



Financial markets survey

15 December 2014

A global price drop

WEEKLY ISSUE

GLOBAL MARKETS

Last week was marked by an unprecedented price drop on many markets. The S&P 500 Index fell 3.5% over the previous week, which is a record-high drop over the last two and a half years. Weekly losses turned out to be even dramatic on other, less stable, markets. In particular, the British FTSE 100 Index lost 6.6% over the previous week, while the Russian RTS Index dived 12.1%.

The moods of stock market participants were influenced by a swift fall of petroleum prices: over the previous week, this commodity became 10% cheaper. Petroleum prices have already been going down for a long period of time; however, few analysts could assume that prices for black gold will drop so seriously. The Organization of the Petroleum Exporting Countries (OPEC) downgraded its forecast for 2015 regarding the demand for petroleum supplied by the cartel by 300,000 barrels per day compared to the earlier expected indicator of up to 28.9 million barrels per day.

In addition to rapid decline of petroleum prices, last week saw the publication of statistical data pointing to a drop in other price indicators. Last month, producer prices in the People's Republic of China went down 2.7% compared to November 2013, whereas analysts expected a 2.4% drop. In October, producer prices in China fell 2.2%. Producer prices in the US slipped 0.2% in November 2014 compared to the previous month. On the average, analysts forecast this indicator to shrink 0.1%. As a rule, a drop in or slower growth of prices signal a slackening of economic growth.

Apart from the stir caused by lower global prices, last week did not seriously differ from previous ones in terms of economic news. Many macroeconomic indicators of the US are better than forecasts of analysts, whereas stagnating indicators of the euro-area frequently turn out to be worse than expected.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2002.3	-3.5%	-1.8%	8.3%
FTSE 100 (UK)	6300.6	-6.6%	-4.7%	-6.6%
MXME (East. Eur.)	128.8	-8.8%	-16.8%	-35.7%
UX (Ukraine)	934.9	-5.6%	-4.3%	2.7%
RTS (Russia)	799.2	-12.1%	-23.5%	-44.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	215.0	1.2%	2.4%	-17.5%
Steel. USD/ton	403.0	-2.9%	-11.4%	-20.4%
Oil. USD/barrel	61.9	-10.5%	-23.1%	-44.2%
Gold. USD/ounce	1222.2	2.6%	5.3%	1.4%

Source: Thomson Reuters

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MACROECONOMICS

GDP

According to information of the State Statistics Service, Ukraine's GDP shrank 5.3% in the third quarter of 2014 compared to the third quarter of the previous year. Compared to the second quarter of 2014, the country's GDP dropped 2.3%.

Final consumer expenditures fell 11.0% year-on-year in Q3'2014. At the same time, household expenditures shrank 13.2%. Gross accumulation of fixed assets (investments) sank 29.9% over the above-mentioned period.

Reduced imports of goods and services had a positive impact on GDP. In the third quarter, imports of goods and services shrank 32.2% year-on-year. At the same tune, exports fell 19.3% over the above-mentioned period.

GDP deflator reached 15.1% in the third quarter of 2014. At the same time, deflators of exports and imports stood at 57.5% and 50.5% respectively.

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 6.5 billion to the State Budget of Ukraine by way of selling internal government bonds against UAH 604.5 million raised a week earlier. Tenders to place internal government bonds were held on 9, 10 and 11 December. An increase in the borrowing amounts is connected with the need to pay out the previous issues of internal government bonds, as well as with traditionally high budget expenditures at the end of the year.

At the tenders held during the previous week, the Ministry of Finance placed bonds denominated in hryvnia, maturing in two years and yielding 17.60% per annum, as well as internal government bonds denominated in US dollars, maturing in one year and yielding 9.00% per annum. Evidently, the Ministry of Finance continues to hold "manually controlled" tenders, since only one bidder was willing to purchase each type of internal government bonds.

