

# Financial markets survey

10 June 2014

## Timid growth in Europe

WEEKLY ISSUE

### GLOBAL MARKETS

The leading stock platforms across the world registered growth over the first week of June. The American S&P 500 Index habitually set a new record-high. However, record-high index values by no means indicate that fundamental indicators are also record-high.

The US macroeconomic indicators published over the previous week gave a mixed picture again. The good news include growing orders of industrial enterprises in April, as well as indicators of the labor market, which turned out to be better than analysts forecast. At the same time, the US foreign trade deficit grew record-high in April 2014 since March 2012. Also, labor productivity in the US dropped record-low over the last six years in the first quarter of 2014.

The main news of the week for the European markets was the decision of the European Central Bank (ECB) to lower all three rates. In particular, the ECB deposit rate became negative for the first time in the history of the European Economic and Monetary Union – the central bank lowered it from 0% to minus 0.1%. The decision of the euro-area regulator was positively taken by market players. However, there was no significant growth of indices. Investors were disappointed over the news related to slower inflation in the euro-area in May.

Perhaps, European investors continue to expect additional steps on the part of the European Central Bank. In particular, it is still possible for the central bank to lower the rates further, to purchase assets, as well as to take steps to support small business experiencing a serious shortage of lending resources.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1949.4	1.3%	4.4%	5.5%
FTSE 100 (UK)	6858.2	0.2%	0.9%	1.6%
MXME (East. Eur.)	193.4	3.6%	11.6%	-3.5%
UX (Ukraine)	1238.1	1.4%	15.2%	36.1%
RTS (Russia)	1359.1	4.9%	15.9%	-5.8%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	243.5	0.0%	-3.0%	-6.5%
Steel, USD/ton	493.0	0.0%	-0.4%	-2.6%
Oil, USD/barrel	108.6	-0.7%	1.4%	-2.0%
Gold, USD/ounce	1252.2	0.1%	-4.2%	3.9%

Source: Thomson Reuters

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**MACROECONOMICS**

In May 2014, consumer prices grew at a significantly more rapid pace. According to information of the State Statistics Service, consumer prices grew 3.8% in May 2014 compared to the previous month. Compared to May 2013, the rate of inflation was registered at 10.9%.

In contrast to the previous month, there was a significant increase in prices under the item "Accommodation, water, electricity, and gas" in May 2014. In particular, the government statistics authority registered prices for natural gas growing 62.8%, which is connected with the Government's decision to raise household gas rates in order to fulfill the IMF loan-related requirements.

Compared to April 2014, prices for food products slowed down, but still grew at a rather rapid pace. Food prices rose 3.6% in May compared to the previous month. Growing prices were registered for all types of food products, except for dairy products and eggs. In the opinion of our experts, growing prices for food products continue to reflect the recent depreciation of the national currency.

In May 2014, producer prices grew 4.3% compared to the previous month and jumped 8.8% year-on-year. Prices grew the most in processing industry, as well as in deliveries of electricity, gas and vapor. In particular, price boom was registered in mining of metal ores, as well as in electricity rates.

**BOND MARKET**

Last week, the Ministry of Finance managed to raise UAH 2.0 billion to the State Budget of Ukraine by way of selling internal government bonds. The Ministry of Finance held a tender on 3 June and sold internal government bonds denominated in the national currency and maturing in two years. The Ministry of Finance satisfied four out of six bids submitted for these bonds, while the weighted average earning rate reached 16.98%, which was the lowest requested earning rate.

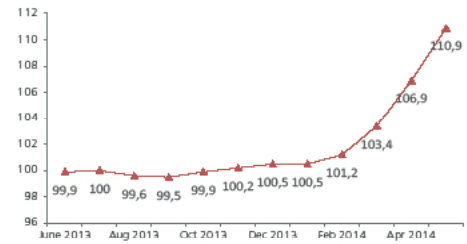
During the current week, the Ministry of Finance plans to hold a tender on 10 June. The Ministry of Finance will offer internal government bonds denominated in the national currency and maturing in three and six months, and also in two years.

**EQUITY MARKET**

Last week, the Ukrainian stock market was volatile. The post-election euphoria subsided somewhat, and the bearish trend set in over Tuesday-Wednesday. On Wednesday, 4 June, the Ukrainian Exchange (UX) Index fell below 1,200 points. However, over the following two days, the market recovered and closed "in the green zone." On Friday, 6 June, the UX Index closed at 1,238.13 points, growing 1.4% over the previous week.

In our opinion, during the current week, investors will follow attentively appointments of the newly elected president to key government positions, as well as the course of the anti-terrorist operation in Luhansk and Donetsk oblasts.

**CONSUMER PRICE INDEX (year-on-year)**



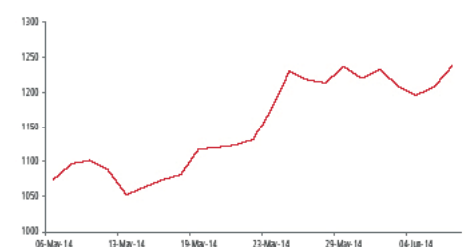
Source: the State Statistics Service

**THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS**

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
3 June	728 days	16,98%	6/4	2000

Source: the Ministry of Finance of Ukraine

**THE UX INDEX**



Source: Thomson Reuters

**FOREIGN EXCHANGE MARKET**

Last week, trading on the interbank foreign exchange market ranged within the limits of UAH 11.80-12.05/USD. Trading ranged within the limits of UAH 11.85-11.95/USD on Monday, 2 June, UAH 11.95-12.05/USD on Tuesday, UAH 11.92-12.00/USD on Wednesday, UAH 11.85-11.92/USD on Thursday, and UAH 11.80-11.90/USD on Friday. Sales volumes were not high. On the whole, market participants were not very active during the previous week. This is connected with the arrival of the summer period, when business activity traditionally slackens.

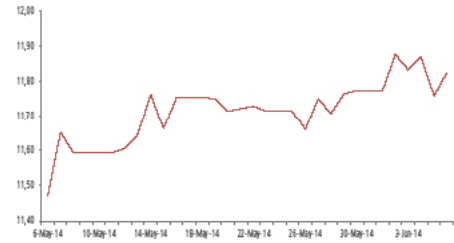
The National Bank of Ukraine did not carry out any interventions.

The maximum foreign exchange sales volumes were registered on Friday, 6 June: above USD 0.4.

**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 and weekly resources did not exceed 0% in connection with appreciation of the US dollar in swap operations. As of Friday morning, 6 June, the balance on correspondent accounts totaled UAH 30.5 billion.

**WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)**



Source: NBU



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