

Financial markets survey

10 November 2014

The rally goes on

WEEKLY ISSUE

GLOBAL MARKETS

The rally on the leading stock platforms across the world continued during the previous week. The American market is raising chances to finish the troubled 2014 with a positive result, while European trading platforms are trying to minimize their losses.

Many macroeconomic indicators of the US turn out to be noticeably better than analysts forecast for several consecutive weeks. The ISM Manufacturing Index in the US grew to 59 points in October 2014 from 56.6 points a month earlier. Experts polled by the Bloomberg agency expected this indicator to slip to 56.2 points. The highest estimate within this poll was 58.6 points. The number of applications for unemployment benefit in the US submitted over the last week of October fell below the forecasts. Labor productivity in the US rose 2% in the third quarter of 2014 according to preliminary data of the US Department of Labor. Analysts interviewed by the Bloomberg agency expected this indicator to grow 1.5% on the average.

Growth of the American market was supported by the outcomes of the elections in the US that took place on 4 November. In the course of these elections, the US Republican Party managed to get back the majority in the Senate and to consolidate its leadership in the House of Representatives. It is considered that Republicans are more inclined to favor large businesses.

Economic achievements of the euro-area countries look much more modest. The European Commission downgraded a number of its macroeconomic forecasts, including estimates of GDP growth in the European Union and in the euro-area for 2014-2015, and noted the prevalence of downward risks for the European economy. Plans of the European Central Bank (ECB) for large-scale support of the economy give hope to the European market. ECB President Mario Draghi stated that the bank would purchase asset-backed securities (ABS) and would implement targeted long-term refinancing operations (TLTROs) at least within two years.

If the international policy does not bring unpleasant surprises, investors will pay attention to economic news from developed countries during the current week. The rally of the last weeks was swift; therefore, there is a high likelihood of a slight adjustment and a subsequent switch to a side trend.

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

Inflation

In October 2014, consumer prices slowed down, but they still grew at a rapid pace. Compared to September 2014, consumer prices grew 2.4%. Annual inflation reached 19.8%.

Prices for food products rose 2.6% in October. Prices for alcoholic beverages and tobacco products went up 2.5%, while prices for clothes and footwear surged 6.4%. Regardless of the fact that the National Bank pursued the policy of a controlled exchange rate in October, the pressure of depreciation remained very high. This is why, prices for imported products continued growing.

Prices for accommodation and public utilities went up 2.2% in October. In particular, rates for hot water and heating jumped 8.5%.

In October, producer prices in Ukraine slipped 0.7% compared to September 2014. The last time when producer prices went down was registered in February 2014. In annual terms, producer prices soared 25.9%. In October, prices in mining industry dropped 3.3%, while prices in deliveries of electric energy, gas and vapor fell 5.4%.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 1.9 billion to the State Budget of Ukraine by way of selling internal government bonds. In the course of the previous week, the Ministry of Finance held three tenders: on 4, 6 and 7 November. Only the last two tenders ended in placement of bonds.

Judging by the small number of participants and the fact that the yield of longer-term bonds was lower than the yield of shorter-term securities, it makes sense to assume that tenders are manually controlled and involved pre-determined participants. So far, there is no chance that the number of participants in such tenders will expand.

During the current week, the Ministry of Finance plans to hold a tender on 11 November, where it will offer internal government bonds denominated in hryvnia and maturing in two, five and ten years.

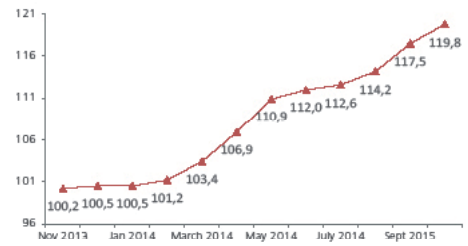
NBU OPERATIONS

Banks' needs for the NBU support went up. Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.9 billion against UAH 441 million disbursed a week before. The above-mentioned sum was granted to fourteen participants at a tender held on 5 November. The weighted average interest rate went down from 19.86% to 19.74% per annum. The refinancing resources were allocated for the period of 51 days.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 4.4 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 30.7 billion by way of placing certificates of deposit against UAH 38.2 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 25.3 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. On the whole, periods for

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
6 Nov.	727 days	16.52%	2/2	936.0
7 Nov.	3,617 days	15.50%	1/1	1,009.5

Source: the Ministry of Finance of Ukraine

placing certificates of deposit grew shorter. The longest term of a deposit certificate placed during the previous week reached 28 days (for the total of UAH 10 million with a 10.50% annual interest rate).

EQUITY MARKET

Last week, the Ukrainian stock market switched to a downward trend. By the end of the previous week, the Ukrainian Exchange (UX) Index lost 2.1% and closed at 1,090.66 points on Friday, 7 November.

There was a growing tension in connection with the situation in the eastern part of the country during the previous week. It was registered that the numbers of the Russian military machinery and equipment on the territories that are not controlled by the Ukrainian Government were rising. Therefore, there is a growing likelihood of active hostilities.

FOREIGN EXCHANGE MARKET

During the first week of November, the national currency depreciated sharply. Over 3-4 November, the interbank foreign exchange market traded at the UAH 12.95/USD exchange rate. Starting from 5 November, the regulator introduced new rules for operations on the market. The National Bank replaced interventions on Wednesdays and Fridays with daily tenders and lowered the volumes to USD 5 million per one tender for the entire market. One more innovation was the establishment of a weighted average exchange rate that should serve as a reference point for the entire market. Due to the institution of these new rules, the national currency depreciated 11.6% over three days. During these days, weighted average exchange rates were the following: UAH 13.5219/USD on 5 November, UAH 13.9531/USD on 6 November and UAH 14.5210/USD on 7 November. This resulted in growing foreign exchange demand, which is high enough as it is, as well as in panic moods among the population and particularly among legal entities that are importers, which are especially dependent on foreign exchange rate.

The maximum foreign exchange sales volumes were registered on Monday, 3 November: above USD 0.44 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.39 billion.

INTERBANK LENDING MARKET

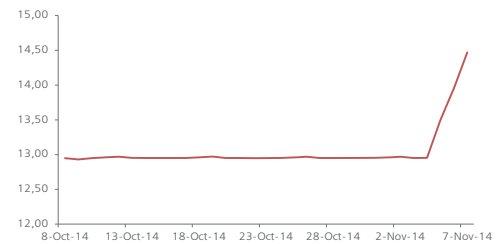
Last week, rates for interbank loans remained high. Rates for overnight loans grew even higher and reached 9-11% per annum by the end of the previous week, while the cost of weekly resources stood at 10-12% per annum. So far, attempts of the National Bank to change the rules of the game on the foreign exchange market only enhanced uncertainty among participants at the interbank lending market. In the course of the previous week, the balance on correspondent accounts went up and stood at UAH 33.3 billion as of Friday morning, 7 November.

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	19.8 (October 2014, year-on-year)
Producer price growth, %	1.7	25.9 (October 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	11.32 (January-October)
Weighted average interbank exchange rate, by year end, UAH/USD	8.15	12.95 (end of October)
Banking system assets, % of growth	13.4	2.6 (January-September)

Source: the State Statistics Service, NBU



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