

Financial markets survey

23 June 2014

FRS gives hope

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the bullish trend returned to the American stock market. Investors were waiting for the press-conference of Federal Reserve System (FRS) Chair Janet Yellen on the outcomes of the FRS meeting that took place over 17-18 June.

At this press-conference, Mrs. Yellen noted that there are many perfect reasons for a period of sustainable growth of the US economy above the long-term trend. Among positive trends in the US economy, she mentioned easier access to loans, improved situation on the labor market, reduced negative impact of the tax and budget policy, and growing prices for housing and stock. The FRS Chair also does not have serious fears regarding the formation of "soap bubbles" on stock and bond markets because of the significant liquidity injections by the central bank.

Optimistic moods of investors inspired by the FRS statements lasted till the end of the trading week. There were no publications of important statistical data on the US economy, which made it possible to confidently support the upward trend and for indices – to set new historical record-highs.

The European market continues stagnating. As before, statistical data on the Old World countries does not give any reason for optimism. Inflation in the UK unexpectedly slowed down in May 2014 to a record-low since October 2009, while the ZEW Indicator of Economic Sentiment in Germany set a new record-low in June 2014 since January 2013.

The International Monetary Fund (IMF) urged the European Central Bank (ECB) to study the possibility of launching a large-scale quantitative easing (QE) program, including purchases of sovereign debt instruments in the instance when the rate of inflation continues to be low in the euro-area. In the IMF's opinion, this will make it possible to struggle against the stably low inflation in the key euro-area countries. So far, the conservative Europe refuses to take such drastic steps. The ECB asserts that the period of low inflation has not lasted long enough.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1962.9	1.4%	4.0%	6.2%
FTSE 100 (UK)	6825.2	0.7%	0.1%	1.1%
MXME (East. Eur.)	192.0	-0.8%	1.9%	-4.1%
UX (Ukraine)	1215.6	-1.6%	8.2%	33.6%
RTS (Russia)	1374.9	-1.2%	7.7%	-5.8%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	227.5	-9.9%	-9.4%	-12.7%
Steel, USD/ton	490.0	0.0%	-1.0%	-3.2%
Oil, USD/barrel	113.4	4.4%	2.9%	2.4%
Gold, USD/ounce	1274.7	1.8%	-2.3%	5.8%

Source: Thomson Reuters

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MACROECONOMICS

According to information of the State Statistics Service, industrial output declined at a more sluggish pace in May 2014. Compared to May 2013, industrial output went down 2.1%. Over January-May 2014, industrial output shrank 4.6% year-on-year.

As before, output in processing industry continues to decline most rapidly. In May, output in chemical industry shrank 20.8% year-on-year, while output in machine-building dropped 15.3% year-on-year. At the same time, output in steel industry declined at a more sluggish pace: 2.0% year-on-year in May 2014. Growth was registered in food industry in May 2014 – 6.3% year-on-year.

Since the beginning of the year, output of investment goods and durable consumer goods has shrunk the most. At the same time, output of non-durable consumer goods grew 5.5% year-on-year over January-May 2014. Probably growing output of non-durable consumer goods is partially connected with the recent depreciation of the national currency. As a result, imported goods became less affordable for consumers.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 159.6 million to the State Budget of Ukraine by way of selling internal government bonds at a tender held on 17 June. The Ministry of Finance sold internal government bonds denominated in the national currency and maturing in six months and in two years.

The earning rate for bonds maturing in six months was 15.0% per annum and for bonds maturing in two years – 16.95%. Given the small number of bids, one can assume that, as before, the Ministry of Finance is holding tenders in “a manual mode,” when the information about the number of participants, funds to be raised and earning rates to which the Government will agree is, to a considerable degree, known before the relevant tender begins.

During the current week, the Ministry of Finance plans to hold a tender on 24 June. The Ministry of Finance will offer internal government bonds denominated in the national currency and maturing in two and five years.

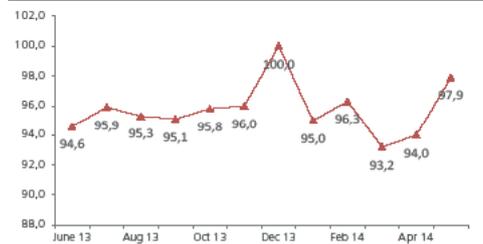
EQUITY MARKET

The Ukrainian stock market finished the previous week in the red zone. The Ukrainian Exchange (UX) Index closed at 1,215.59 points on Friday, 20 June, losing 1.6% over the previous week.

Evidently, pessimistic moods of investors are connected with a new stage of worsening as regards the crisis in the Ukrainian-Russian relations. In particular, on Monday, 16 June, the Russian Federation stopped delivering gas to Ukraine and took a categorical position in the negotiations for the price of gas deliveries to Ukraine.

During the current week, the center of attention will be Russia’s reaction towards a plan for regulating the situation in Ukraine’s eastern oblasts that was suggested by Ukraine.

INDUSTRIAL OUTPUT INDEX (year-on-year)



Source: the Ministry of Finance of Ukraine

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight, av, rate	Submit, / satisfied bids	Funds raised, UAH mln
17 June	175 дн.	15.00%	2/2	102.6
17 June	728 дн.	16.95%	4/3	57.0

Source: the Ministry of Finance of Ukraine

THE UX INDEX



Источник: Thomson Reuters



FOREIGN EXCHANGE MARKET

Over the previous week, trading on the foreign exchange market ranged within the limits of UAH 11.80-12.00/USD: UAH 11.85-11.93/USD on Monday, UAH 11.87-11.97/USD on Tuesday, UAH 11.91-11.98/USD on Wednesday, UAH 11.88-11.97/USD on Thursday, and UAH 11.83-11.93/USD on Friday. The market closed on Friday when trading ranged within the limits of UAH 11.90-11.97/USD. It has to be mentioned that the market has become a little less volatile compared to previous weeks. The market is invariably quiet. The National Bank of Ukraine did not carry out any interventions during the previous week.

The maximum foreign exchange sales volumes were registered on Friday, 20 June: above USD 0.4 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.3 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU

INTERBANK LENDING MARKET

Last week, the situation on the interbank lending market did not change much. The upper limit for the cost of overnight loans was 1% and for weekly resources – 3%. In the course of the previous week, the balance on correspondent accounts went down. However, this did not have much impact on the situation on the market. As of Friday morning, 20 June, the balance on correspondent accounts totaled UAH 27.9 billion.



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