



Financial markets survey

22 September 2014

Incentives are still needed

WEEKLY ISSUE

GLOBAL MARKETS

Last week turned out to be rather favorable for western stock platforms. Western investors focused their attention on two events of the week: the FRS meeting scheduled for 16-17 September and the Scottish independence referendum that took place on 18 September. Both events registered favorable results for investors.

Investors were concerned that the FRS will change its wording regarding the long-term retention of low interest rates hoping that the American economy has got enough government incentives and will feel confident, if the Government seriously tapers its support. Nevertheless, top officials of the central bank decided to confine themselves to soft measures: the volumes of asset buy-out will be reduced; however, rates will continue to be low for a long time.

The soft FRS decision, as well as the decision of Scotland resident not to separate from the United Kingdom reinforced optimistic moods, and American stock indices set new historical record-highs by the end of the previous week.

Russia's stock market suffered a new shock. On Tuesday, 16 September, Vladimir Evtushenkov, Chairman of the Board of OJSC Joint Stock Financial Corporation "Sistema" was charged with money laundering (legalization). Mr. Evtushenkov was taken under house arrest. Shares of Joint Stock Financial Corporation "Sistema" and its subsidiaries – MTS and Bashneft – fell on Wednesday when trading opened at Moscow Exchange. It is supposed that this event will deliver one more serious blow to the business climate in Russia, because no such level businessmen have been arrested in the country since 2003, when Mikhail Khodorkovsky, owner of YUKOS, an oil company, was imprisoned.

The Ukrainian-Russian conflict will continue to be the center of attention for global investors. The whole world is expecting clear actions from Russia confirming its declaration of willingness to settle the conflict.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2010.4	1.3%	1.2%	8.8%
FTSE 100 (UK)	6837.9	0.5%	1.2%	1.3%
MXME (East. Eur.)	171.4	-2.1%	-4.5%	-14.4%
UX (Ukraine)	1044.3	-7.2%	-18.4%	14.8%
RTS (Russia)	1170.3	-3.5%	-6.9%	-18.9%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	191.5	0.0%	-2.5%	-26.5%
Steel, USD/ton	510.0	0.0%	0.2%	0.8%
Oil, USD/barrel	98.4	1.3%	-3.8%	-11.2%
Gold, USD/ounce	1216.2	-1.0%	-5.9%	0.9%

Джерело: Thomson Reuters

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MACROECONOMICS

According to information of the State Statistics Service, industrial output shrank seriously in August 2014. Compared to August 2013, industrial output went down 21.4%. Over January-August 2014, industrial output dropped 7.8% year-on-year.

The main reason for such an accelerated decline of industrial output was intensified hostilities on the territory of Donetsk and Luhansk oblasts, which resulted in the loss of political and economic control over a part of territories within the above-mentioned oblasts.

Output in mining industry shrank 27.4% year-on-year in August 2014. In particular, production of black and brown coal plummeted 60.4% year-on-year. Output in processing industry dropped 19.2%. Output shrank the most in coke industry and oil refining (-50.2%), machine-building (-31%) and steel industry (-30%).

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 112 million to the State Budget of Ukraine by way of selling internal government bonds.

At a tender held on 16 September, the Ministry of Finance placed bonds denominated in US dollars and maturing in two years with an earning rate of 8.10% per annum. At a tender held on 18 September, the Ministry of Finance sold "Military Bonds" maturing in July 2016 and yielding 7% per annum. There were one buyer at the first tender and four buyers at the second tender. The risks of investing in government securities are very high as a result of the extremely complicated political situation in the country.

According to the schedule for placing internal government bonds, the Ministry of Finance plans to offer indexed internal government bonds maturing in two years during the current week.

EQUITY MARKET

Last week, the Ukrainian Exchange (UX) Index registered a downward trend. By the end of the previous week, the UX Index lost another 7.2% and closed at 1,044.33 points on Friday, 19 September.

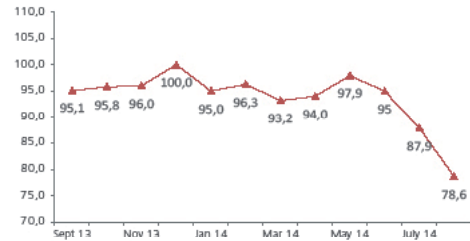
Ukrainian investors demonstrated a negative reaction towards the initiatives of the Ukrainian Government to grant a "special status" to some territories in Donetsk and Luhansk oblasts.

The current week is not likely to bring a turning point in the moods of investors. The armistice in the eastern part of the country is very fragile, while the Government will have to work hard in order to formulate and to make clear to the public its decisions regarding the adjustment of the situation.

FOREIGN EXCHANGE MARKET

Monday through Wednesday of the previous week, trading on the interbank foreign exchange market was carried out at the UAH 12.90/USD exchange rate. From Thursday on, the National Bank of Ukraine raise the trading range to UAH 13.00/13.50/USD. As a result, trading on the interbank foreign exchange market was carried out at the UAH 13.50/USD exchange rate from Thursday to Friday. The National Bank carried out no interventions. However, the NBU held a foreign exchange tender on Friday, where the cutoff exchange rate was UAH 13.55/USD.

INDUSTRIAL OUTPUT 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
16 Sept.	721 days USD	8.10%	1/1	8.0*
18 Sept.	677 days, military	7.00%	4/4	7.9

Source: the Ministry of Finance of Ukraine

THE UX INDEX



Source: Thomson Reuters

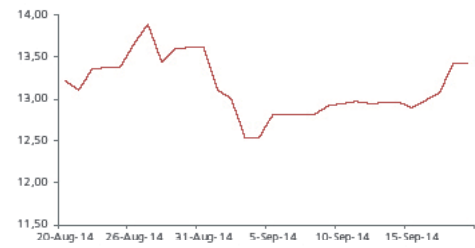


The maximum foreign exchange sales volumes were registered on Wednesday, 17 September: approximately USD 0.395 billion (all currencies), including sales of the American currency alone for the total a little over USD 0.26 billion.

INTERBANK LENDING MARKET

Last week, the cost of overnight loans stood at 5-8% per annum. The cost of weekly resources reached 6-10% per annum. Lending resources longer than one week were not offered. The cost of resources remains high due to high risks, which are the result of the current political situation, and gradual appreciation of the US dollar in swap operations. During the previous week, the balance on correspondent accounts remained at a relatively high level. As of Friday morning, 19 September, the balance on correspondent accounts totaled UAH 32.7 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU



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