



# Financial markets survey

07 July 2014

## Incentives for Europe

WEEKLY ISSUE

### GLOBAL MARKETS

Last week turned out to be rather positive for investors. The American indices set new historical record-highs again, while the British FTSE 100 Index finished the previous week well in the "green zone."

On the whole, the previous week was not much abundant in news, while the US market worked a shortened working week. Good news about the situation on the labor market gave an impetus to American trading platforms. According to data of ADP Research Institute, a branch organization, the number of jobs in the private sector of the US grew 281,000 in June, while the market forecast an average increase by 205,000 jobs. Investors preferred this news to not very optimistic data on the dynamics of industrial and non-industrial output in June.

Optimistic moods of European investors were determined by news connected with the regulatory policy of the European Central Bank (ECB). The ECB kept the basic rates at the previous level, that is, at record-low values. ECB President Mario Draghi confirmed that the ECB was ready to keep rates low for a long period of time. He also informed about the activation of works to prepare quantitative easing and mentioned that the volume of the targeted longer-term refinancing operation (TLTRO), which was announced in June, could reach EUR 1 trillion.

Too little time has passed for analysts to make conclusions regarding the efficiency of the quantitative easing program in the US. There is no doubt that the program helped keep financial markets afloat. However, so far, there is no convincing evidence that massive government injections into the economy had a tangible impact on growth of macroeconomic indicators.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1985.4	1.2%	3.0%	7.4%
FTSE 100 (UK)	6866.1	1.6%	0.7%	1.7%
MXME (East. Eur.)	190.1	-1.5%	0.4%	-5.1%
UX (Ukraine)	1193.6	-2.7%	-0.3%	31.2%
RTS (Russia)	1379.8	-1.4%	2.7%	-5.7%

### 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%	0.0%	-2.6%
Oil, USD/barrel	110.6	-2.3%	2.1%	-0.1%
Gold, USD/ounce	1319.5	0.3%	6.2%	9.5%

Source: Bloomberg

[www.pumb.ua](http://www.pumb.ua)

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**MACROECONOMICS**

In June 2014, consumer prices slowed down. Compared to May 2014, consumer prices grew 1.0%. Annual inflation reached 12.0%.

Prices for food products inched up 0.7% in June. The most noticeable growth of prices was registered for food products whose production costs were influenced by the recent increase in electricity rates. At the same time, prices for vegetables, eggs and dairy products went down thanks to the growing seasonal supply. Prices for accommodation, water and electricity went up 1.7%.

Producer prices continued to grow at a rapid pace. In June, producer prices rose 3.6% compared to the previous month and soared 15.9% year-on-year. Prices for deliveries of electricity, gas and vapor jumped 9.3% compared to the previous month because of growing electricity rates. Prices in mining industry grew 3.6%. In particular, prices in mining of black coal rose 10.9% in June.

**BOND MARKET**

Last week, the Ministry of Finance managed to raise UAH 1.2 billion to the State Budget of Ukraine by way of holding three tenders on 1, 2 and 3 July. Serious activity of the Ministry of Finance on the government borrowings market was, evidently, linked to significant amounts of budget payments at the beginning of a new month.

The largest sum was raised on 2 July by way of selling bonds maturing in five years to a sole participant in this tender. Most likely, the buyer of the above-mentioned bonds with an annual earning rate of 14.30% was one of state-owned banks. At a tender held on 3 July, four participants purchased bonds maturing in two years, where the weighted average rate of 16.76% turned out to be higher than the earning rate for bonds maturing in five years that were sold the day before. The ultra short-term internal government bonds maturing in 19 days were placed with an 8% earning rate.

During the current week, the Ministry of Finance plans to hold a tender on 8 July. The Ministry of Finance will offer internal government bonds maturing in three months, in six months and in two years.

**EQUITY MARKET**

The Ukrainian stock market finished the previous week in the "red zone." In the course of the previous week, the Ukrainian Exchange (UX) Index lost 2.7% and closed at 1,193.58 points. Apparently, a worsening of investors' moods was connected with resumed active hostilities in Donetsk and Luhansk oblasts of Ukraine.

During the current week, investors will follow the development of the military and political situation within the country.

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



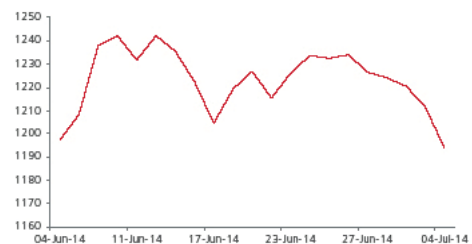
Source: the State Statistics Service

**THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS**

Date of placement	Type of bonds	Weight, av, rate	Submit, / satisfied bids	Funds raised, UAH mln
1 July	91 days	12.00%	2/2	339.8
2 July	1743 days	14.30%	1/1	769.0
3 July	19 days	8.00%	2/2	59.8
3 July	89 days	12.00%	1/1	38.9
3 July	712 days	16.76%	4/4	40.4

Source: the Ministry of Finance of Ukraine

**THE UX INDEX**



Source: Thomson Reuters



### FOREIGN EXCHANGE MARKET

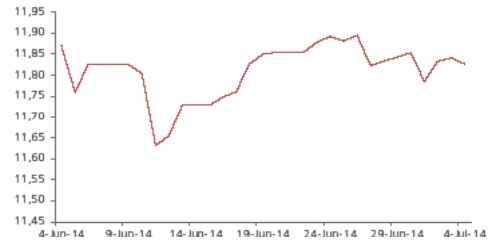
Last week, the dynamics of the foreign exchange market was uneven. Partially, this was connected with the day off in the US on Friday, 4 July, due to the celebration of the US Independence Day. Trading on the foreign exchange market ranged within the limits of UAH 11.77-11.83/USD on Tuesday, 1 July, UAH 11.85-11.92/USD on Wednesday, UAH 11.82-11.87/USD on Thursday, and UAH 11.73-11.83/USD on Friday. The National Bank of Ukraine did not carry out any interventions. There was no need for interventions, since the market went down on its own.

The maximum foreign exchange sales volumes were registered on Thursday, 3 July: above USD 0.4 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.3 billion.

### INTERBANK LENDING MARKET

Last week, the balance on correspondent accounts went up and landed at UAH 31.1 billion as of Friday morning, 4 July. Rates for overnight loans were not stable in the course of the previous week, which can be explained by the shortened working week both in Ukraine and in the US. At the same time the cost of weekly resources went down in the course of the previous week: the upper limit for the cost of weekly resources slipped to 2%.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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