



Financial markets survey

15 September 2014

Good statistics as a negative factor

WEEKLY ISSUE

GLOBAL MARKETS

The previous week was marked by the fall on stock platforms across the world. The main political intrigue of the week was the decisions made by the EU and the US on instituting new sanctions against Russia. There was no confidence that western countries would introduce new sanctions. However, the lack of progress on the part of Russia with respect to resolving the armed conflict on the territory of Ukraine impelled politicians to institute new restrictions against a number of companies, banks and persons.

Last week, American investors demonstrated negative moods. They are expecting that the Federal Reserve System will raise rate as part of tapering the incentive policy. If the US economy demonstrates good performance indicators, there will be a growing likelihood of higher rates. This is why the news about growing retail trade, as well as expectations of good data on goods reserves at US warehouses and consumer confidence resulted in this decline on the American market.

The current week will hardly bring any change in the moods of investors. No visible progress can be seen in the resolution of the Ukrainian-Russian conflict. Modifications introduced to the EU-Ukraine Association Agreement under pressure from Russia are unlikely to be a sufficient concession to stop the aggression.

An important event of the current week will be the Scottish independence referendum scheduled to take place on 18 September.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,985.5	-1.1%	2.0%	7.4%
FTSE 100 (UK)	6,807.0	-0.7%	2.3%	0.9%
MXME (East. Eur.)	175.1	-2.8%	0.0%	-12.6%
UX (Ukraine)	1,125.7	-3.1%	-8.6%	23.7%
RTS (Russia)	1,213.3	-3.5%	-0.6%	-15.9%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	191.5	0.0%	-15.5%	-26.5%
Steel, USD/ton	510.0	-1.0%	2.0%	0.8%
Oil, USD/barrel	97.1	-3.7%	-6.9%	-12.4%
Gold, USD/ounce	1,228.1	-3.2%	-6.4%	1.9%

Source: Thomson Reuters

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MACROECONOMICS

According to information of the State Statistics Service, Ukraine's GDP shrank 4.6% in the second quarter of 2014 compared to the second quarter of the previous year.

The country's economy continues to decline mainly as a result of sinking investment: gross accumulation of fixed assets shrank 18.5% year-on-year in the second quarter of 2014.

Final consumer expenditures of households slipped 2.3% year-on-year in Q2'2014. At the same time, consumption in the public administration sector rose 6.9%, which is evidently connected with growing defense expenditures.

Imports of goods and services shrank 11.3% in the second quarter, while exports dropped 7.4%.

GDP deflator reached 11.1% in the second quarter of 2014.

BOND MARKET

Last week, the Ministry of Finance did not manage to raise resources to the State Budget of Ukraine by way of selling internal government bonds. At a tender held on 9 September, the Ministry of Finance offered internal government bonds denominated in hryvnia and maturing in two years with a nominal earning rate of 17.30% per annum. However, no bids were submitted for purchasing the above-mentioned debt securities.

EQUITY MARKET

Last week, the Ukrainian Exchange (UX) Index continued losing points. By the end of the previous week, the UX Index lost another 3.1% and closed at 1,125.73 points on Friday, 12 September. Traders do not believe that the current armistice in the eastern part of the country will be long-lasting and will lead to resolution of the conflict.

In our opinion, during the current week, traders' moods as regards the Ukrainian market will continue to be negative. Ratification of the Association Agreement between Ukraine and the European Union that should take place on Tuesday, 16 September, will hardly improve these moods, since important changes regarding the free trade area between Ukraine and the EU were introduced to this agreement under pressure from Russia.

FOREIGN EXCHANGE MARKET

Last week, trading on the interbank foreign exchange market was carried out at the UAH 12.90/USD exchange rate. If there were no administrative pressure on the part of the National Bank, trading on the market would range within the limits of UAH 13.10-13.60/USD, since demand significantly exceeded supply. The National Bank of Ukraine carried out no interventions.

The maximum foreign exchange sales volumes were registered on Wednesday, 10 September: above USD 0.61 billion (all currencies), including sales of the American currency alone the total of more than USD 0.23 billion.

LATEST MACROECONOMIC DATA

Indicator	Value
GDP change in Q2'2014, % year-on-year	-4.6

Source: the State Statistics Service

THE UX INDEX



Source: Thomson Reuters

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



INTERBANK LENDING MARKET

Last week, the cost of overnight loans remained within the limits of 6-9% per annum. The cost of weekly resources grew to 7-11% per annum. Lending resources longer than one week were not offered. During the previous week, the balance on correspondent accounts remained at a relatively high level. As of Friday morning, 12 September, the balance on correspondent accounts totaled UAH 32.5 billion.



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