "does not want Ukraine to divide." Governments of the leading western countries resorted to immediate sanctions against Russia. However, at the moment, sanctions are not the strictest. In particular, the EU is still waiting with the imposition of "third degree" economic sanctions, leaving them as an extreme measure should Russia resort to further aggression against Ukraine.

A meeting of the US Federal Reserve System (FRS) was an important event of the previous week. As a result of this meeting held on 18-19 March, the FRS tapered the quantitative easing program (QE) by USD 10 billion for the third time in a row. It was also pointed out that the base interest rate may stay below the line for a long period of time, even after targeted macroeconomic indicators have been achieved. Therefore, it is not worth waiting for a sharp reduction of incentives for the US economy in the near future.

During the current week, investors will continue following the development of the Russian-Ukrainian conflict and also will be evaluating the attitude of western politicians to this conflict.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1866.5	1.4%	1.6%	1.0%
FTSE 100 (UK)	6557.2	0.4%	-4.1%	-2.8%
MXME (East. Eur.)	168.2	4.1%	-10.9%	-16.0%
UX (Ukraine)	1027.3	2.4%	10.0%	12.9%
RTS (Russia)	1136.2	6.9%	-13.6%	-21.2%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	268.0	0.0%	-1.1%	0.0%
Steel, USD/ton	495.0	0.5%	-0.1%	-1.5%
Oil, USD/barrel	108.6	0.0%	-1.2%	-1.5%
Gold, USD/ounce	1336.0	-3.5%	1.0%	10.9%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, industrial output dropped 3.7% in February 2014 compared to February 2013. Over January-February 2014, industrial output shrank 4.2% year-on-year.

Output in processing industry declined 6.6% year-on-year. At the same time, output in steel industry went down 10.9% year-on-year, while output in machine-building dropped 14.8% year-on-year.

Output in mining industry slipped 1.5% because of a decline in mining of iron ores.

BOND MARKET

Last week, a tender for primary placement of internal government bonds held by the Ministry of Finance on 18 March ended without any results. Two bids were submitted for participation in this tender: one for purchasing internal government bonds maturing in June 2014 and one for purchasing internal government bonds maturing in December 2014. Participants in this tender were willing to purchase the above-mentioned bonds with an earning rate of 21% and 22% per annum respectively. Evidently, the Ministry of Finance considered these earning rates to be too high and did not satisfy both bids.

According to the tender schedule for March, during the current week, a tender should be held on Tuesday, 25 March.

EQUITY MARKET

The Ukrainian stock market finished the previous week in the green zone. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 2.4% and closed at 1,027.29 points on Friday, 21 March.

On Monday, 17 March, the UX Index fell below 1,000 points because of the news about the results of an illegal referendum carried out in the Autonomous Republic of Crimea. Held with violations of the Ukrainian and international legislation and law, this referendum became a formal ground for the Russian Federation to annex the Crimean Peninsula.

A distinctly negative reaction of western countries towards the outcome of this referendum and Russia's policy, the imposition of political and economic sanctions against Russia, as well as the absence of an open military conflict between Ukraine and Russia helped keep traders on the Ukrainian stock market from forming a downward trend.

FOREIGN EXCHANGE MARKET

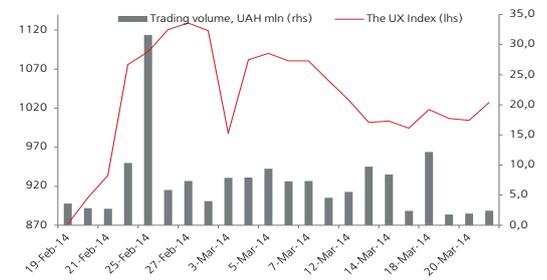
Last week, the Ukrainian foreign exchange market registered growth, which became more dramatic in the second half of the previous week. Trading on the foreign exchange market ranged within the limits of UAH 9.95-10.05/USD on Monday, UAH 10.15-10.25/USD on Tuesday, UAH 10.10-10.20/USD on Wednesday, UAH 10.30-10.40/USD on Thursday, and UAH 10.45-10.60/USD on Friday. The interbank foreign exchange market closed at UAH 10.70-11.00/USD on Friday, 21 March. Last week, the National Bank of Ukraine did not carry out any interventions. State-owned banks were not active participants in trading. Foreign exchange demand remained rather high.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in February 2014, % year-on-year	-3.7

Source: the State Statistics Service

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



At present, the country is waiting for stabilization of the political and economic situation.

The maximum foreign exchange sales volumes were registered on Wednesday, 19 March: above USD 0.9 billion (all currencies), including sales of the American currency alone for more than USD 0.6 billion.

INTERBANK LENDING MARKET

Last week, rates on the interbank lending market went down noticeably. By the end of the previous week, the cost of overnight resources was 0-5%. For the most part of the previous week, the balance on correspondent accounts was relatively high and stood at UAH 27-28 billion. During the previous week, a typical feature of the market was the absence of loans longer than one week, which points to high risks and instability of the market.



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