



# Financial markets survey

04 August 2014

## Sanctions, default, FRS

WEEKLY ISSUE

### GLOBAL MARKETS

Last week was rather depressing for global financial markets. The majority of trading platforms finished the previous week in the red zone.

Investors expected the EU's decision to institute sanctions against the Russian Federation. The full text of the relevant document was published in 31 July. The European Union, which is Russia's largest trading partner, restricted Russia's access to financial markets, put an embargo on weapons, restricted trade in double-purpose goods and transfer of modern technologies for the petroleum industry for the period of one year. In addition, European officials stated that sanctions could be expanded further. The US and other leading countries also made a statement about their intention to extend sanctions in the instance when there is no progress in Russia's position regarding Ukraine. While Russian officials continue assuring Russian citizens that sanctions will not lead to a significant deterioration of the country's economy, investors across the world realize that, in the near future, the instituted restrictions will result in redistribution and weakening of global financial flows; this is why, negative moods prevail on markets.

Another powerful blow to moods of the global investment community was delivered by Argentina announcing default on 31 July. According to Bloomberg data, Argentina's national debt totals USD 200 billion. It was Argentina's second default over the last 13 years when the Government turned out to be unable to pay debts to creditors for the total of USD 95 billion.

Based on the results of its meeting over 29-30 July, the US Federal Reserve System tapered the quantitative easing program (QE) by USD 10 billion. However, the FRS kept the targeted range for the federal funds rate from zero to 0.25% per annum.

Sentiment on markets is hardly likely to change for the better in the near future. There are no expectations that the geopolitical situation will improve in the near future. In addition, August is the time for the traditional "dead season" on markets.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1925.2	-2.7%	-2.5%	4.2%
FTSE 100 (UK)	6679.2	-1.7%	-2.0%	-1.0%
MXME (East. Eur.)	173.5	-3.2%	-10.1%	-13.3%
UX (Ukraine)	1318.4	1.0%	8.0%	44.9%
RTS (Russia)	1212.7	-2.7%	-12.8%	-15.9%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	224,5	0,0%	-0,9%	-13,8%
Steel, USD/ton	493,0	0,0%	0,6%	-2,6%
Oil, USD/barrel	104,8	-3,3%	-5,8%	-5,4%
Gold, USD/ounce	1293,6	-1,1%	-2,5%	7,4%

Source: Bloomberg

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

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## MACROECONOMICS

According to preliminary information of the National Bank of Ukraine, Ukraine's current account deficit over January-June 2014 totaled USD 1.9 billion. This is 2.8 times less than the indicator registered over January-June 2013.

The current account deficit shrank significantly thanks to rapid decline of imports. Over January-June 2014, imports of goods and services shrank 16.6% year-on-year. Exports of goods and services declined 9.9% year-on-year.

Deficit of the capital and financial account totaled USD 2.3 billion over the first half of 2014. Foreign direct investment flight reached USD 922 million over this period. The balance of loans and bonds landed at USD 1.2 billion. The main inflow of this sum was secured by loans provided to the public administration sector. Deficit of the country's consolidated balance of payments totaled USD 4.2 billion over the first half of 2014.

## BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 984.6 million to the State Budget of Ukraine thanks to selling internal government bonds at tenders held on 29, 30 and 31 July.

Maturity periods of bonds placed did not exceed two years. Participants were not seriously active at the tenders. It is possible to assume that state-owned banks were involved in purchasing internal government bonds. It has to be mentioned that the Ministry of Finance did not satisfy bids of participants willing to purchase bonds maturing in one year and requesting 16.25% and 16.50% yields on 29 July. On 31 July, the Ministry of Finance managed to raise UAH 50 million to the State Budget of Ukraine by way of selling "Military Bonds" maturing in two years with an earning rate of 7.00% per annum. Funds raised by way of placing the above-mentioned bonds will be channeled into financing the Armed Forces of Ukraine.

According to the preliminary schedule for placing internal government bonds, the Ministry of Finance plans to hold two tenders – on 5 and 7 August – during the current week. The Ministry of Finance will offer internal government bonds denominated in hryvnia and maturing in nine months, in two years, in five years, and in seven years.

## EQUITY MARKET

Last week, the Ukrainian stock market managed to keep its positions. The Ukrainian Exchange (UX) Index consolidated at a new level above 1,300 points.

Over the first half of the previous week, UX Index grew rapidly. However, over the last two trading days of the previous week, the ardor of traders subsided as negative moods grew stronger on western markets.

During the current week, Ukrainian stock traders will try to hold the grounds achieved.

## LATEST MACROECONOMIC DATA

Показатель	Значение
Current account balance in H1'2014, USD billions	-1.9

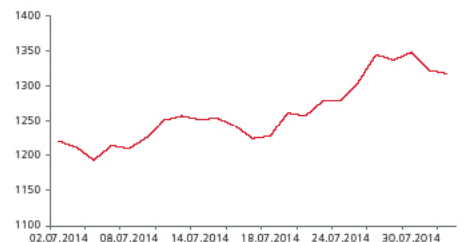
Source: the National Bank of Ukraine

## THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight, av, rate	Submit, / satisfied bids	Funds raised, UAH mln
29 July	259 days	15.90%	2/2	31.5
29 July	714 days	16.75%	1/1	65.7
30 July	259 days	15.90%	1/1	449.3
30 July	364 days	16.00%	1/1	388.1
31 July	726 days	7.00%	1/1	50.0

Source: the Ministry of Finance of Ukraine

## THE UX INDEX



Source: Thomson Reuters



**FOREIGN EXCHANGE MARKET**

Last week, the country registered a new round of hryvnia depreciation. Trading on the interbank foreign exchange market ranged within the limits of UAH 11.95-12.05/USD on Monday, UAH 12.10-12.20/USD on Tuesday, UAH 12.15-12.25/USD on Wednesday, UAH 12.30-12.50/USD on Thursday, and UAH 12.30-12.45/USD on Friday.

The reasons for such a sharp appreciation of the US dollar are unstable political and economic situation in the country and continuing hostilities in eastern regions of Ukraine. Besides, fuel to the fire is added thanks to the news about possible suspension of operations at companies in the eastern part of the country that are shaping the country's export proceeds and, as a result, possible decline of foreign exchange proceeds in Ukraine. Also, the exchange rate was affected by the news of the Premier's resignation and the following reinstatement in his powers.

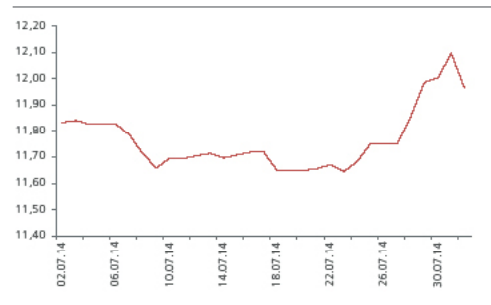
Last week, the National Bank of Ukraine carried out no interventions

The maximum foreign exchange sales volumes were registered on Thursday, 31 July: above USD 0.34 billion (all currencies), including sales of the American currency alone for the total of more than

**INTERBANK LENDING MARKET**

Last week, the cost of weekly and monthly resources on the interbank lending market grew a little. At the same time, the upper limit for the cost of overnight loans did not exceed 3%. By the end of the previous week, the cost of weekly resources reached 1-4% per annum, while the cost of monthly resources was 2-6%. As of Friday morning, 1 August, the balance on correspondent accounts totaled UAH 28.4 billion.

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



Source: NBU



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