



Financial markets survey

12 May 2014

A week of slackening

WEEKLY ISSUE

GLOBAL MARKETS

The first trading week of May was rather quiet on global trading platforms. The leading indices of Europe and the US did not register significant changes by the end of the previous week.

The beginning of the previous week was rather disturbing, since the beginning of the current month was marked by growing tension in Ukraine. However, there was no further worsening of the situation in the course of the previous week. Western countries did not resort to instituting new level sanctions against Russia, which immediately resulted in growth of Russian markets.

The news stream regarding the euro-area economy was not uniform. At the beginning of the previous week, there was good news with respect to the euro-area economy. The Composite Purchasing Managers Index (PMI) of the eighteen euro-area countries grew record-high in April 2014 since May 2011. In addition, retail sales in the euro-area grew 0.3% in March 2014 compared to the previous month. However, over the following days, there was not very encouraging data on industrial output in France and Germany.

It is difficult to forecast the behavior of global investors in May. Traditionally, May is considered to be the month of clearance sales, when investors register profits earned since the beginning of the year. However, this year, the majority of investors cannot boast growth in the value of their portfolios since the beginning of the year. Most likely, traders will try to support markets at least at the current levels.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,878.5	-0.1%	0.3%	1.6%
FTSE 100 (UK)	6,814.6	-0.1%	2.7%	1.0%
MXME (East. Eur.)	178.4	4.3%	0.9%	-10.9%
UX (Ukraine)	1,101.9	-0.1%	0.3%	21.1%
RTS (Russia)	1,232.8	7.3%	3.6%	-14.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	232.5	-	0.0%	-9.2%
Steel, USD/ton	502.5	0.0%	2.0%	0.0%
Oil, USD/barrel	103.7	2.6%	4.2%	5.9%
Gold, USD/ounce	1,318.0	1.6%	-2.1%	9.4%

Source: Bloomberg

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MACROECONOMICS

In April 2014, consumer prices grew at a more rapid pace. According to information of the State Statistics Service, consumer prices grew 3.3% in April 2014 compared to the previous month. Compared to April 2013, the rate of inflation was registered at 6.9%.

Same as in the previous month, the main factor behind inflation was depreciation of the national currency. Food prices rose 4.2% in April. Transport prices jumped 10.1%, while fuel prices plummeted 18.1% during the month in question.

In April 2014, producer prices grew 6.1% compared to the previous month and went up 7.5% year-on-year. Prices grew the most in processing industry.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 246.6 million to the State Budget of Ukraine. At a tender held on 6 May, the Ministry of Finance placed internal government bonds with a 15.00% earning rate and maturing in three years, as well as internal government bonds with a 9.95% earning rate and maturing in three months. Only one bid was submitted for purchasing bonds maturing in three years. Three bids were submitted for purchasing bonds maturing in three months, and only one of them was satisfied. The Ministry of Finance did not satisfy bids of participants willing to purchase the above-mentioned bonds and requesting an earning rate exceeding 9.95%.

Little interest of market participants in purchasing government securities is explained by weak financial standing of market participants themselves in the environment of the current economic recession. In addition, recent depreciation of the national currency and precarious standing of the foreign exchange market increase the risks of investing in debt securities.

During the current week, the Ministry of Finance plans to borrow resources on Tuesday, 13 May. At this tender, the Ministry of Finance will offer internal government bonds denominated in the national currency and maturing in three months and in three and five years.

EQUITY MARKET

The Ukrainian stock market opened the first trading week of May with a sharp drop. On 5 May, the Ukrainian Exchange (UX) Index lost almost 4%. A worsening in the moods of investors was connected with the political situation in the country. During the holidays, which took place over 1-4 May, the situation in the country remained complicated. On 2 May, a lot of people tragically died in Odesa.

Over the subsequent three days, the market gradually recovered, and the UX Index did not register statistically important changes by the end of the previous week.

The political situation in eastern Ukraine and the reaction of the Russia's Government to events in Ukraine will be the determining factors as regards the behavior of the Ukrainian stock market players.

