ПУМБ First Ukrainian International Bank

Financial markets survey

08 December 2014

Carry-over incentives

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world finished the previous week with a positive result. The US stock indices are confidently finishing the year with a gain of more than 10%, while the British FTSE 100 Index is trying to finish the year without losses.

Last week, the issues of government incentives for the leading economies across the world returned in the focus of investors' attention again. In its Beige Book report, the US Federal Reserve System (FRS) noted large-scale growth of employment in all 12 regions across the US in October and November 2014. Business activity in all regions across the US continued expanding in October and November, while a number of districts also registered optimism as regards future business activity. Such a positive report gives grounds to the US central bank to speak more confidently about the forthcoming increase in the rates, that is, about tapering of incentives on the part of the government.

At the same time, the opposite trend is being observed in the euro-area: talks about the need to expand incentives for the purpose of accelerating the economy become more and more confident. In the course of a press-conference on the results of the European Central Bank (ECB) meeting, ECB President Mario Draghi stated that the European Central Bank would reassess its current incentive policies in the first quarter of 2015. He said that the ECB could "alter the size, pace and composition of ECB measures early next year." The stronger rhetoric with respect to the need to provide incentives was connected with a downward revision of GDP forecasts for the euro-area. The ECB downgraded its forecast for GDP growth for the next three years: from 0.9% to 0.8% in the current year, from 1.6% to 1% in 2015 and from 1.9% to 1.5% in 2016.

Last week was also marked by approximating positions of the US and the EU regarding sanctions against Russia. In particular, the parties announced the possibility of new sanctions and coordination of actions undertaken by the US and the EU in this matter. Despite the headlong fall of petroleum prices, US petroleum producing companies refused to limit petroleum production.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,075.4	0.4%	2.6%	12.3%
FTSE 100 (UK)	6,742.8	0.3%	3.1%	-0.1%
MXME (East. Eur.)	141.2	-4.6%	-9.5%	-29.5%
UX (Ukraine)	990.0	1.9%	-10.5%	8.8%
RTS (Russia)	908.8	-6.7%	-13.8%	-37.0%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	215.0	1.2%	2.6%	-17.5%
Steel. USD/ton	415.0	-8.8%	-10.4%	-18.0%
Oil, USD/barrel	69.1	-1.5%	-16.7%	-37.7%
Gold, USD/ounce	1,191.6	2.1%	4.4%	-1.1%

Source: Thomson Reuters

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MACROECONOMICS

Inflation

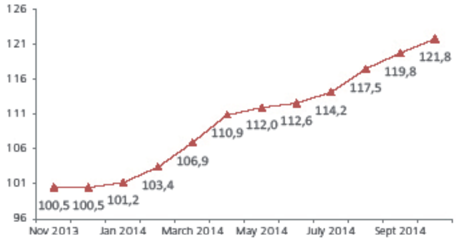
In November 2014, consumer prices grew 1.9% compared to October 2014. Annual inflation accelerated to 21.8%.

Prices for food products inched up 1.3% in November against 2.6% in October. Prices for clothes and footwear went up 2.4% in November. Prices for imported products accelerated as a result of faster depreciation of the national currency. A long period of economic recession led to shrinking supply of goods, which also results in growing prices.

Prices for accommodation and public utilities went up 4.4% in November. In particular, rates for hot water and heating surged 22.4%. Since the beginning of the year, prices for accommodation and public utilities grew more than 30%.

In November 2014, producer prices resumed their growth. Compared to October 2014, producer prices rose 4.2%. In annual terms, producer prices leapt 32.8%. In particular, prices in deliveries of electric energy and gas grew 8.7% over the previous month as a result of electric energy prices rising 9.6%. Higher prices for energy resources spurred price growth in mining and processing industries.

CONSUMER PRICE INDEX (year-on-year)



Source: the State Statistics Service

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 604.5 million to the State Budget of Ukraine by way of selling internal government bonds at a tender held on 5 December.

Same as a week earlier, the Ministry of Finance placed bonds maturing in two years and yielding 17.60% per annum. Bonds were sold to a single participant in this tender. As before, there is no demand for Ukrainian internal government bonds in connection with high borrowing risks.

