



Financial markets survey

08 September 2014

Armistice and sanctions

WEEKLY ISSUE

GLOBAL MARKETS

The first week of September was relatively quiet on global trading platforms. Presidents of Ukraine and Russia held negotiations on ceasing fire in the eastern part of Ukraine. A cease-fire agreement was reached on Friday, 5 September. Regardless of this agreement, the situation in Ukraine is very far from being regulated, since the Russian Federation is still denying the presence of its armed forces on the territory of Ukraine, while separatists have not given up their plans to withdraw the relevant territories from the composition of Ukraine.

The American S&P 500 Index continued growing and set a new historical record-high once again. In addition to a more or less quiet external background, optimistic moods of investors were based on unexpectedly good data on durable goods orders, which came in a week before. In unison with this indicator, the ISM Manufacturing Index in the US turned out to be a pleasant surprise. In August 2014, this index rose to 59 points – a record-high since March 2011 – against 57.1 points a month before.

The European stock market also was not lagging behind. Europe's economic indicators were no reason for joy. However, the European Central Bank (ECB) decidedly announced the beginning of a quantitative easing program. In particular, starting from October 2014, the ECB will begin purchasing a wide range of asset-backed securities (ABS). In addition, last week, the ECB unexpectedly lowered all three interest rates to a record-low level, which is also an economic incentive measure.

During the current week, investors will focus their attention on the EU's actions to institute new sanctions against Russia. There is an opinion that the EU may wait a little with the imposition of sanctions in order to assess Russia's readiness to assist in de-escalating the conflict in Ukraine.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2007.7	0.2%	4.6%	8.6%
FTSE 100 (UK)	6855.1	0.5%	3.3%	1.6%
MXME (East. Eur.)	180.1	4.7%	7.0%	-10.0%
UX (Ukraine)	1161.6	-1.7%	-9.4%	27.6%
RTS (Russia)	1257.3	5.6%	8.3%	-12.9%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	191.5	-0.5%	-4.3%	-26.5%
Steel, USD/ton	515.0	1.2%	3.0%	1.8%
Oil, USD/barrel	100.8	-2.3%	-3.6%	-9.0%
Gold, USD/ounce	1268.6	-1.4%	-2.9%	5.3%

Source: Thomson Reuters

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MACROECONOMICS

In August 2014, consumer prices accelerated. Compared to July 2014, consumer prices grew 0.8%. Annual inflation reached 14.2%.

Prices for food products slipped 0.1% in August. In particular, prices for vegetables and fruits went down compared to the previous month, which is connected with the seasonally growing supply of domestic products. Prices for accommodation and public utilities went up 1.6% in August, which is the result of growing rates for residential services and utilities.

Producer prices continued growing at a rapid pace. In August, producer prices rose 2.6% compared to the previous month and soared 24.4% year-on-year. Prices in mining industry grew the most – 5.3% - because of growing prices in production of coal and metal ores.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 23.4 million to the State Budget of Ukraine by way of selling internal government bonds at tenders held on 2 and 4 September.

At a tender held on 2 September, the Ministry of Finance sold bonds denominated in hryvnia and maturing in two years. Despite a rather high earning rate, at 16.5% per annum, these bonds were purchased by a sole participant in this tender. At a tender held on 4 September, the Ministry of Finance sold "military bonds" designed for financing the Armed Forces of Ukraine. In our opinion, sale at both tenders involved state-owned banks.

Due to the worsening situation in the eastern part of the country, the situation on the internal borrowings markets will continue to be difficult. The risks of investing in government securities are going up.

EQUITY MARKET

Last week, the Ukrainian Exchange (UX) Index continued losing points. By the end of the previous week, the UX Index lost 1.7% and closed at 1,161.55 points on Friday, 5 September. Unlike western investors, Ukrainian traders did not react positively to the information about possible cease-fire in Ukraine. Perhaps, in their opinion, the cease-fire agreement will not result in the resolution of the military conflict on the territory of Ukraine.

FOREIGN EXCHANGE MARKET

On the first day of autumn, the interbank foreign exchange market was at its highest over the previous week – at UAH 13.00/13.20/USD. On Tuesday and Wednesday, after amendments related to foreign exchange purchases came into force (starting from 2 September, foreign exchange purchases shall be carried out on the third working day after submitting the relevant application and depositing the relevant hryvnia resources), the market registered only foreign exchange supply, while quotations went down to UAH 12.40/12.70/USD. However, over Thursday-Friday, when client applications for large foreign exchange purchases appeared on the foreign exchange market, quotations grew to UAH 12.80/12.90/USD.

Over the previous week, the National Bank of Ukraine carried out two interventions on 2 and 3 September at UAH 12.50/13.00/USD and at UAH 12.40/12.90/USD respectively.

CONSUMER PRICE INDEX (year-on-year)



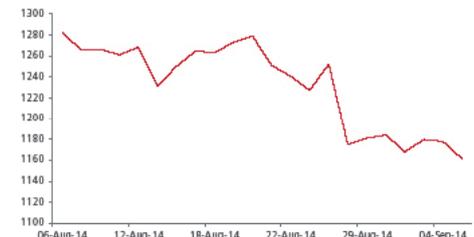
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
2 Sep	714 days	16.50%	1/1	12.0
4 Sep	691 days, military	7.00%	2/2	21.4

Source: the Ministry of Finance of Ukraine

THE UX INDEX



Source: Thomson Reuters



The maximum foreign exchange sales volumes were registered on Thursday, 4 September: above USD 0.43 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 interbank lending resources remained high. At the same time, the cost of overnight lending resources and weekly loans was practically identical and ranged within the limits of 6-9% per annum. 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, 5 September, the balance on correspondent accounts totaled UAH 31.3 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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