



# Financial markets survey

11 August 2014

## Geopolitics above economics

WEEKLY ISSUE

### GLOBAL MARKETS

This year, markets are going through non-typical August. Instead of a traditionally quiet month where a poorly volatile side trend prevails, investors got a month full of events that, most likely, will have far-reaching consequences for global markets.

Last week, tension escalated when several western politicians made statements about the growing threat of an open armed attack of the Russian Federation against Ukraine. At the end of the previous week, the Russian Government added some more fuel to the fire through its decision to institute restrictions on imports of livestock-breeding and plant-growing products from the European Union and a number of other countries. The restrictions imposed can seriously affect the EU's economy, since Russia is an important consumer of its products. The Russian RTS Index lost 3.5% over the previous week. Economists voiced forecasts that the Russian economy would enter recession by the end of the current year.

The worsening of the geopolitical situation affected European markets to a greater extent. The US markets finished the previous week without significant losses, since bad political news were partially leveled by good indicators of corporate financial statements and several good statistical indicators of the US economy.

During the current week, as before, geopolitical news will continue to predominate. The entire world will follow further development of the situation between Ukraine and Russia. So far, no positive changes in moods of investors can be expected.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1931.6	0.3%	-2.1%	4.5%
FTSE 100 (UK)	6567.4	-1.7%	-2.2%	-2.7%
MXME (East. Eur.)	168.5	-2.9%	-13.1%	-15.8%
UX (Ukraine)	1266.6	-3.9%	3.3%	39.2%
RTS (Russia)	1170.6	-3.5%	-16.6%	-18.9%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	200.0	-2.9%	-10.9%	-23.2%
Steel, USD/ton	500.0	1.4%	1.6%	-1.2%
Oil, USD/barrel	105.0	0.2%	-3.0%	-5.2%
Gold, USD/ounce	1309.3	1.2%	-1.2%	8.7%

Source: Bloomberg

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

Department of Investment Business  
Andriivska St., 4, Kiev, Ukraine 04070  
tel. +38 044 231 7380

**MACROECONOMICS**

In July 2014, consumer prices slowed down. Compared to June 2014, consumer prices grew 0.4%. Annual inflation reached 12.6%.

Prices for food products slipped 0.7% in July. In particular, prices for vegetables dropped almost one third compared to the previous month, which is connected with the seasonally growing supply of domestic products. Prices for accommodation and public utilities went up 4% in July, which is the result of growing rates for residential services and utilities.

Producer prices also slowed down, but still are growing at a rapid pace. In July, producer prices rose 2.7% compared to the previous month and soared 22.5% year-on-year. Prices for deliveries of electricity, gas and vapor jumped 8.8% compared to the previous month because of growing rates. Prices in mining industry grew 2.7%. In particular, prices in production of crude oil and gas rose 17.9% in July.

**BOND MARKET**

Last week, the Ministry of Finance managed to raise UAH 1.7 billion to the State Budget of Ukraine thanks to selling internal government bonds at tenders held on 7 and 8 August.

Tenders held on 5 and 6 August ended without any result: the Ministry of Finance did not satisfy bids for purchasing bonds maturing in two years where potential buyers requested an earning rate of 16.75% per annum. Later on, the Ministry of Finance had to compromise with participants in tenders by way of selling internal government bonds maturing in two years with a weighted average yield of 16.99% per annum for the total of UAH 1.2 billion on 8 August. Over the last weeks, the risks of investing in internal government bonds denominated in hryvnia went up in connection with growing instability on the foreign exchange market.

According to the preliminary schedule for placing internal government bonds, the Ministry of Finance plans to hold two tenders – on 12 and 14 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, as well as internal government bonds denominated in US dollars and maturing in two years.

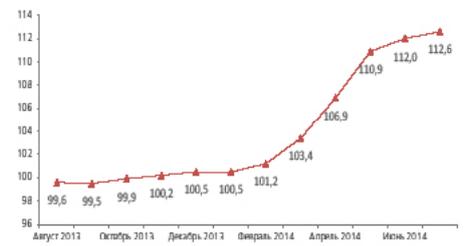
**EQUITY MARKET**

Last week, the Ukrainian stock market collapsed. The Ukrainian Exchange (UX) Index lost 3.9% over the previous week and closed at 1,266.55 points on Friday, 8 August.

The Ukrainian market suffered as a result of the news about the growing threat of Russia’s armed invasion of the Ukrainian territory. Destabilization on the foreign exchange market and rapid depreciation of the national currency were an additional negative factor.

