

Financial markets survey

27 May 2014

Recovering losses

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the US stock market made another spurt to a new record-high. The S&P 500 Index grew gradually day by day and set a new historical record-high by the end of the previous week, standing firmly above the 1,900-points mark.

A significant impetus to growth of the American market was the minutes of the US Federal Reserve System (FRS) meeting in April that was published on 21 May. The minutes testified to the fact that the Government was not in a hurry to raise interest rates and was ready to give markets time to prepare for tougher policies. Investors interpreted this news as a positive signal for growth. Over the following days, positive moods grew stronger thanks to good statistical data on industrial output and new home sales.

The Russian market also continues to win back its losses. This was promoted by a softening rhetoric of Russian leaders in relation to Ukraine. In particular, Russian leaders did not officially recognize the self-proclaimed Governments in two eastern oblasts of Ukraine and also hinted on the possibility of recognizing the outcomes of the extraordinary presidential election in Ukraine. In addition, by the end of the previous week, it was registered that the Russian Federation withdrew a part of its troops that were focused on the Russian-Ukrainian border.

Nevertheless, it is possible to assume that the recent growth of the Russian market is the result of domestic investment, since capital flight from the country continues at a rapid pace. Russian businessmen are busy searching for alternative ways to attract foreign financing. In particular, last week, Russia's Sberbank made a statement that it was considering the possibility of attracting bilateral loans from Asian banks.

During the current week, investors will expect publication of the Consumer Confidence Index in the US for May, as well as the US GDP for the first quarter of 2014.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1900,5	1,2%	1,3%	2,8%
FTSE 100 (UK)	6815,8	-0,6%	2,1%	1,0%
MXME (East. Eur.)	190,6	4,7%	9,6%	-4,8%
UX (Ukraine)	1176,3	8,8%	3,0%	29,3%
RTS (Russia)	1326,6	5,1%	13,2%	-8,1%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	232,5	-	0,0%	-9,2%
Steel, USD/ton	495,0	0,0%	-1,5%	-1,5%
Oil, USD/barrel	110,5	0,7%	1,6%	1,4%
Gold, USD/ounce	1291,5	0,0%	0,5%	7,2%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Service, industrial output in Ukraine (excluding the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol) dropped 6.0% in April 2014 compared to April 2013. Over January-April 2014, industrial output shrank 5.3% year-on-year.

Output in processing industry declined 9.6% year-on-year. At the same time, output in steel industry went down 12.8% year-on-year, while output in machine-building dropped 18.9% year-on-year. Output in the above-mentioned sectors declined at a more rapid pace, in particular, because of the worsening political situation in eastern oblasts of the country where the major steel industry and machine-building capacities are concentrated. At the same time, the country registered growth in food industry in April, at 0.2% year-on-year.

Output in mining industry slipped 1.6%. In particular, production of black and brown coal shrank 5.1% year-on-year.

BOND MARKET

Last week, a tender for primary placement of internal government bonds that was held on 20 May ended without any result. The Ministry of Finance did not satisfy bids submitted for purchasing government bonds, evidently, considering the requested earning rates to be too high. For example, participants who submitted bids for purchasing bonds maturing in three months were willing to buy them with a 16.50-17.00% earning rate.

During the current week, the Ministry of Finance plans to hold a tender on Tuesday, 27 May. At this tender, the Ministry of Finance will offer internal government bonds denominated in US dollars and maturing in fourteen days, as well as internal government bonds denominated in hryvnia and maturing in 2016 and 2019.

EQUITY MARKET

The Ukrainian stock market finished the previous week with significant growth. By the end of the previous week, the Ukrainian Exchange (UX) Index rose 8.8% and closed at 1,176.25 points on Friday, 23 May. Since the beginning of the year, capitalization of the Ukrainian stock market grew almost 30%.

Apparently, investors' moods improved in connection with the upcoming extraordinary presidential election in Ukraine that was held on Sunday, 25 May. In the course of the previous week, there was a growing confidence that the presidential election will be successful.

According to our experts, during the current week, attention of investors will be riveted to outcomes of the anti-terrorist operation in Luhansk and Donetsk oblasts.

FOREIGN EXCHANGE MARKET

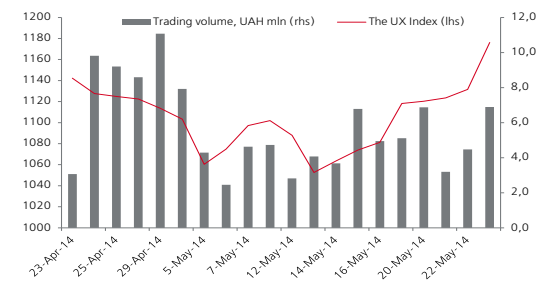
During the entire previous week, the market remained stable, and only slight volatility was registered. In the course of the entire previous week, trading ranged within the limits of UAH 11.85-12.05/USD, which covered all maximums. At the same time, trading ranged within the limits of UAH 11.90-12.00/USD during the most active hours – from 11:00 am to

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in April 2014, % year-on-year	-6.0

Source: the State Statistics Service

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



midday. On Friday, 23 May, the National Bank of Ukraine carried out one intervention to purchase foreign exchange at UAH 11.715143/USD.

The maximum foreign exchange sales volumes were registered on Tuesday, 20 May: 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 cost of resources on the interbank lending market went down. By the end of the previous week, the cost of overnight loans slipped to 0-1%, while the cost of weekly resources dropped to 0-3%. As of Friday morning, 23 May, the balance on correspondent accounts with the National Bank of Ukraine totaled UAH 27.1 billion.



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