

Financial markets survey

17 November 2014

Hard-to-explain growth

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world finished one more week in the "green" zone. The American indices – Dow Jones and S&P 500 – set new historical record-highs again. The British FTSE 100 Index grew 1.3% over the previous week and 7.1% in monthly terms.

It is rather difficult to explain such a long period of optimistic moods on the investment market. The main factor of positive moods was financial statements of American companies and news about company deals. Meanwhile, the stream of positive economic news began to subside.

The number of applications for unemployment benefit in the US submitted over the first week of November turned out to be unexpectedly higher than forecast. The number of US bank notices about claims to real estate of mortgage loan debtors jumped 15% in October 2014 compared to the previous month, which is a record-high growth since the beginning of 2010. Indicators of goods inventories at wholesale warehouses in the US in September and retail sales in October turned out to be better than forecast.

It seems that international news items are the only source of optimism for European investors. In September, the dynamics of leading indicators tracked by the Organization for Economic Cooperation and Development (OECD) indicated weak economic growth in the euro-area and a stable upturn in the majority of other large economies across the world and in the OECD on the whole. Industrial output in the euro-area grew 0.6% in September 2014 and turned out to be below the forecast. The German Council of Economic Experts under the German Government downgraded its estimate of economic growth in the country from 1.9% to 1.2%.

The 2014 G-20 Australia Summit that took place on 15-16 November 2014 in Brisbane, Australia, demonstrated the resoluteness of the leading western countries to confront the increasing aggression of the Russian Federation. The results of this summit will, most likely, have a positive impact on investors' moods, since the behavior of western countries with respect to Russia becomes more and more predictable.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2039.8	0.4%	9.5%	10.4%
FTSE 100 (UK)	6654.4	1.3%	7.1%	-1.4%
MXME (East. Eur.)	150.4	-0.6%	-4.8%	-24.9%
UX (Ukraine)	989.5	-9.3%	-12.7%	8.7%
RTS (Russia)	1000.4	-0.7%	-6.2%	-30.7%

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

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 7.5% over January-October 2014 compared to the same period in 2013. Over the above-mentioned period, output in plant-growing rose 9.6%, while output in livestock-breeding went up 2.7% year-on-year.

As of 1 November, gross yield of grain crops and leguminous plants grew 13.6%, while sugar beets yield soared 41.0% compared to early November 2013. As of the above-mentioned date, areas under winter crops sown for grain and green fodder of the 2015 harvest grew 6.2%.

As of 1 November, cattle headcounts shrank 2.7%, while pig headcounts slipped 1.5%.

The average selling prices of farms for agricultural products jumped 18.2% over January-October 2014 compared to the same period in 2013.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 3.0 billion to the State Budget of Ukraine against UAH 1.9 billion a week earlier by way of selling internal government bonds. In the course of the previous week, the Ministry of Finance held three tenders: on 11, 12 and 14 November. An increase in the borrowing volumes was connected with the retirement of bonds sold in 2010 for the total of UAH 1.6 billion. Apart from that, during the previous week, the Ministry of Finance paid coupon yield on Eurobonds for the total of USD 32.8 million.

The fact that only one bid was submitted for participation in each tender during the previous week is the evidence that tenders continue to be manually controlled, and there is no interest in purchasing internal government bonds.

According to preliminary schedule of tenders, the Ministry of Finance plans to hold a tender on 18 November during the current week. At this tender, the Ministry of Finance will offer internal government bonds denominated in hryvnia and maturing in five and ten years.

NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.5 billion against UAH 1.4 billion disbursed a week before. The above-mentioned sum was granted to eight participants at a tender held on 12 November. The weighted average interest rate went up from 19.74% to 19.96% per annum. The refinancing resources were allocated for the period of 44 days.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 7.8 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 35.0 billion by way of placing certificates of deposit against UAH 30.7 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 28.4 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. On the whole, periods for

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-October, % year-on-year	7.5%

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
11 Nov	3620 days	15.50%	1/1	1 512.4
12 Nov	720 days	16.52%	1/1	6.0
14 Nov	726 days	17.60%	1/1	1 501.4

Source: the Ministry of Finance of Ukraine

placing certificates of deposit grew longer. The longest term of a deposit certificate placed during the previous week reached 84 days (for the total of UAH 50 million with a 13.50% annual interest rate).

EQUITY MARKET

Last week was marked by a downfall of the Ukrainian stock market. In the course of the previous week, the Ukrainian Exchange (UX) Index lost 9.3% and closed at 982.96 points on Friday, 14 November.

This fall happened during the first three days of the previous week. The reason for stock sale was the desire of investors to get rid of hryvnia assets in connection with the volatile hryvnia exchange rate. Also, in the course of the previous week, there was a growing concern regarding the escalation of the armed conflict in the eastern part of the country.

During the current week, participants in the Ukrainian stock market will be adapting to the new lower quotations.

FOREIGN EXCHANGE MARKET

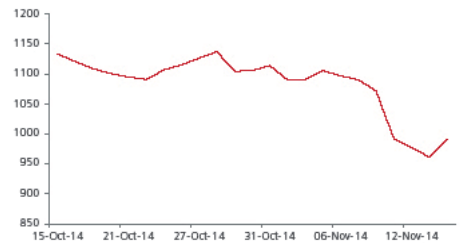
Last week, the market continued trading in a more control-free floating mode as a result of changes to the rules of the foreign exchange market instituted by the National Bank. From Monday through Thursday, 10-12 November, the weighted average NBU exchange rate ranged within the limits of UAH 15.20-15.75/USD. Over Thursday-Friday, this exchange rate depreciated to UAH 15.40-15.55/USD. As before, foreign exchange demand continues to be high. At the same time, deferred demand is being gradually satisfied. The NBU is holding daily tenders for banks by way of a Dutch auction.

The maximum foreign exchange sales volumes were registered on Thursday, 13 November: above USD 0.47 billion (all currencies), including sales of the American currency alone for the total of

INTERBANK LENDING MARKET

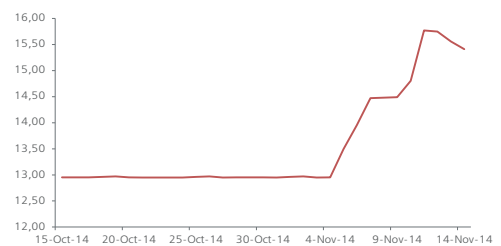
Rates for interbank loans remained high. Last week, rates for overnight loans slipped a little to 8.5-10.5% per annum from 9-11% per annum a week earlier, while the cost of weekly resources did not change and stood at 10-12% per annum. Within the next few weeks, it should become clear whether the market will begin to stabilize after the rules of the game on the foreign exchange market have been changed. In the course of the entire previous week, the balance on correspondent accounts was above UAH 31 billion and stood at UAH 32.4 billion as of Friday morning, 14 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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