



# Financial markets survey

22 December 2014

## Restoring positions

WEEKLY ISSUE

### GLOBAL MARKETS

Last week, financial markets in many respects recovered the losses sustained a week earlier. The swift drop of petroleum prices stopped, and the panic subsided. Investors started to follow a wide range of indicators that influence the cost of stock assets again.

Economic indicators of the US brought some happiness last week. Industrial output in the US grew 1.3% in November 2014 compared to the previous month. This indicator grew record-high since May 2010. The number of applications for unemployment benefit in the US submitted over the second week of December fell unexpectedly to a record-low level for the last six weeks. At the same time, consumer prices in the US dropped record-low for the last six years in November 2014. However, this indicator did not have much influence on moods of investors.

Investors expected a decision of the US Federal Reserve System (FRS) regarding the level of rates. Based on the results of its meeting on 16-17 December, the FRS rejected the phrase related to keeping the rate at a low level "for a considerable time" following the end of its quantitative easing (QE) program, replacing it with a promise "to be patient in beginning to normalize the stance of monetary policy." Market participants took this formulation positively, since it means that there will be no revision of rates in the near future.

On the whole, the stock market has very little time until the end of the year to significantly change its positions. The western world came closer to the holiday season. During this period, markets traditionally calm down and begin to sum up the results of the year.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2070.7	3.4%	1.1%	12.0%
FTSE 100 (UK)	6545.3	3.9%	-2.3%	-3.0%
MXME (East. Eur.)	123.4	-4.2%	-19.1%	-38.4%
UX (Ukraine)	1002.4	7.2%	0.9%	10.1%
RTS (Russia)	768.1	-3.9%	-24.8%	-46.8%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	215.0	0.0%	1.7%	-17.5%
Steel. USD/ton	398.0	-1.2%	-12.5%	-21.3%
Oil. USD/barrel	61.4	-0.8%	-21.4%	-44.6%
Gold. USD/ounce	1195.4	-2.2%	1.1%	-0.8%

Source: Thomson Reuters

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## MACROECONOMICS

### Industrial output

According to information of the State Statistics Service, industrial output shrank 16.3% in November 2014 compared to November 2013. Over January-November 2014, industrial output dropped 10.1% year-on-year.

The main reason for this rapid 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 to data that could become more accurate later, output in Donetsk oblast dropped 51.3%, while output in Luhansk oblast shrank 82.0% in November 2014 year-on-year. At the same time, a number of oblasts registered growing industrial output in November 2014.

Output in mining industry shrank 28.5% year-on-year in November 2014. In particular, production of black and brown coal dived 62.1% year-on-year. Output in processing industry dropped 12.3% year-on-year. As before, output continued to shrink the most in coke industry and oil refining (-60.7%), machine-building (-23.7%) and steel industry (-20.1%).

### BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 2.5 billion to the State Budget of Ukraine by way of selling internal government bonds against UAH 6.5 million raised a week earlier. Tenders to place internal government bonds were held on 15, 16 and 19 December.

At the tenders held during the previous week, the Ministry of Finance placed bonds maturing in two and five years. As before, internal borrowings to the State Budget are "manually controlled." There is no demand for internal government bonds on the primary market because of the high risks in the national economy and the difficult situation of participants in the financial sector.

Our analysts do not expect the situation on the primary internal borrowings market to change in the nearest future. Market players are waiting, at least, for stabilization of the situation on the foreign exchange market.

### NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks went up and reached UAH 3.4 billion against UAH 1.0 billion disbursed a week before. On 16 December, two banks received refinancing resources for the total of UAH 2.4 billion for the period of 346 days with a 19.50% interest rate. Last time, refinancing resources for the same period were allocated with a 14.00% interest rate. Higher rates point to growing risks in the banking sector of the country. On 17 December, 20 banks received refinancing resources for the total of UAH 1.0 billion for the period of 44 days with the same 19.50% interest rate.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 8.2 billion against UAH 11.8 billion disbursed a week earlier. 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 34.0 billion by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 26.7 billion. The annual interest

### LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in November 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
15 Dec	709 days	17.60%	1/1	1 008.8
16 Dec	1814 days	14.25%	1/1	1 002.3
19 Dec	1811 days	17.60%	1/1	500.7

Source: the Ministry of Finance of Ukraine

rate for overnight certificates of deposits did not change and stood at 7.50%. On the whole, periods for placing certificates of deposit continue to be rather short. The longest term of a deposit certificate placed during the previous week reached 28 days with a 12.00% annual interest rate.

### EQUITY MARKET

The Ukrainian stock market continues to be highly volatile. After a significant rollback, the market was making up for losses in the course of the previous week, speculating for the rise along with western markets. Over the previous week, the Ukrainian Exchange (UX) Index grew 7.2% and closed at 1,002.38 points on Friday, 19 December.

If there is no significant worsening of the political situation until the end of the year, traders will, most likely, try to keep the UX Index above 1,000 points.

### FOREIGN EXCHANGE MARKET

Last week, the national currency exchange rate against the US dollar was relatively stable. On Friday, 19 December, the NBU exchange rate was UAH 15.7578/USD. The pressure of hryvnia depreciation is still present, and market volumes continue to be at a low level.

The maximum foreign exchange sales volumes were registered on Friday, 19 December: USD 0.44 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.36 billion.

### INTERBANK LENDING MARKET

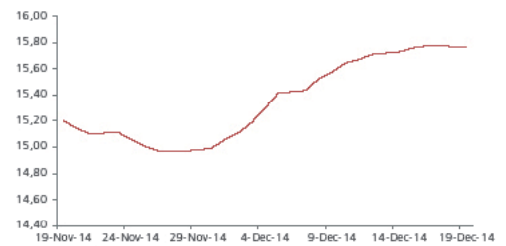
The cost of resources on the interbank lending market continues to stay very high. In the course of the previous week, rates for overnight loans stood at 16-20%. The cost of weekly resources grew to 17-23% per annum. The high cost of resources on the interbank lending market is connected with the high risks of the failure to repay loans. In the course of the previous week, the balance on correspondent accounts was high and above UAH 34 billion. As of Friday morning, 19 December, the balance on correspondent accounts stood at UAH 37.8 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	-5.3 (Q3'2014)
Industrial output, %	-4.7	-10.1 (January-November)
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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