

Financial markets survey

03 November 2014

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WEEKLY ISSUE

GLOBAL MARKETS

Last week, the leading trading platforms across the world continued growing. On the whole, growth drivers remained the same as a week before. Firstly, there was no visible worsening of the international political situation. Secondly, the results of corporate financial statements submitted by US companies continued to surpass forecasts of analysts. Thirdly, several important macroeconomic indicators of the US turned out to be very good.

By the end of the previous week, the US stock index – S&P 500 – rose 2.7% and set a new historical record-high. Optimistic moods continued on European markets as well. However, European markets are still lacking positive economic news from the euro-area in order to register sustained positive dynamics.

In October, the Consumer Confidence Index in the US grew to a record-high value over the last seven years. This gives hope for growing consumer demand in the near future, which will result in the country's economic growth. The number of applications for unemployment benefit in the US for the last month shrank to a record-low level over the last 14 years. The US GDP slowed down to 3.5% in the third quarter of 2014; however, it exceeded expectations.

The Ukrainian-Russian relations still continue to be the center of attention for the global investor community. Over the last weeks, the number of Russian troops and military vehicles and equipment in the eastern part of Ukraine, which is currently not controlled by the Ukrainian Government, went up. There is a growing threat of a new large-scale attack of gunmen and Russian troops. Escalating armed aggression can result in the institution of new sanctions against Russia.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2018.1	2.7%	3.7%	9.2%
FTSE 100 (UK)	6546.5	2.5%	-0.2%	-3.0%
MXME (East. Eur.)	160.6	3.2%	-1.6%	-19.8%
UX (Ukraine)	1114.4	-0.1%	1.5%	22.5%
RTS (Russia)	1091.4	5.3%	-2.0%	-24.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	209.5	3.5%	10.8%	-19.6%
Steel. USD/ton	463.0	-4.1%	-7.4%	-8.5%
Oil. USD/barrel	85.9	-0.3%	-8.8%	-22.5%
Gold. USD/ounce	1173.9	-4.6%	-3.3%	-2.6%

Source: Thomson Reuters

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MACROECONOMICS

Wages

According to information of the State Statistics Service, real wages in Ukraine dropped 11.4% in September 2014 compared to September 2013. Over January-September 2014, real wages dropped 4.0%.

The main reasons for real wages to shrink are the decline of the country's economy and accelerating inflation. In September 2014, annual inflation reached 17.5%.

In September 2014, the average monthly wage of full-time employees totaled UAH 3,481. The highest wages were observed in the city of Kyiv and Dnipropetrovsk oblasts. The lowest wages were registered in Ternopil, Chernivtsi, and Kherson oblasts.

GDP

According to operational estimates of the State Statistics Service, Ukraine's GDP shrank 5.1% in the third quarter of 2014 compared to the third quarter of the previous year. With due consideration for the seasonal factor, the country's GDP dropped 2.1% compared to the second quarter of 2014.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 1.8 billion and EUR 40.0 million to the State Budget of Ukraine by way of selling internal government bonds. Tenders were held on 29 and 30 October. Compared to previous tenders, bonds denominated in hryvnia were placed for shorter periods, while their yields inched up.

Perhaps, the Ministry of Finance is trying to make tenders more attractive for a broader circle of market participants by way of reducing maturity periods of the bonds offered. However, the obstacle for raising demand for internal government bonds is not only high risks of government securities, but also low volumes of spare liquidity among investors.

During the current week, the Ministry of Finance plans to hold a tender on 4 November, where it will offer internal government bonds denominated in hryvnia and maturing in two, five and ten years.

NBU OPERATIONS

Last week, the sum allocated at a tender by the National Bank to support liquidity of banks reached UAH 441 million against UAH 500 million disbursed a week before. The above-mentioned sum was granted to six participants at a tender held on 29 October. The weighted average interest rate went down from 20.23% to 19.86% per annum. The refinancing resources were allocated for the period of 13 days.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 1.2 billion. The weighted average interest rate for overnight loans did not change and stood at 17.50%.

Last week, the National Bank of Ukraine managed to raise UAH 38.2 billion by way of placing certificates of deposit against UAH 27.5 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 30.7 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. In addition to overnight

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in September 2014, %	-11.4

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
29 Oct	721 days	16.49%	3/3	897.7
29 Oct	545 days	7.50%	1/1	40.0*
30 Oct	720 days	16.51%	1/1	852.7

* EUR millions

Source: the Ministry of Finance of Ukraine

loans, certificates of deposit for the period of seven days also enjoyed demand. On the whole, periods for placing certificates of deposit grew slightly longer. The longest term of a deposit certificate placed during the previous week reached 44 days (for the total of UAH 100 million with an 11.50% annual interest rate).

EQUITY MARKET

Last week, the Ukrainian stock market continued to remain flat. By the end of the previous week, the Ukrainian Exchange (UX) Index did not undergo any statistically important changes and closed at 1,114.38 points on Friday, 31 October. The UX Index grew 1.5% since the beginning of October and 22.5% since the beginning of the year.

During the previous week, the country witnessed the beginning of the process designed to form a new Verkhovna Rada coalition based on the outcomes of the extraordinary Verkhovna Rada elections held on 26 October. The first days of negotiations demonstrated that the process of forming a new Cabinet of Ministers will not be easy or quick.

FOREIGN EXCHANGE MARKET

Last week, the situation on the interbank foreign exchange market did not register any significant changes. The market did not show any reaction to the Verkhovna Rada elections in the country. As before, there is high demand for foreign exchange at the UAH 12.95/USD exchange rate. The interbank foreign exchange market is actually not working, since there is practically no foreign exchange supply on the market, and trading volumes are very low.

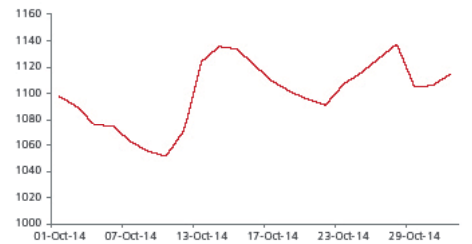
The National Bank of Ukraine softened currency exchange legislation for importers starting from 3 November 2014. Also, the NBU continues to partially satisfy the current huge demand for foreign exchange. Last week, the National Bank of Ukraine carried out two interventions. The first one was carried out on Wednesday, 29 October, to meet the needs of banks' cash offices, while the second one was carried out on Friday, 31 October, to meet the needs of banks' clients. It makes little sense to expect any changes during the current week as well.

The maximum foreign exchange sales volumes were registered on Monday, 27 October: approximately USD 515 million (all currencies), including sales of the American currency alone for the total of approximately USD 444 million.

INTERBANK LENDING MARKET

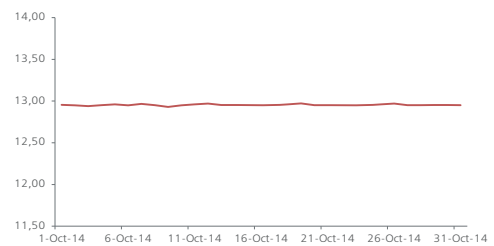
Last week, rates for interbank loans remained high. Rates for overnight loans landed at 7-10% per annum, while the cost of weekly resources stood at 10-12% per annum. The situation continues to remain difficult in connection with the failure to tackle the problems of the foreign exchange market. The balance on correspondent accounts went down and stood around UAH 26 billion for the most part of the previous week

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	-5.1 (Q3'2014)
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-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)
Banking system assets, % of growth	13.4	2.6 (January-September)

Source: the State Statistics Service, NBU



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