According to preliminary schedule of tenders, the Ministry of Finance plans to hold one tender on 16 December during the current week. At this tender, the Ministry of Finance will offer internal government bonds denominated in hryvnia and maturing in two and ten years, as well as internal government bonds denominated in foreign currency and maturing in two years.

NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.0 billion against UAH 1.625 billion disbursed a week before. The refinancing resources were granted to thirteen participants for 44 days. The weighted average interest rate totaled 19.60% per annum. A month earlier, refinancing resources for the same period were allocated with a 19.96% interest rate.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 11.8 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 24.6 billion by way of placing certificates of deposit. The NBU placed overnight

LATEST MACROECONOMIC DATA

Indicator	Value
GDP change in Q3'2014, % year-on-year	-5.3

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
9 Dec	722 days	17.60%	1/1	1 504.2
10 Dec	728 days	17.60%	1/1	1 500.0
11 Dec	727 days	17.60%	1/1	1 500.7
11 Dec	363 days. USD	9.00%	1/1	130.1*

* USD billions

Source: the Ministry of Finance of Ukraine

certificates of deposit for the total of UAH 23.8 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 shorter. The longest term of a deposit certificate placed during the previous week reached 42 days (for the total of UAH 2 million with a 13.00% annual interest rate).

EQUITY MARKET

Moods on the Ukrainian stock market were in unison with the moods on global markets. Over the previous week, the Ukrainian Exchange (UX) Index lost 5.6% and closed at 934.86 points on Friday, 12 December. The Ukrainian stock market lost practically all the impressive growth that has been witnessed in the course of the current year. Until the end of the current year, the dynamics of the Ukrainian market will, most likely, be formed under the influence of trends on external markets.

FOREIGN EXCHANGE MARKET

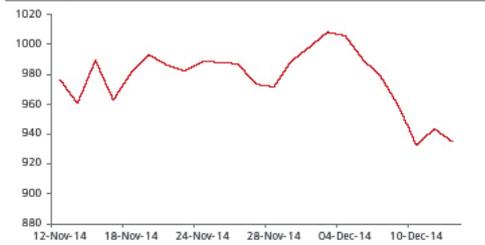
Last week, foreign exchange deficit urged the exchange rate to depreciate again. The weighted average NBU exchange rate depreciated from UAH 15.5089/USD on Monday, 8 December, to UAH 15.7090/USD on Friday, 12 December. As before, market volumes continue to be at a minimal low level.

The maximum foreign exchange sales volumes were registered on Friday, 12 December: above USD 0.38 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.18 billion. As we can see, market volumes continue to be, as before, at a minimal low level.

INTERBANK LENDING MARKET

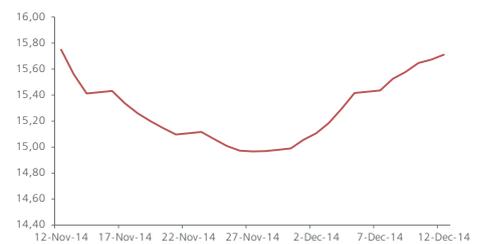
The cost of resources on the interbank lending market continues to go up. In the course of the previous week, rates for overnight loans grew from 13-15% per annum on Monday to 17-21% on Friday. The cost of weekly resources was the same on Friday. The high cost of resources on the interbank lending market is connected with growing risks of insolvency among market participants. Last week, the NBU recognized one more bank insolvent, as well as made a decision to revoke the banking license from another bank. In the course of the previous week, the balance on correspondent accounts went up and stood at UAH 33.8 billion as of Friday morning, 12 December.

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	-5.3 (Q3'2014)
Industrial output, %	-4.7	-9.4 (January-October)
Consumer price growth, %	0.5	21.8 (November 2014, year-on-year)
Producer price growth, %	1.7	32.8 (November 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 growth	13.4	-0.3 (January-October)

Source: the State Statistics Service, NBU



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