During the current week, the best outcome for the Ukrainian stock market will be to remain flat.

**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
7 Aug	173 days	14.90%	3/3	158.8
7 Aug	250 days.	15.90%	2/2	45.1
7 Aug	719 days, military bonds	7.00%	2/2	6.5
8 Aug	705 days.	16.99%	3/3	1237.8
8 Aug	1818 days.	14.30%	1/1	300.2

Source: the Ministry of Finance of Ukraine

**THE UX INDEX**



Source: Thomson Reuters

## FOREIGN EXCHANGE MARKET

In the course of the entire previous week, hryvnia continued to depreciate, and household demand for foreign exchange grew seriously. Last week, trading on the interbank foreign exchange market ranged within the limits of UAH 12.35-12.45/USD over Monday-Wednesday, UAH 12.50-12.60/USD on Thursday and UAH 12.60-12.70/USD on Friday.

The National Bank of Ukraine carried out two interventions, trying to lower demand for foreign exchange on the part of households.

The maximum foreign exchange sales volumes were registered on Tuesday, 5 August: above USD 0.39 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.28 billion.

## INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market went up. By the end of the previous week, the cost of overnight loans reached 2-5%, while the cost of weekly resources was 2-7%, and the cost of monthly resources landed at 3-8%. The balance on correspondent accounts shrank and stood at UAH 26-27 billion in the course of the previous week.

## CHANGES TO THE LEGISLATION

The Regulation No.449 adopted by the Board of the National Bank of Ukraine "On amending the Regulation No.328 adopted by the Board of the National Bank of Ukraine dated 30 May 2014" dated 28 July 2014 (hereinafter referred to as the Regulation No.449) came into effect on 29 July 2014.

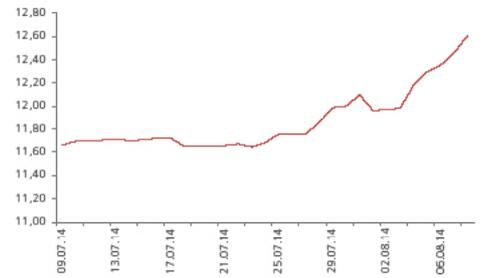
Among other things, the above-mentioned Regulation extends the restriction on paying out (receiving) cash resources in the national currency through cash offices and ATMs within limits of UAH 150,000 per day per one client. This restriction shall not apply to payment of cash resources for the purpose of paying out salaries and wages, subsistence and travel allowance (within the limits established by the legislation), pensions, grants and scholarships, and other social transfers and transfers equaled to them (except for financial assistance).

We would like to draw attention to the fact that the Regulation No.449 canceled the earlier effective exception, according to which it was allowed to pay (receive) cash resources from current and deposit accounts provided these resources were paid in in cash form and within the limits of cash resources paid in earlier.

The Regulation No.450 adopted by the Board of the National Bank of Ukraine "On amending the Instructions on the procedure for opening, using and closing accounts in the national and foreign currencies" dated 29 July 2014 (hereinafter referred to as the Regulation No.450) came into force on 30 July 2014.

According to the Regulation No.450, a new paragraph was added to item 20.1 of Chapter 20 of the Instructions on the procedure for opening, using and closing accounts in the national and foreign currencies that were approved by the Regulation No.492 adopted by the Board of the National Bank of Ukraine dated 12 November 2003, rendering the following: "A bank cannot close a current account of its client, if this account has been used to make settlements under foreign economic contracts where obligations under such contracts have not been carried out in full. A bank that controls timely settlements under foreign economic transactions of a client shall close such an account only after such a foreign economic transaction has been taken off control."

## WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



**DEPARTMENT OF INVESTMENT BUSINESS**

Anton Stadnik  
Head of department  
+38 044 231 7046  
anton.stadnik@fuib.com

Marina Timbay  
Trading and brokerage  
+38 044 231 7053  
marina.timbay@fuib.com

Yevhenia Akhtyrko  
Research  
+38 044 231 7380  
evgeniya.ahtirko@fuib.com

**INTERNATIONAL FINANCING  
AND TRANSACTION STRUCTURING**

Serhiy Zubro  
+38 044 231 7055  
serhiy.zubro@fuib.com

**TRANSACTION SERVICES**

Anton Gurban  
+38 044 231 7530  
anton.gurban@fuib.com

**PUBLIC RELATIONS**

Anna Kokoba  
+38 044 231 7252  
anna.kokoba@fuib.com

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