

Financial markets survey

27 October 2014

A faint hope

WEEKLY ISSUE

GLOBAL MARKETS

Last week, optimistic moods returned to the leading trading platforms across the world. The international political situation did not sustain any serious changes. Good news came mainly from the US and was related to corporate financial statements and macroeconomic indicators.

As of the beginning of the previous week, 80% of companies included in the Standard & Poor's 500 Index that have already submitted their financial statements for the third quarter exceeded expectations of analysts in terms of profits and 61% - in terms of proceeds.

Data on consumer inflation became a pleasant surprise for traders. In September 2014, consumer prices (the CPI Index) in the US inched up 0.1% compared to August and 1.7% year-on-year. The average number of applications for unemployment benefit in the US for four weeks was record-low over the last 14 years.

The euro-area's macroeconomic indicators generally do not make anyone happy. A pleasant surprise of the previous week was the composite Purchasing Managers Index (PMI) of the eighteen euro-area countries, which grew unexpectedly in October following the recovery of production activities. In particular, Germany's processing industry began to grow unexpectedly in October: the PMI jumped to 51.8 points from 49.9 points in September. The consensus forecast provided for a drop to 49.5 points.

The news that resulted in growth of stock markets over the previous week will hardly have a long-lasting impact. To restore a positive trend at least on the American market, investors will need a more serious stream of positive economic and political news.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1964.6	4.1%	-1.7%	6.3%
FTSE 100 (UK)	6388.7	1.2%	-4.7%	-5.3%
MXME (East. Eur.)	155.6	-2.0%	-9.5%	-22.3%
UX (Ukraine)	1115.8	0.6%	2.9%	22.6%
RTS (Russia)	1036.7	-3.4%	-12.8%	-28.1%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	202.5	6.6%	6.6%	-22.3%
Steel, USD/ton	483.0	-1.2%	-3.4%	-4.5%
Oil, USD/barrel	86.1	0.0%	-11.2%	-22.3%
Gold, USD/ounce	1231.0	-0.5%	1.2%	2.2%

Source: Thomson Reuters

www.pumb.ua

Department of Investment Business
Andriivska St., 4, Kiev, Ukraine 04070
tel. +38 044 231 7380

MACROECONOMICS

External sector

In September 2014, Ukraine's current account deficit grew to USD 612 million compared to USD 91 million registered a month before. An increase in the country's current account deficit compared to the previous month was mainly connected to growing imports as a result of stabilized domestic demand.

In September, surplus of the capital and financial account totaled USD 254 million. For the fourth consecutive month, the country is registering a net flow of foreign direct investment. Unlike the previous month, the country registered an inflow of loans and bonds (USD 260 million) in September. In particular, the public sector managed to raise USD 792 million from the World Bank, Canada and Japan.

As of 1 October 2014, foreign-exchange reserves totaled USD 16.4 billion. The balance of payments deficit was compensated by an IMF loan totaling USD 1.4 billion.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 2.3 billion to the State Budget of Ukraine by way of selling internal government bonds. Over the previous week, the Ministry of Finance held three tenders on the internal borrowings market, while the first tender held on 21 October ended without any results. It seems that the situation with placing internal government bonds became even more difficult, since only one participant submitted bids for participation in tenders held on 22 and 24 October.

On 22 October, the Ministry of Finance placed bonds maturing in ten years yielding 15.50% per annum. On 24 October, the Ministry of Finance placed bonds maturing in five years yielding 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 28 October, where it will offer internal government bonds denominated in hryvnia and maturing in five and seven years.

NBU OPERATIONS

Last week, the sum allocated by the National Bank to refinance banks reached UAH 500 million, which is five times the amount disbursed a week before. The above-mentioned sum was granted to four participants in a tender held on 22 October. The weighted average interest rate went up from 19.12% to 20.23% per annum. The refinancing resources were allocated for the period of 13 days.

