



# Financial markets survey

07 April 2014

## A record that did not last long

WEEKLY ISSUE

### GLOBAL MARKETS

Last week, markets made an attempt to recover the bullish trend. The American S&P 500 Index grew by leaps and bounds over the first three trading days of the previous week and set a new historical record-high, closing at 1,890.90 points on Wednesday, 2 April. However, the market did not manage to keep the record and the index lost 1.4% over the next two days.

Investors were disappointed over data on the US labor market, which turned out to be worse than analysts expected. Another unpleasant surprise was also data on foreign trade: balance of trade deficit in February turned out to be almost 9% higher than analysts forecast.

The European market, which has been in the red since the beginning of the year, was rather successful by the end of the previous week. The British FTSE Index grew 1.2% over the previous week. Several positive new items contributed to this growth. It seems that Greece, which was a constant troublemaker during the previous year, has started a serious correction.

On the night of Monday, 31 March, the Parliament of Greece approved a package of crisis management measures and, thus, laid the foundation for another tranche of international financial assistance totaling EUR 8.3 billion for Greece. Among other things, members of the Greek Parliament voted for reforming the retail trade sector, which caused a great number of arguments in the country. In addition to this retail trade reform, the package of crisis management measures includes liberalization of the labor market, as well as reformation of the banking sector, in particular recapitalization of banks. At the moment, the country is preparing to issue bonds maturing in three to five years by June 2014, expecting to raise from EUR 4 billion to EUR 5 billion on financial markets by the end of the current year.

During the current week, important economic indicators will include indicators of consumer price inflation and industrial output in the euro-area, as well as the producer price index and the consumer confidence index in the US.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1865.1	0.4%	-0.5%	0.9%
FTSE 100 (UK)	6695.6	1.2%	-1.9%	-0.8%
MXME (East. Eur.)	180.8	3.1%	3.7%	-9.7%
UX (Ukraine)	1081.8	9.0%	0.0%	18.9%
RTS (Russia)	1233.9	4.0%	4.2%	-14.5%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	298.0	–	6.1%	11.2%
Steel, USD/ton	502.5	1.5%	3.1%	0.0%
Oil, USD/barrel	101.1	-0.5%	-1.5%	3.2%
Gold, USD/ounce	1297.3	0.2%	-2.8%	7.7%

Source: Bloomberg

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## MACROECONOMICS

In March 2014, consumer prices accelerated significantly. According to information of the State Statistics Service, consumer prices grew 2.2% in March 2014 compared to the previous month, which is a record-high monthly inflation indicator since January 2009. Compared to March 2013, the rate of inflation was registered at 3.4%.

A significant factor behind inflation was a more rapid depreciation of the national currency, which began in February 2014. This led to growing prices for imported goods, domestic goods with a significant share of imports in their costs, as well as transportation costs in connection with higher fuel prices. In March, transport prices grew 5.7%, while food prices rose 2.4%.

In March 2014, producer prices grew 2.7% compared to the previous month and went up 3.9% year-on-year. Prices grew the most in processing industry.

## BOND MARKET

Last week, the Ministry of Finance held two tenders for primary placement of internal government bonds on 31 March and 1 April. As a result, the Ministry of Finance managed to raise UAH 1.5 billion to the State Budget of Ukraine. On 31 March, the Ministry of Finance placed internal government bonds maturing in three years with an annual yield of 14.25%. Next day, four participants submitted bids for purchasing internal government bonds maturing in six month, however, only one of them was satisfied with a requested earning rate of 12.75%. The highest yields requested for internal government bonds maturing in six month reached 23.50%. In our opinion, state-owned banks were actively involved in purchasing internal government bonds last week.

According to the schedule for placing internal government bonds, a tender is expected to be held on Tuesday, 8 April. The Ministry of Finance plans to place short-term bonds denominated in hryvnia and maturing in three and twelve months, as well as internal government bonds denominated in US dollars and maturing in four months.

## EQUITY MARKET

Last week, optimistic moods returned to the Ukrainian stock market. During the previous week, the Ukrainian Exchange (UX) Index grew 9% and closed at 1,081.80 points on Friday, 4 April. A relatively quiet situation around the Ukrainian-Russian relations, as well as normal operation of the Verkhovna Rada helped restore growth of the UX index.

During the current week, market participants will follow the situation in western oblasts of Ukraine where separatist actions were organized last weekend.

## FOREIGN EXCHANGE MARKET

Amendments to the legislation regarding an assignment to the Pension Fund at the rate of 0.5% from purchases of cash and non-cash foreign exchange by private individuals and legal entities came into force on 1 April. The market's reaction was expanded range and lower volumes of trading. In the course of the previous week, the hryvnia exchange rate depreciated day after day, starting at UAH 11.35-11.45/USD on Monday and reaching

## LATEST MACROECONOMIC DATA

Indicator	Value
Consumer price change in March 2014, %	2.2

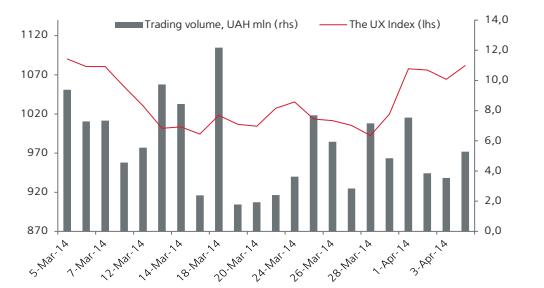
Source: the State Statistics Service

## THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
31 March	1080 days	14.25%	3/3	1155.2
1 April	182 days	12.75%	4/1	282.1

Source: the Ministry of Finance of Ukraine

## THE UX INDEX AND TRADING VOLUME



Source: Bloomberg

a historical record-high at UAH 11.70/USD on Friday, 4 April.

The maximum foreign exchange sales volumes were registered on Monday, 31 March: above USD 1 billion (all currencies), including sales of the American currency alone for more than USD 0.7 billion. Foreign exchange demand remained rather high. There was a serious shortage of foreign exchange on the market.

The maximum foreign exchange sales volumes were registered on Wednesday, 26 March: above USD 1 billion (all currencies), including sales of the American currency alone for more than USD 0.7 billion.

## INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market remained relatively low. Appreciation of the US dollar caused rates for swap operations to go down to negative values. The upper limit of the cost of overnight loans was 2-5%. Same as a week before, the market registered no loans longer than one week.

## CHANGES IN THE LEGISLATION

The NBU Regulation No.172 came into force on 28 March 2014. This Regulation is meant to replace and to be an expected continuation of unpopular measures implemented by the regulator that were instituted earlier according to the NBU Regulation No.49 and the NBU Regulation No.104. In accordance with the new Regulation, the deadline for foreign exchange purchases by private individuals and legal entities is reduced from four to two days (after the date of transferring the necessary funds for the relevant purchase), which significantly simplifies the purchase process and accelerates settlements under foreign economic contracts for clients, as well as the relevant support by banks. Also, the Regulation introduces stricter requirements to limits for withdrawing cash foreign exchange with due consideration for cash withdrawals beyond the borders of Ukraine (a more accurate definition regarding the territory of application was added).

Amendments to the Law of Ukraine "On the Contribution for Mandatory Pension Insurance" came into force on 1 April 2014. These amendments introduced an assignment to the Pension Fund at the rate of 0.5% from purchases of cash and non-cash foreign exchange by both private individuals and legal entities. The institution of this additional assignment from foreign exchange purchases was also expected and did not become a surprise for foreign exchange market participants.



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