



Financial markets survey

13 October 2014

Weak Europe as a threat to the US

WEEKLY ISSUE

GLOBAL MARKETS

During the previous week, markets continued following their downward trend. The global economic situation continues to deteriorate and, it seems, nobody is hoping that the situation will somehow noticeably improve by the end of the year.

Statistical data reflected the impact of anti-Russian sanctions on the euro-area economy. In Germany, orders of industrial companies dropped 5.7% in August 2014 compared to the previous month, which is a record-low decline since January 2009. In August 2014, German exports shrank 5.8% compared to the previous month, which is also a record-low drop since January 2009. Chairman of the Board of UBS AG, a Swiss global financial services company, and former President of the Deutsche Bundesbank, the Federal Bank of Germany, Axel Weber is convinced that worsening indicators are the result of sanctions instituted against Russia. Before the institution of sanctions, exports to Russia covered 1.4% of Germany's GDP.

According to data of its World Economic Outlook (WEO), the International Monetary Fund (IMF) slightly downgraded its forecast for global GDP growth in 2014: to 3.3% from 3.4% which were expected in July. The estimate for 2015 was also downgraded: to 3.8% from 4% according to July outlook.

Weak indicators of the European economy also constitute a threat to the US economy. The protocol of the Federal Reserve System meeting that took place on 16-17 September, which was published during the previous week, demonstrated the fears of the American central bank top officials that slower recovery of the global economy and a strong US dollar bear potential risks for the forecast of economic growth in the US. Based on such statements, investors decided that the FRS will keep low rates, since the global economy is growing weaker. Nevertheless, the hope for low rates could not keep American markets from the fall.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1906.1	-3.1%	-4.5%	3.1%
FTSE 100 (UK)	6340.0	-2.9%	-7.2%	-6.1%
MXME (East. Eur.)	157.8	-2.1%	-11.3%	-21.2%
UX (Ukraine)	1070.9	-0.4%	-4.7%	17.7%
RTS (Russia)	1064.3	-2.5%	-14.1%	-26.2%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	190.0	0.5%	-0.8%	-27.1%
Steel, USD/ton	489.0	-2.2%	-4.1%	-3.4%
Oil, USD/barrel	90.2	-2.3%	-8.0%	-18.6%
Gold, USD/ounce	1223.0	2.7%	-2.0%	1.5%

Source: Thomson Reuters

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MACROECONOMICS

Inflation

In September 2014, consumer prices accelerated. Compared to August 2014, consumer prices grew 2.9%. Annual inflation reached 17.5%.

After deflation in August, prices for food products jumped 2.9% in September. Prices for alcoholic beverages and tobacco products went up 3.7%, while prices for clothes and footwear surged 7.9%. Accelerating prices are connected with a new round of depreciation of the national currency, which took place in late August – early September. In addition, producers are expecting higher expenses on public utilities as the weather becomes cold and began including higher fixed costs in prices for their products.

Prices for accommodation and public utilities went up 1.6% in September. One more leap of prices for accommodation and public utilities can be expected in November, when more consumers will start to pay for heating at new increased rates.

Producer prices continued growing at a rapid pace. In September, producer prices rose 2.4% compared to the previous month and soared 26.9% year-on-year. As before, prices in mining industry are growing the most. In particular, prices in the production of black coal jumped 12.7% in September 2014.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 2.6 billion to the State Budget of Ukraine by way of selling internal government bonds. The situation on the internal borrowings market did not change. As before, placements are of non-market nature and, most likely, involve state-owned banks. At the same time, longer-term bonds are placed with a lower interest rate than short-term bonds.

At a tender held on 7 October, the Ministry of Finance placed bonds maturing in one year and in two years with an earning rate of 17.50% and 16.50% per annum respectively. The largest sum of resources was raised by way of selling bonds maturing in five years on 10 October. Two buyers of these bonds will earn 14.25% per annum.

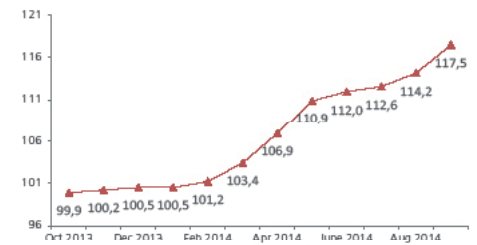
Our analysts do not expect that the situation on the internal borrowings market will change in the near future. Most likely, buyers of internal government bonds will be state-owned banks only.