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of place-ment	Type of bonds	Weight. av. rate	Submit./ satisfied bids	Funds raised, UAH mln
5 Dec	712 days	17.60%	1/1	604.5

Source: the Ministry of Finance of Ukraine

NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.625 billion against UAH 217 million disbursed a week before. UAH 1.125 billion was granted to two participants for 359 days at a tender held on 3 December. The weighted average interest rate totaled 14.00% per annum. The last time when support to banks was allocated for such a long period of time was in February of the current year. Another UAH 500 million was granted to seven participants for 13 days with a 25.98% annual interest rate at a tender held on 5 December. A week earlier, the rate for an NBU loan allocated for 13 days was 18.40% per annum. The rising cost of short-term loans points to a serious growth of the risk that resources will not be returned.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 7.7 billion. The weighted average interest rate for overnight loans did not change and stood at 17.50%.

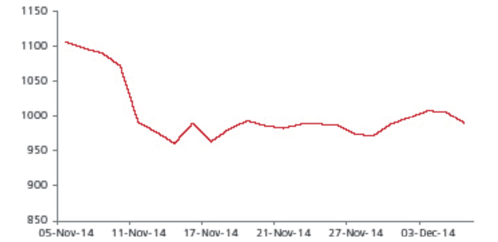
Last week, the National Bank of Ukraine managed to raise UAH 22.9 billion by way of placing certificates of deposit against UAH 34.0 billion raised a week before. The NBU placed overnight certificates of deposit for the total of UAH 22.8 billion. The annual interest rate for overnight certificates of 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 28 million with a 7.98% annual interest rate).

EQUITY MARKET

Last week returned some optimism to the Ukrainian stock market. Participants in the stock market were undoubtedly glad to hear about the appointment of a new Cabinet of Ministers. Western specialists with long-term experience in operation on the Ukrainian financial market were appointed to the positions of Finance and Economy Ministers. Market players expect that the new country management will pay attention to the issues of reforming the country’s financial market.

By the end of the previous week, the Ukrainian Exchange (UX) Index grew 1.9% and closed at 990.03 points on Friday, 5 December. In the course of the previous week, the UX Index went above 1,000 points; however, it did not manage to hold this position.

THE UX INDEX



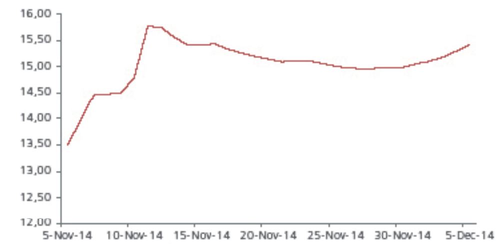
Source: Thomson Reuters

FOREIGN EXCHANGE MARKET

Last week, the situation on the foreign exchange market did not change: the UAH/USD exchange rate continued to depreciate. From Monday to Friday, the weighted average NBU exchange rate depreciated from UAH 15.0493/USD to UAH 15.4021/USD.

The maximum foreign exchange sales volumes were registered on Friday, 5 December: above USD 0.67 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.57 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU

INTERBANK LENDING MARKET

The cost of resources on the interbank lending market continues to go up. For the most part of the previous week, rates for overnight loans stood at 11-12% per annum, with their upper limit rising on Friday to 14%. The cost of weekly resources was 11-16% per annum. The high cost of resources on the interbank lending market is connected with growing risks of insolvency among market participants. In the course of the previous week, the balance on correspondent accounts stood at UAH 25-28 billion.

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	21.8 (Nov. 2014, year-on-year)
Producer price growth, %	1.7	32.8 (Nov. 2014. year-on-year)
Balance of trade, USD billions	-20.0	-4.0 (January-October)
Official exchange rate, annual average, UAH/USD	7.99	11.55 (January-November)
Weighted average interbank exchange rate, annual average, UAH/USD	8.12	11.63 (January-November)
Weighted average interbank exchange rate, by year end, UAH/USD	8.15	14.97 (end of November)
Banking system assets, % of gr owth	13.4	-0.3 (January-October)

Source: the State Statistics Service, NBU

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