



Financial markets survey

21 July 2014

A day that changed a lot

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the situation on global financial markets was determined by a number of economic and geopolitical factors. It was known that the US was decided to significantly increase economic sanctions against Russia.

The decision of the US Government became known on Thursday, 17 July. The sanctions turned out to be really drastic, since they concerned the access of the leading Russian companies and banks to the borrowings market. American private individuals and legal entities are prohibited from doing any business with a number of Russian companies that are part of the military and industrial complex of the country.

On 17 July, a Malaysian Airlines aircraft crashed on the territory of eastern Ukraine that is occupied by pro-Russian gunmen. The Ukrainian Government produced a number of convincing evidence that the missile launching facility that was used to shoot down the aircraft, as well as the people operating this facility were dispatched to the territory of Ukraine from the territory of Russia. Leaders of the key countries across the world expressed their indignation with policies of Vladimir Putin in a sharp form and promised that their reaction will be decisive.

Evidently, the events of the previous week will significantly amend the EU's policy towards Russia. Until recently, the EU leaders took a "dove" position as regards sanctions, letting the US take a "hawk" position.

Investors realize that global financial flows will undergo serious changes as Russia's place in the global politics and economy is changing.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,978.2	0.5%	1.1%	7.0%
FTSE 100 (UK)	6,749.5	0.9%	-0.4%	0.0%
MSCI (East. Eur.)	182.0	-5.5%	-5.5%	-9.1%
UX (Ukraine)	1,228.2	-2.4%	0.7%	35.0%
RTS (Russia)	1,276.3	-7.7%	-6.4%	-11.5%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	226.5	0.0 %	-0.4%	-13.1%
Steel, USD/ton	492.0	0.0 %	0.4%	-2.8%
Oil, USD/barrel	107.2	0.5%	-6.1%	-3.2%
Gold, USD/ounce	1,310.6	-2.0%	2.6%	8.8%

Source: Thomson Reuters

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MACROECONOMICS

According to information of the State Statistics Service, industrial output declined at a more rapid pace in June 2014. Compared to June 2013, industrial output went down 5.0%. Over January-June 2014, industrial output shrank 4.7% year-on-year.

As before, output in processing industry continues to decline most rapidly. In June, output in chemical industry and machine-building shrank at a more rapid pace, which is connected with the deteriorating political situation in Luhansk and Donetsk oblasts, where a significant part of companies in the above-mentioned sectors is located. Compared to June 2013, output in chemical industry dived 21.7%, while output in machine-building dropped 20.8%. At the same time, food industry continues to grow: in June, output in food industry accelerated to 7.1% year-on-year.

Over January-June 2014, output of non-durable consumer goods inched up 0.7% year-on-year, whereas output of investment goods shrank 17.1%.

BOND MARKET

Last week, activity on the internal government borrowings market was weak. The Ministry of Finance managed to raise UAH 20 million to the State Budget of Ukraine by way of tenders for primary placement of internal government bonds.

The above sum was raised by way of selling internal government bonds maturing in two years and with an earning rate of 16.75% to a single buyer at a tender held on Tuesday, 15 July. The Ministry of Finance did not satisfy a bid of an investor willing to purchase bonds maturing in six months with an earning rate of 14.90% per annum.

On 18 July, the Ministry of Finance held one more tender that ended without any results. The Ministry of Finance did not satisfy bids of three investors willing to purchase bonds maturing in two and nine months.

In our opinion, at the moment, the Ministry of Finance wants to lower the earning rate of short-term bonds trying to determine the yield level to which investors will agree.

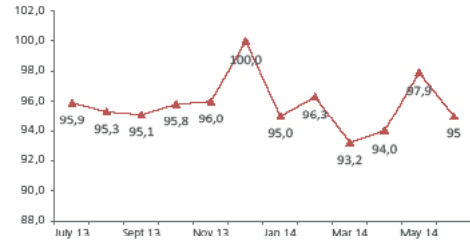
According to the preliminary schedule for placing internal government bonds, the Ministry of Finance plans to hold two tenders – on 22 and 23 July – during the current week. The Ministry of Finance will offer internal government bonds denominated in hryvnia and maturing in nine months, in two years and in five years, as well as bonds denominated in US dollars and maturing in six months, in twelve months and in two years.

EQUITY MARKET

Last week, the Ukrainian stock market lost its positions. The main drop of the Ukrainian Exchange (UX) Index was registered on Thursday, 17 July, even before the news that the passenger aircraft operated by Malaysian Airlines crashed on the territory of hostilities in Donetsk oblast. Earlier that day, there was a growing concern that Russia would start an open invasion of Ukrainian territory with its armed forces.

By the end of the previous week, the UX Index lost 2.4% and closed at 1,228.18 points on Friday, 18 July. During the current week, the dynamics of the Ukrainian stock market will depend on the development of the military situation in the eastern part of the country, as well as activities

INDUSTRIAL OUTPUT INDEX (year-on-year)



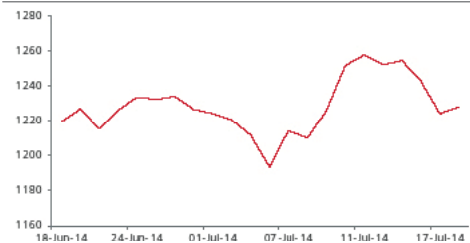
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight, av. rate	Submit, / satisfied bids	Funds raised, UAH mln
15 July	728 days	16.75%	1/1	20.0

Source: the Ministry of Finance of Ukraine

THE UX INDEX



Source: Thomson Reuters

of the global community regarding the military aggression of the Russian Federation on the Ukrainian territory.

FOREIGN EXCHANGE MARKET

Last week, Ukraine’s foreign exchange market became less volatile. Trading ranged within the limits of UAH 11.68-11.73/USD over Monday-Tuesday, UAH 11.70-11.75/USD on Wednesday, UAH 11.68-11.73/USD on Thursday, and UAH 11.63-11.68/USD on Friday. Quotations were the highest on Wednesday and the lowest – on Friday.

In the course of the previous week, the National Bank of Ukraine carried out two interventions to purchase foreign exchange. On Friday, 18 July, the price of purchase was UAH 11.60/USD. On the same day, it became known that the IMF is allocating the second tranche of its loan to Ukraine that should be transferred to the country in August. This positive news influenced the decline on the market. However, as before, the unstable situation in the country makes it difficult to forecast the behavior of the market.

The maximum foreign exchange sales volumes were registered on Tuesday, 15 July: approximately USD 460 million (all currencies), including sales of the American currency alone for the total of approximately USD 350 million.

INTERBANK LENDING MARKET

Last week, the cost of lending resources on the interbank lending market grew significantly. By the end of the previous week, the cost of overnight loans reached 2-7% per annum, while weekly resources cost 3-8%. The main factor behind growing rates was the decision made by the National Bank of Ukraine on 16 July to raise its rate from 9.5% to 12.5% per annum. In addition, there was a growing demand for hryvnia on the part of government institutions and organizations in connection with rising current expenses due to active hostilities in the country. As of Friday morning, July 18, the balance on correspondent accounts totaled UAH 32.6 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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