During the current week, the Ministry of Finance plans to hold a tender on 13 October, where it will offer internal government bonds denominated in hryvnia and maturing in five years.

NBU OPERATIONS

On 8 October, the NBU held an interest-bearing tender to refinance banks. As a result of this tender, the NBU satisfied bids of three banks for the total of UAH 2 billion with a weighted average interest rate of 19.17% per annum. This was the highest weekly refinancing amount issued over the last two months and the highest rate since the beginning of the year. Growing refinancing amounts and rates point to the difficult situation in the country's banking system.

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 Oct.	350 days	17.50%	2/2	967.8
7 Oct.	679 days	16.50%	1/1	6.4
10 Oct.	1818 days	14.25%	2/2	1601.2

Source: the Ministry of Finance of Ukraine

Last week, the National Bank of Ukraine managed to raise UAH 22.7 billion by way of placing certificates of deposit against UAH 23.4 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 18.1 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. In addition to overnight loans, certificates of deposit for the period of seven days also enjoyed demand. The longest term of a deposit certificate placed during the previous week reached 85 days (for the total of UAH 70 million with a 12% annual interest rate).

EQUITY MARKET

Last week, the Ukrainian stock market refrained from a headlong fall, leveling out its positions on the last trading day. On Friday, 10 October, the Ukrainian Exchange (UX) Index closed at 1,070.86 points, having lost a mere 0.4% by the end of the previous week.

It seems that, despite the growing pessimistic moods on global capital markets, scanty players of the Ukrainian stock market decided to hold the indicators well above the level registered at the beginning of the year, keeping faith in serious potential of the Ukrainian economy and the development of capital markets in the country.

FOREIGN EXCHANGE MARKET

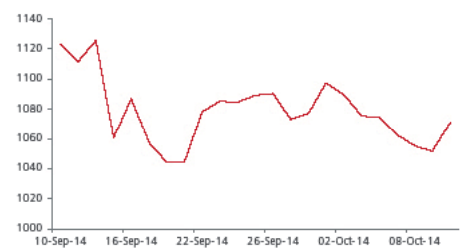
Last week, trading on the interbank foreign exchange market was carried out at the UAH 12.95/USD exchange rate. The number of deals concluded was very low. Foreign exchange demand remains high and continues to accumulate. The National Bank of Ukraine tried to meet the demand and carried out two interventions. The first one was carried out on Thursday, 9 October, to meet the needs of banks' cash offices. The second one was carried out on 10 October to meet the needs of banks' clients.

The maximum foreign exchange sales volumes were registered on Thursday, 9 October: above USD 0.39 million (all currencies), including sales of the American currency alone for the total of more than

INTERBANK LENDING MARKET

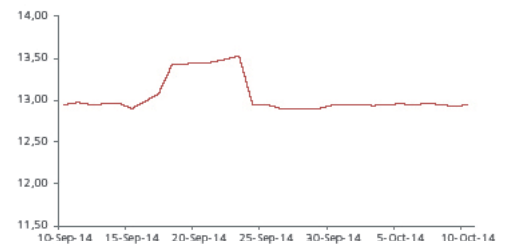
Last week, the situation on the interbank lending market did not change much. Loan rates remained high despite a relatively high level of the balance on correspondent accounts. This situation is explained by the shaky standing of the foreign exchange market, which, in its turn, raises the risks on the interbank lending market. On Friday, 10 October, rates for interbank overnight loans ranged within the limits of 6.5-8.5% per annum, while cost of weekly resources stood at 8-11% per annum. As of Friday morning, 10 October, the balance on correspondent accounts totaled UAH 26.3 billion.

THE UX INDEX



Source: Thomson Reuters

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2013	2014 (latest data)
GDP, %	0.0	-3.2 (Q2'2014)
Industrial output, %	-4.7	-7.8 (January-August)
Consumer price growth, %	0.5	17.5 (Sept. 2014, year-on-year)
Producer price growth, %	1.7	26.9 (Sept. 2014, year-on-year)
Balance of trade, USD billions	-20.0	-3.0 (January-August)
Official exchange rate, annual average, UAH/USD	7.99	11.04 (January-September)
Weighted average interbank exchange rate, annual average, UAH/USD	8.12	11.15 (January-September)
Weighted average interbank exchange rate, by year end, UAH/USD	8.15	12.95 (end of September)

Источник: Source: the State Statistics Service, NBU



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