

Financial markets survey

01 September 2014

Contradictory growth

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world finished the last week of August in the green zone. Notwithstanding the significant deterioration of the geopolitical situation, indices of trading platforms in the US and Western Europe registered growth in August.

According to information provided by Bloomberg, capitalization of stock markets of the entire world – from Brazil to Japan – reached a record-high USD 66 trillion as a result of trading on Tuesday, 26 August. At a pre-crisis peak in 2007, world stock cost approximately USD 63 trillion in the aggregate. By March 2009 (the current over-year record-low), their capitalization plummeted to USD 25 trillion.

In the environment of an unprecedented worsening of the geopolitical situation, which is characterized by the appearance of new seats of instability on the map of the world, it is very difficult to find a good substantiation for markets to grow. Investors expect that incentive programs of the leading central banks across the world will spur economic growth in the majority of countries. This helps reducing the impact of political crises in Ukraine, Iraq and the Gaza Strip on stock markets. At the same time, top officials of central banks in the US and Europe are stating more and more often than central banks have exhausted their measures to support the economy.

Over the previous week, growth of markets was, in many aspects, conditioned by unexpectedly good macroeconomic statistical data from the US. In July 2014, durable goods orders in the US soared a record-high 22.6% compared to the previous month. In August 2014, the Consumer Confidence Index in the US jumped to 92.4 points, which is a record-high indicator since October 2007. Optimistic moods of investors grew stronger also thanks to the news that Burger King, a global chain of hamburger fast food restaurants, reached an agreement on merger with Tim Hortons, a Canadian coffee and doughnuts shop. The deal on the Canadian company is estimated at USD 11.4 billion.

During the current week, investors will follow the development of the military situation in Ukraine and Iraq. Investors are also expecting decisions of western countries regarding the institution of new economic sanctions against Russia.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2003.4	0.8%	1.7%	8.4%
FTSE 100 (UK)	6819.8	0.7%	0.7%	1.0%
MXME (East. Eur.)	172.1	-4.2%	-1.7%	-14.0%
UX (Ukraine)	1181.1	-4.8%	-12.4%	29.8%
RTS (Russia)	1190.2	-5.5%	-2.6%	-17.5%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	192.5	-2.0%	-6.6%	-26.1%
Steel, USD/ton	509.0	0.0%	3.2%	0.6%
Oil, USD/barrel	103.2	0.9%	-3.1%	-6.9%
Gold, USD/ounce	1287.2	0.5%	-0.6%	6.8%

Source: Bloomberg

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MACROECONOMICS

Real wages shrank at a significantly more rapid pace in July. According to information of the State Statistics Service, real wages in Ukraine dropped 8.9% in July 2014 compared to July 2013.

Shrinking wages were registered across all oblasts of the country. However, wages dropped the most in Donetsk and Luhansk oblasts, where business activities of many companies were seriously reduced or stopped as a result of hostilities. In July 2014, real wages shrank 31.2% year-on-year in Donetsk oblast and 27.5% year-on-year in Luhansk oblast.

In July 2014, the average monthly wage of full-time employees totaled UAH 3,537. The lowest wages were registered in Ternopil, Chernivtsi, and Luhansk oblasts, while the highest wages were observed in the city of Kyiv, Kyiv and Dnipropetrovsk oblasts.

BOND MARKET

Last week, tenders of the Ministry of Finance to sell internal government bonds ended without any result. On 26 August, the Ministry of Finance did not satisfy a single bid for purchasing internal government bonds maturing in two years and denominated in US dollars where the potential buyer requested an earning rate of 14% per annum. No applications were submitted for participation in a tender held on 28 August.

Last week, low activity of participants in the country's bond market was even more undermined by the news about the significant worsening of the military situation, which is now characterized as the invasion of the Russia's Armed Forces of the Ukrainian territory.

EQUITY MARKET

Last week, the Ukrainian Exchange (UX) Index lost 4.8% and closed at 1,181.10 points on Friday, 29 August. The Ukrainian stock market collapsed owing to the significant deterioration of the military situation in the eastern part of the country. The Ukrainian leaders made a statement on the invasion of the Russian Federation's Armed Forces of the Ukrainian territory. The reaction of traders was softened somewhat by the news that the IMF made a decision to allocate the second tranche of a loan to Ukraine totaling approximately USD 1.4 billion.

FOREIGN EXCHANGE MARKET

In the course of the entire previous week, hryvnia continued to depreciate, while household demand for foreign exchange grew wildly. Over Tuesday-Wednesday, trading on the interbank foreign exchange market ranged within the limits of UAH 13.80-14.50/USD. On Wednesday, the exchange rate set a record-high over the entire history of the interbank foreign exchange market, at UAH 14.50/USD. On Thursday, the exchange rate went down after an administrative interference by the National Bank of Ukraine, and trading ranged within the limits of UAH 13.30-13.70/USD. On Friday, trading ranged within the limits of UAH 13.70-14.20/USD. However, as a result of additional restrictions on the part of the National Bank, the market was limited to the UAH 13.50/USD exchange rate by the end of Friday.

Over the previous week, the National Bank of Ukraine carried out no interventions on the market.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in July 2014 , % year-on-year	-8.9

Источник: Государственная служба статистики

THE UX INDEX



Source: Thomson Reuters

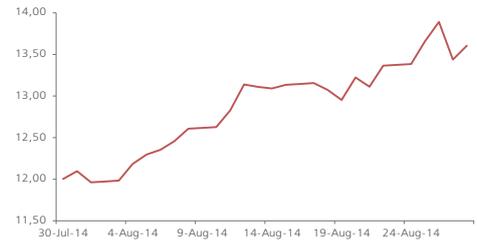


The maximum foreign exchange sales volumes were registered on Thursday, 28 August: above USD 0.55 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.42 billion.

INTERBANK LENDING MARKET

Investment risks grew in connection with the worsening military situation in the country. During the previous week, the cost of interbank lending resources was high. On Friday, 29 August, rates for overnight loans landed at 6-9%, while rates for monthly loans reached 7-10%. Lending resources longer than one week were not offered. During the previous week, the balance on correspondent accounts stood at a relatively high level. As of Friday morning, 29 August, the balance on correspondent accounts totaled UAH 29.3 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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