

Financial markets survey

24 November 2014

To have a loss-free year

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world are experiencing a lingering growth period. The US stock indices set new historical record-highs one more time, while a 1.4% growth of the British FTSE 100 Index over the previous week brought it to the value that was registered at the beginning of the current year.

American stock markets are close to register quite a good growth by the end of the year, while European markets are trying to close a loss-free year. It seems that only stock markets of developed countries will be able to bring any profit by the end of the year on the global financial market. Markets of developing countries and raw material markets will have noticeable losses.

The main argument for recent growth of stock markets in developing countries is good financial indicators of corporations. It makes sense to assume that managers of large corporations learned to manage costs efficiently during the long-term close-to-crisis situation in the global economy. In addition, the prolonged soft policy of central banks makes it possible for capital markets to stay in a relative comfort.

As before, macroeconomic indicators of the leading economies do not bring pleasant surprises. The absence of negative news is interpreted as positive news.

Last week, European Central Bank President Mario Draghi stated that the euro-area economy was losing growth stimulus, while the forecast was sobering. Later, there was one more statement about the intention to expand repurchase of assets. Thus, the central bank is hoping to stimulate inflation.

It is possible to assume that, if the world can stand without new major shocks till the end of the year, western stock markets may close a loss-free year.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2063.5	1.2%	7.1%	11.6%
FTSE 100 (UK)	6750.8	1.4%	5.5%	0.0%
MXME (East. Eur.)	155.8	3.6%	-0.4%	-22.2%
UX (Ukraine)	982.5	-0.7%	-10.0%	8.0%
RTS (Russia)	1058.8	5.8%	1.1%	-26.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	211.5	0.7%	4.4%	-18.8%
Steel. USD/ton	455.0	0.0%	-5.8%	-10.1%
Oil. USD/barrel	80.4	1.2%	-5.1%	-27.5%
Gold. USD/ounce	1201.1	1.1%	-3.2%	-0.3%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, industrial output shrank 16.3% in October 2014 compared to October 2013. Over January-October 2014, industrial output dropped 9.4% year-on-year.

The main reason for this 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. According data that could become more accurate later, output in Donetsk oblast dropped 27.6%, while output in Luhansk oblast shrank 34.0% in October year-on-year. At the same time, a number of oblasts registered growing industrial output in October 2014.

Output in mining industry shrank 24.9% year-on-year in October 2014. In particular, production of black and brown coal dived 60.5% year-on-year. Output in processing industry dropped 12.4% year-on-year. As before, output continued to shrink the most in coke industry and oil refining (-42.7%), machine-building (-26.1%) and steel industry (-21.1%).

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 1.7 billion to the State Budget of Ukraine against UAH 3.0 billion a week earlier by way of selling internal government bonds. In the course of the previous week, the Ministry of Finance held two tenders: on 19 and 21 November.

The Ministry of Finance placed bonds maturing in two and five years. Only one participant wanted to purchase each type of the bonds offered. The yearning rate of bonds maturing in five years was above the yield of bonds maturing in two years. These facts are the evidence that placement of internal government bonds is manually controlled by the Ministry of Finance and involves predetermined market participants. Our experts do not expect that the situation on the internal borrowings market can change for the better in the near future, since problems in the country's financial sector are only growing worse.

According to preliminary schedule of tenders, the Ministry of Finance plans to hold a tender on 24 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, as well as internal government bonds denominated in US dollars and maturing in two years.

NBU OPERATIONS

Resources allocated by the NBU to support liquidity of banks were seriously cut down. Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 270 million against UAH 1.5 billion disbursed a week before. The above-mentioned sum was granted to five participants in a tender held on 19 November. The weighted average interest rate went down from 19.96% to 19.85% per annum. The refinancing resources were allocated for a shorter period: 13 days compared to 44 days a week earlier.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 8.0 billion. The weighted average interest rate for overnight loans did not change and stood at 17.50%.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in October 2014, % year-on-year	-16.3%

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
19 Nov	721 days	17.60%	1/1	797.6
19 Nov	1785 days	14.25%	1/1	729.6
21 Nov	726 days	17.60%	1/1	200.2

Source: the Ministry of Finance of Ukraine

Last week, the National Bank of Ukraine managed to raise UAH 33.3 billion by way of placing certificates of deposit against UAH 35.0 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 23.3 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. On the whole, periods for placing certificates of deposit grew longer. The longest term of a deposit certificate placed during the previous week reached 85 days (for the total of UAH 50 million with a 13.50% annual interest rate).

EQUITY MARKET

Last week was marked by the struggle between “bears” and “bulls” on the Ukrainian stock market. On Monday, 17 November, the Ukrainian Exchange (UX) Index lost 2.7%. Over the following days, it quickly restored its positions and even went up.

By the end of the previous week, pessimistic moods began to prevail on the Ukrainian stock market again, and they did not let the UX Index grow to 1,000 points. By the end of the previous week, the UX Index lost 0.7% and closed at 982.45 points on Friday, 21 November. Since the beginning of the year, the UX Index grew 8%.

FOREIGN EXCHANGE MARKET

Last week, the weighted average NBU exchange rate appreciated from UAH 15.3343/USD on Monday, 17 November, to UAH 15.0956/USD on Friday, 21 November. Foreign exchange supply was slightly larger than earlier, which made it possible for the exchange rate to appreciate.

The National Bank is holding daily tenders for banks. The market is operating in the mode instituted by the NBU on 5 November. Further dynamics of the foreign exchange market will depend on the political and economic situation in the country.

The maximum foreign exchange sales volumes were registered on Tuesday, 18 November: above USD 0.43 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.37 billion.

INTERBANK LENDING MARKET

Last week, rates for interbank loans went up. Rates for overnight loans climbed to 10-11% per annum from 9-11% per annum, while the cost of weekly resources grew to 11-13% per annum. Risks increased in connection with the worsening situation in the financial sector, in particular, with the growing number of insolvent banks. In the course of the previous week, the balance on correspondent accounts went down and, for the most part of the previous week was below UAH 30 billion. As of Friday morning, 21 November, the balance on correspondent accounts stood at UAH 28.8 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	-5.1 (Q3'2014)
Industrial output, %	-4.7	-9.4 (January-October)
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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