The total sum of overnight loans issued to banks by the NBU over the previous week reached UAH 1.3 billion, which is a twofold of loans granted a week before. The weighted average interest rate for overnight loans stood at 17.50%.

Last week, the National Bank of Ukraine managed to raise UAH 27.5 billion by way of placing certificates of deposit against UAH 25.5 billion raised

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in September 2014, USD millions	-612

Source: the National Bank of Ukraine

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
22 Oct	3633 days	15.50%	1/1	1002.9
24 Oct	1811 days	14.25%	1/1	1304.4

Source: the Ministry of Finance of Ukraine

a week before. The NBU placed overnight certificates of deposit for the total of UAH 21.8 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 29 days (for the total of UAH 50 million with a 10.50% annual interest rate).

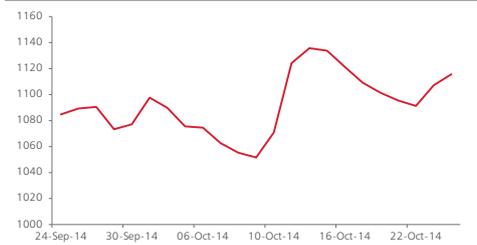
EQUITY MARKET

Last week, the Ukrainian stock market remained flat. By the end of the previous week, the Ukrainian Exchange (UX) Index inched up 0.6% and closed at 1,115.77 points on Friday, 24 October.

On Sunday, 26 October, Ukraine held extraordinary Verkhovna Rada elections. According to exit-polls, the political bloc headed by President Petro Poroshenko, as well as the bloc headed by incumbent Premier Arseniy Yatsenyuk collected the majority of votes. It is expected that these two political forces will become the foundation for a future coalition.

Most likely, the outcomes of the Verkhovna Rada elections should be positively taken by capital markets. The layout of political forces in the future Parliament makes it possible to create the necessary legislative basis for reforming the country's economy.

THE UX INDEX



Source: Thomson Reuters

FOREIGN EXCHANGE MARKET

Last week, the situation on the interbank foreign exchange market practically did not differ from what was registered over previous weeks. As before, transactions on the interbank foreign exchange market continue to be carried out at the UAH 12.95/USD exchange rate. There is no foreign exchange supply whatsoever. The National Bank of Ukraine carried out two interventions over the previous week: the first one was carried out on Wednesday to meet the needs of banks' cash offices, while the second one was carried out on Friday 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 first week after the Verkhovna Rada elections.

The maximum foreign exchange sales volumes were registered on Monday, 20 October: above USD 0.54 billion (all currencies), including sales of the American currency alone for the total of more than

INTERBANK LENDING MARKET

Last week, rates for interbank loans went up. Rates for overnight loans grew to 8.0-10.0% per annum, while the cost of weekly resources stood at 10-12% per annum. The situation continues to deteriorate in connection with the failure to tackle the problems of the foreign exchange market. The balance on correspondent accounts went down slightly compared to previous weeks. As of Friday morning, 24 October, the balance on correspondent accounts totaled UAH 26.6 billion.

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	-3.3 (January-September)
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)
Banking system assets, % of growth	13.4	2.6 (January-September)

Source: the State Statistics Service, NBU



DEPARTMENT OF INVESTMENT BUSINESS

Anton Stadnik
Head of department
+38 044 231 7046
anton.stadnik@fuib.com

Marina Timbay
Trading and brokerage
+38 044 231 7053
marina.timbay@fuib.com

Yevhenia Akhtyrko
Research
+38 044 231 7380
evgeniya.ahtirko@fuib.com

**INTERNATIONAL FINANCING
AND TRANSACTION STRUCTURING**

Serhiy Zubro
+38 044 231 7055
serhiy.zubro@fuib.com

TRANSACTION SERVICES

Anton Gurban
+38 044 231 7530
anton.gurban@fuib.com

PUBLIC RELATIONS

Anna Kokoba
+38 044 231 7252
anna.kokoba@fuib.com

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