LATEST MACROECONOMIC DATA

Indicator	Value
Consumer price change in April 2014, %	3.3

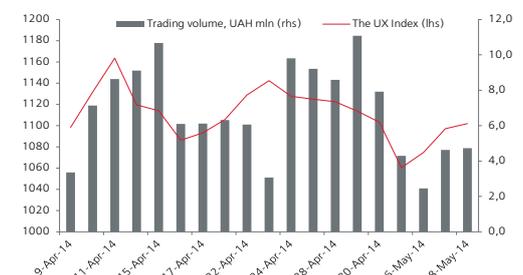
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
6 May	1,092 days	15.00%	1/1	100.0
6 May	85 days	9.95%	3/1	146.6

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg

FOREIGN EXCHANGE MARKET

Last week, the market was volatile and unstable. Trading volumes ranged within the limits of UAH 11.60-11.70/USD on Monday, 5 May, UAH 11.80-11.90/USD on Tuesday, 6 May, UAH 12.05-12.15/USD on Wednesday, 7 May, UAH 11.65-11.75/USD on Thursday, 8 May. In the end, the week closed at the same level as it opened. Last week, the International Monetary Fund granted Ukraine a loan totaling USD 3.2 billion. However, this had no impact on the foreign exchange market, since the regulator has not carried out any interventions on the market so far.

The maximum foreign exchange sales volumes were registered on Monday, 5 May: approximately USD 0.5 billion (all currencies), including sales of the American currency alone for more than USD 0.3 billion.

INTERBANK LENDING MARKET

The cost of resources on the interbank lending market remained low. The cost of overnight loans stayed at 0-2%, while the cost of weekly resources was 1-5%. As before, market players are still refraining from granting lending resources for a longer term. As of Thursday morning, 8 May, the balance on correspondent accounts totaled UAH 29.7 billion.

CHANGES IN THE LEGISLATION

The NBU Regulation No.245 "On regulating activities of financial institutions and carrying out currency transactions" dated 29 April 2014 came into effect on 1 May 2014. This Regulation instituted the following requirements to and restrictions on foreign exchange transactions:

1. Residents shall be allowed to repay loans and borrowings (including financial assistance) in foreign currency under contracts with non-residents, including in the instance of concluding additional agreements to loan contracts, not earlier than the deadlines written into such contracts. The above-mentioned requirements shall apply to instances of advance fulfillment by a resident borrower of their obligations regarding the principal of the loan/borrowing, as well as other payments specified by the relevant loan (borrowing) contract.

The National Bank of Ukraine shall not register changes and amendments to contracts on attracting loans and borrowings in foreign currency by resident borrowers from non-residents related to accelerating the deadlines for resident borrowers to fulfill their obligations under such contracts or their advanced fulfillment.

2. The NBU cancelled the requirement to prerequisite entry of hryvnia resources to the relevant bank account two working days prior to the relevant foreign exchange purchase transaction.

Starting from 1 May 2014, FUIB has been carrying out transactions for purchasing and selling foreign exchange for hryvnia on the interbank foreign exchange market in a standard mode in accordance with the requirements of the NBU regulation governing the procedure and terms and conditions for trading foreign exchange, specifically: foreign exchange is purchased on the day when an application for foreign exchange purchase is submitted, provided the client has submitted the necessary package of documents, including their original copies, to the Bank, transferred hryvnia resources sufficient for purchasing foreign exchange to the relevant accounts of the Bank, paid the tax for mandatory state pension insurance, and paid the Bank's commission fee .



3. The NBU has retain the limit on withdrawing (receiving) cash resources in foreign currency from current and deposit accounts of clients through cash desks and ATMs at UAH 15,000 per day per one client in hryvnia equivalent according to the official exchange rate of the National Bank of Ukraine.

At the same time, starting from 1 May 2014, the above-mentioned limit shall not apply to transactions to cover expenses of employees during business trips abroad carried out by resident legal entities and private individuals that are business owners, and foreign representative offices.

Also, the limits specified in this item shall not apply to diplomatic representative offices, consular institutions of foreign countries in Ukraine, international financial organizations, representative offices of international financial organizations and their employees, if they are not Ukrainian nationals or do not reside in Ukraine on a permanent basis and are accredited by the Ministry of Foreign Affairs of Ukraine.

4. The NBU Board Regulation No.172 "On regulating activities of financial institutions and carrying out currency transactions" dated 28 February 2014 became invalid.

The NBU Regulation No.245 dated 29 April 2014 will be valid until 1 June 2016.



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