



Financial markets survey

20 October 2014

Panic-free pessimism

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world continued to fall during the previous week. Investors are increasing money resources in their portfolios and reducing the portion of securities given the growing risks.

Estimates of experts based on the history of S&P 500 and Dow Jones stock indices over previous periods suggest that the US stock market should have already fallen 10-15%. Now investors are trying to forecast whether it is worth expecting that the main stock indices will drop 10% and lower in the near future compared to record-highs of the current year or that they will fall so low, which is expected by the majority of experts.

The domination of "bears" on the market is so strong that indices register a very weak reaction to both corporate and macroeconomic indicators. Statistical data that came from the US during the previous week were diverse. Retail sales declined more than expected in September 2014, while inventories of goods inched up 0.2% in August, which is a record-low monthly change for the entire year. At the same time, industrial output in the US grew 1% in September 2014, which is a record-high indicator for the last two years. In addition, the number of new buildings in September grew faster than forecast.

The current standing of the euro-area economy, as before, does not give any reason for optimism. Industrial output in the euro-area shrank the most in August 2014 since September 2012. In October 2014, the Business Climate Index in Germany fell record-low since November 2012. Inflation in France and the UK slowed down and is now at minimum values.

It seems that nobody is expecting markets to make a U-turn before the end of the year. The main point is how deep markets will fall.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1886.8	-1.0%	-5.7%	2.1%
FTSE 100 (UK)	6310.3	-0.5%	-6.9%	-6.5%
MXME (East. Eur.)	158.8	0.6%	-8.6%	-20.7%
UX (Ukraine)	1109.2	3.6%	4.9%	21.9%
RTS (Russia)	1072.9	0.8%	-9.8%	-25.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	190.0	0.0%	-0.8%	-27.1%
Steel, USD/ton	489.0	0.0%	-4.1%	-3.4%
Oil, USD/barrel	86.2	-4.5%	-12.9%	-22.2%
Gold, USD/ounce	1237.7	1.2%	1.2%	2.7%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output shrank at a more sluggish pace in September 2014 compared to the previous month. Compared to September 2013, industrial output went down 16.6%, while the same indicator for August 2014 was 21.4% year-on-year. Over January-September 2014, industrial output dropped 8.6% year-on-year.

The main reason for such a decline of industrial output was shutdown or withdrawal from the sphere of Ukraine's influence of enterprises located on a part of territories in Donetsk and Luhansk oblasts.

Output in mining industry shrank 27.1% year-on-year in September 2014. In particular, production of black and brown coal plummeted 57.4% year-on-year. Output in processing industry dropped at a more sluggish pace, at 11.0% in September 2014. As before, output continued to shrink the most in coke industry and oil refining (-52%), machine-building (-23%) and steel industry (-28%).

Agriculture

Over January-September 2014, agricultural output in Ukraine grew 16% compared to the same period in 2013. Over the above-mentioned period, output in plant-growing soared 22.8%, while output in livestock-breeding went up 2.9% year-on-year. The major part of this growth was secured by way of increasing output of grain crops, sugar beets and sunflower.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 2.7 billion to the State Budget of Ukraine by way of selling internal government bonds. The situation on the internal borrowings market has remained unchanged for several months in a row: placements are of non-market nature and, most likely, involve state-owned banks. The fact that the Ministry of Finance held three tenders within one week indicates that placements are made with difficulty even among pre-determined participants.

The largest sum of resources was raised by way of selling bonds maturing in five and ten years. One participant in a tender purchased "Military Bonds" for the total of UAH 316.7 million.

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 21 October, where it will offer internal government bonds denominated in hryvnia and maturing in one year, two years, five years, and seven years, as well as internal government bonds denominated in US dollars and maturing in two years.

NBU OPERATIONS

Last week, the sum allocated by the National Bank to refinance banks reached UAH 100 million, which is 20 times below the indicator registered a week before. The above-mentioned sum was granted to five participants in a tender held on 15 October. The weighted average interest rate slipped from 19.17% to 19.12% per annum.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in September 2014, % year-on-year	-16.6%
Agricultural output change over January-September 2014, % year-on-year	16.0%

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
13 Oct.	1815 days	14.25%	1/1	701.3
14 Oct.	1814 days	14.25%	1/1	701.6
16 Oct.	649 days, military	7.00%	1/1	316.7
16 Oct.	3611 days	15.50%	2/2	1012.0

Source: the Ministry of Finance of Ukraine

Last week, the National Bank of Ukraine managed to raise UAH 21.2 billion by way of placing certificates of deposit against UAH 22.7 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 17.4 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. On the whole, periods for placing certificates of deposit grew shorter. The longest term of a deposit certificate placed during the previous week reached 42 days (for the total of UAH 20 million with an 11.5% annual interest rate).

EQUITY MARKET

The Ukrainian stock market continues to go against the worldwide trends on stock platforms. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 3.6% and closed at 1,109.24 points on Friday, 17 October.

The situation in the area of the anti-terrorist operation did not change much over the previous week. However, there were several domestic policy events that seriously improved the moods of Ukrainian investors. President Petro Poroshenko appointed a new Minister of Defense, which, in the opinion of many experts, can make the anti-terrorist operation that is being carried out more efficient. Last week, the Verkhovna Rada of Ukraine passed the law on lustration, which should initiate the replacement of officials in the system of government authorities.

FOREIGN EXCHANGE MARKET

Last week did not bring any change to the foreign exchange market. Trading on the interbank foreign exchange market continued to be carried out at the UAH 12.95/USD exchange rate. At the same time, as before, the market is witnessing deferred demand, which continues to accumulate on a daily basis. In addition, there is no foreign exchange supply whatsoever.

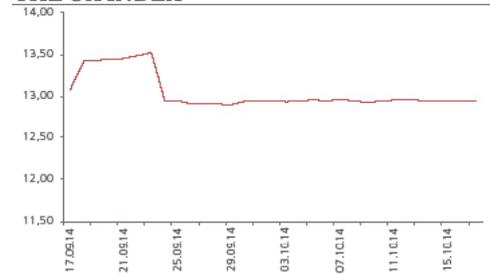
To meet the demand, the National Bank of Ukraine carried out two targeted interventions over the previous week: the first one was carried out to meet the needs of banks' cash offices, while the second one was carried out to meet the needs of banks' clients. Our analysts do not expect any changes to the situation on the interbank foreign exchange market during the current week.

The maximum foreign exchange sales volumes were registered on Friday, 17 October: above USD 0.42 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.31 billion.

INTERBANK LENDING MARKET

Last week, rates for interbank loans went up. Rates for overnight loans leapt to 7.5-9.5% per annum, while the cost of weekly resources stood at 9-12% per annum. The situation deteriorated in connection with the failure to tackle the problems of the foreign exchange market. The balance on correspondent accounts remained at a relatively high level and was above UAH 29 billion for the entire previous week. As of Friday morning, 17 October, the balance on correspondent accounts totaled UAH 29.8 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	-8.6 (January-September)
Consumer price growth, %	0.5	17.5 (September 2014, year-on-year)
Producer price growth, %	1.7	26.9 (September 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)

Source: the State Statistics Service, NBU



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