

Financial markets survey

01 July 2014

A cool summer

WEEKLY ISSUE

GLOBAL MARKETS

The dynamics of global stock markets continues to be weak. Investors are waiting for the moment when new statistical data will become strong enough to be a sufficient argument to deal for a rise. Unfortunately, this is not happening so far.

In the first quarter, the US GDP shrank the most over the last five years. The 2.9% decline of the economy turned out to be more serious than analysts expected. It was this indicator that determined such a weak dynamics of the US indices over the previous week.

The consumer market gives some hope. The Consumer Confidence Indices in the US and the UK published during the previous week turned out to be unexpectedly good, while the indicator of consumer expenditures in France grew higher than expected. Nevertheless, investors will most likely be inclined to wait until the growing consumer demand will result in growth of other economic indicators.

In view of the poor confidence in the equity market, there has been growing investment in gold over the last two months, while gold prices have gone up 9% since the beginning of the year.

During the current week, investors will follow the decision of the US and the EU regarding the institution of new economic sanctions against the Russian Federation. The US Government demonstrated its readiness to impose new restrictions. However, US business people expect such measures to be synchronized with similar restrictions on the part of the EU, since otherwise American businesses will turn out to be in a worse situation than European companies.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1961.0	-0.1%	2.7%	6.1%
FTSE 100 (UK)	6757.8	-1.0%	-1.4%	0.1%
MXME (East. Eur.)	193.0	0.5%	3.3%	-3.6%
UX (Ukraine)	1226.7	0.9%	1.0%	34.8%
RTS (Russia)	1358.7	1.5%	6.1%	-4.4%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	227.5	0.0%	-6.6%	-12.7%
Steel, USD/ton	493.0	0.0%	-0.4%	-2.6%
Oil, USD/barrel	113.3	-1.3%	3.2%	2.3%
Gold, USD/ounce	1315.0	0.1%	4.5%	9.1%

Source: Thomson Reuters

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MACROECONOMICS

According to information of the State Statistics Service, the rate of unemployment (in accordance with the International Labor Organization methodology) was 8.8% in the first quarter of 2014, which is 0.8 percentage points above the indicator registered in the first quarter of 2013. Evidently, growth of unemployment is connected with the prolonged recession of the Ukrainian economy.

In Q1'2014, the rate of unemployment in rural areas was 9.9% and in urban areas – 8.4%. The rate of unemployment among male population reached 10.9%, which is 1.6 pp above the figure registered in the first quarter of 2013. At the same time, the rate of unemployment among women in Q1'2014 turned out to be below the indicator registered in Q1'2013: 6.6% against 6.7%.

The average unemployment rate totaled 7.2% in 2013. We expect the average annual rate of unemployment to land at 8.0% in 2014.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 55.2 million to the State Budget of Ukraine by way of selling internal government bonds at a tender held on 24 June. This time, sales volumes constituted only a little above one-third of what was raised at a tender a week before. The Ministry of Finance sold internal government bonds maturing in two years with an earning rate of 16.95% to three participants in the tender.

Apparently, the sums raised at such tenders for placing internal government bonds are close to the sums needed to cover the current budget expenditures. In the current political and economic environment, market participants regard internal government bonds denominated in hryvnia as high-risk instruments and refrain from buying them. Most likely, the Ministry of Finance is getting state-owned banks involved in purchasing internal government bonds.

Our specialists expect that the current situation on the primary bond market will continue at least till the end of summer.

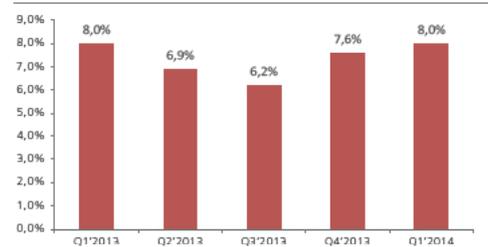
During the current week, the Ministry of Finance plans to hold a tender on 1 July. The Ministry of Finance will offer five types of internal government bonds denominated in the national currency. In particular, participants in the tender will have a chance to purchase bonds maturing in 14 and 91 days.

EQUITY MARKET

Over the previous week, the Ukrainian stock market remained flat. In the course of the previous trading week, the Ukrainian Exchange (UX) Index inched up 0.9% and closed at 1,226.69 points. If one is to judge by the highest standards, the UX Index has stayed in a side trend for about a month by now. In terms of the current extremely difficult political situation, support for a side trend on the stock market is rather a positive trend.

During the current week, investors will follow the reaction of the Russian Federation's Government to the decision of Ukrainian President Petro Poroshenko to discontinue the armistice in the area where the anti-terrorist operation is carried out and to resume active hostilities. Another important factor will be the decision of the US and the EU regarding the institution of new economic sanctions against Russia.

UNEMPLOYMENT RATE (ILO METHODOLOGY)



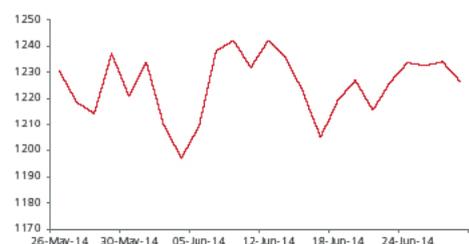
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight, av, rate	Submit, /satisfied bids	Funds raised, UAH mln
24 June	721 days	16.95%	3/3	55.2

Source: the Ministry of Finance of Ukraine

THE UX INDEX



Source: Thomson Reuters



FOREIGN EXCHANGE MARKET

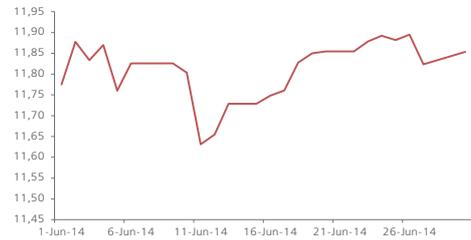
In the course of the previous week, trading on the foreign exchange market ranged within the limits of UAH 11.91-11.97/USD over Monday-Tuesday, UAH 11.90-11.93/USD on Wednesday, UAH 11.87-11.92/USD on Thursday, and UAH 11.80-11.87/USD on Friday. During the previous week, there was little activity registered on the market. The National Bank of Ukraine did not carry out any interventions during the previous week.

The maximum foreign exchange sales volumes were registered on Thursday, 26 June: above USD 0.4 billion (all currencies), including sales of the American currency alone for the total of more than

INTERBANK LENDING MARKET

Last week, the balance on correspondent accounts went down and stayed below UAH 28 billion for the most part of the previous week. Notwithstanding this decline, there was no serious growth of rates for interbank loans. Only on Friday, 27 June, the upper limit for the cost of overnight loans jumped to 3%, which is likely connected with the change of the month. For the most part of the previous week, the cost of overnight loans did not exceed 1%. Same as a week before, weekly resources cost no more than 3%.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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