



Financial markets survey

22 April 2014

A week of positive news

WEEKLY ISSUE

GLOBAL MARKETS

Last week brought some happiness to investors by way of an unexpectedly positive news stream. By the end of the previous week, the American S&P 500 Index grew 2.7%, while the British FTSE 100 Index inched up 1%.

Financial reports of top companies for the first quarter of 2014 turned out to be better than forecasts in many respects. At the same time, good performance results were demonstrated by companies representing various sectors of the economy (Citigroup, Yahoo, Google, Coca Cola, Johnson & Johnson).

In addition, macroeconomic indicators of the US that were published over the previous week turned out to be rather positive. Growth of retail sales registered in March turned out to be the most substantial since September 2012. Growth of industrial output in March surpassed forecasts. The US Government downgraded its forecast for the US budget deficit for 2014.

This positive background helped not very good news related to China's economy to go practically unnoticed. In particular, bank loans in the People's Republic of China plummeted 19% in March 2014, while the M2 indicator grew less than expected. Over Q1'2014, China's GDP slowed down to 7.4%, which is a record-low for the last eighteen months.

During the current week, investors will follow how the Russian Federation will implement the instructions adopted at the quadripartite meeting that took place in Geneva on 17 April. If the Government of Russia ignores the requirements to withdraw illegal military formations that are located on the territory of Ukraine, there will be a growing likelihood that the EU and the US will institute new sanctions against Russia. According to experts, the introduction of a new level of sanctions will have a negative impact not only on Russia, but will also influence the economy of both the EU and the US.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1864.9	2.7%	-0.4%	0.9%
FTSE 100 (UK)	6625.3	1.0%	0.3%	-1.8%
MXME (East. Eur.)	176.0	-1.1%	2.4%	-12.1%
UX (Ukraine)	1105.7	-5.0%	8.6%	21.5%
RTS (Russia)	1200.2	-0.3%	3.4%	-16.8%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	283.0	-	-5.0%	5.6%
Steel, USD/ton	502.5	0.0%	1.5%	0.0%
Oil, USD/barrel	104.3	0.5%	5.5%	6.4%
Gold, USD/ounce	1299.0	-1.4%	-4.2%	7.9%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, industrial output declined at a more rapid pace in March. Industrial output dropped 6.8% in March 2014 compared to March 2013. Over January-March 2014, industrial output shrank 5.0% year-on-year. In our opinion, the escalation of the Ukrainian-Russian conflict contributed to such a worsening of the situation in the industry.

Output in processing industry declined 8.1% year-on-year. At the same time, output in steel industry went down 11.1% year-on-year, while output in machine-building dropped 17.4% year-on-year.

Output in mining industry shrank 3.5%.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 587.7 million to the State Budget of Ukraine by way of placing internal government bonds maturing in 77 days at a tender held on 15 April. Only one bid was submitted for participation in this tender. The earning rate for these bonds totaled 9.95% per annum. As before, the Government has continued to experience difficulties with mobilization of resources on the domestic market. The threat of further depreciation makes risky even short-term investment in the national currency.

During the current week, the Ministry of Finance plans to hold a tender for selling internal government bonds on 22 April. The Ministry of Finance will offer bonds denominated in the national currency and maturing in three months, in one year and in three years.

EQUITY MARKET

Last week, the Ukrainian Exchange (UX) Index dropped 5% and closed at 1,105.65 points on Friday, 18 April. The Ukrainian stock market sustained the biggest losses on Monday, 14 April, when market participants reacted to the worsening situation in eastern oblasts of Ukraine, where administration buildings were illegally occupied by gunmen in a number of cities and towns. The situation on the market stabilized by the end of the previous week, which was likely the result of negotiations held in Geneva where representatives of Ukraine, Russia, the EU, and the US participated.

During the current week, the situation on the Ukrainian stock market will depend on further development of the political situation in eastern regions of the country.

FOREIGN EXCHANGE MARKET

Last week, the dynamics of the foreign exchange market was uneven. The USD exchange rate began to depreciate at the beginning of the previous week, but then grew a little by the end of the week. Trading ranged within the limits of UAH 13.00-13.30/USD on Monday, 14 April, UAH 12.20-12.50/USD on Tuesday, 15 April, UAH 11.30-11.70/USD on Wednesday, 16 April, UAH 11.10-11.40/USD on Thursday, 17 April, and UAH 11.20-11.70/USD on Friday, 18 April.

The market has been registering high volatility. The National Bank of Ukraine carried out no interventions, while state-owned banks were not very active.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in March 2014, % year-on-year	-6.8

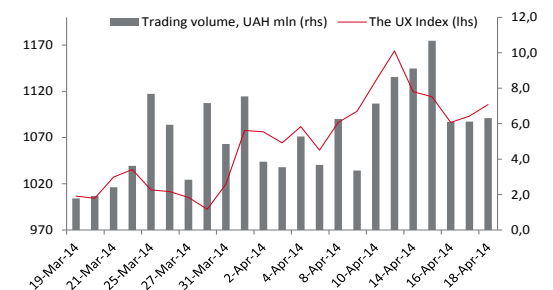
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
15 April	77 days	9.95%	1/1	587.7

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



The maximum foreign exchange sales volumes were registered on Thursday, 17 April: a little above USD 0.4 billion (all currencies), including sales of the American currency alone for more than USD 0.3 billion.

INTERBANK LENDING MARKET

Last week, the situation on the interbank lending market did not change much. The cost of resources on interbank lending market continues to remain 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 1-2%. For several weeks in a row, the market has been registering no loans longer than one week. As of Friday morning, 11 April, the balance on correspondent accounts totaled UAH 34.1 billion.



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