

Financial markets survey

12 January 2015

A new year, but old problems

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world began the previous week with a significant fall. Indices of US trading platforms dropped against the background of the continuing decline in petroleum prices. In particular, quotations of companies belonging to the US oil sector collapsed. Europe is seeing the return of the Greece factor again. There are growing concerns that, in the new year, the Government of Greece will make attempts to reject strict budget economy measures. However, this time, top officials of the leading euro-area countries take this threat more quietly; in particular, they are ready to consider the withdrawal of Greece from the euro-area.

During the subsequent days, the stock market got stabilized. American investors rejoiced at the news that, most likely, rates will not be raised before April. European investors returned to the issue of economic incentives on the part of the central bank again.

Statistical data demonstrates that the US labor market is entering a very good shape: employment indicators in 2014 grew record-high for the last fifteen years, while the rate of unemployment fell to 5.6%. Inflation in Europe slowed down even more in connection with the significant drop of prices for energy carriers. For the first time over the last five year, Europe registered deflation in December. The indicator of retail sales in the euro-area turned out to be a pleasant surprise: it rose 0.6% in November 2014 compared to October, which is three times faster than forecasts. However, as before, the euro-area economy does not give any reasons for optimism, even against the background of very weak indicators of 2014.

Investors across the world are trying to realize how global capital markets will be affected by the rapid decline of petroleum prices. There is no doubt that, this year, we will see serious changes in the distribution of financial and resource flows.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2044.8	-0.7%	0.9%	-0.7%
FTSE 100 (UK)	6501.1	-0.7%	0.0%	-1.0%
MXME (East. Eur.)	123.9	2.8%	-8.2%	3.2%
UX (Ukraine)	-	-	-	-
RTS (Russia)	782.6	-	-8.5%	-1.0%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	235.0	0.0%	9.3%	0.0%
Steel. USD/ton	403.0	0.0%	0.0%	0.0%
Oil. USD/barrel	50.1	-11.2%	-22.0%	-12.6%
Gold. USD/ounce	1222.7	2.9%	-0.3%	3.3%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

According to information of the State Statistics Service, inflation accelerated in December 2014. Compared to November 2014, consumer prices grew 3.0%. This is a record-high indicator of monthly inflation since May 2014. By the end of 2014, consumer inflation soared 24.9%. This is a record-high indicator since 2008.

The main accelerator for galloping inflation in December was growing prices for food products. Prices grew the most for products with a high share of imports in their production costs, as well as for products with a high share of heat energy in their production costs (bread and bakery products, hothouse vegetables).

By the end of the year, prices for food products rose 24.5%, for accommodation and public utilities – 34.3%, for healthcare – 30%, and for transport – 41.6%.

In December 2014, producer prices did not change. Growing prices in mining and processing industries were compensated by shrinking prices in deliveries and distribution of electric energy, gas and vapor. By the end of the year, producer prices grew 31.8%. This is a record-high indicator since 1998.

BOND MARKET

The Ministry of Finance held the first tender in 2015 to sell internal government bonds on 6 January. The Ministry of Finance offered bonds maturing in three months, in two years and four years. The tender ended without any result, and no bids were submitted for purchasing internal government bonds.

It is possible to assume that, in the near future, the Government will return to the practice of placing ultra short-term internal government bonds maturing in several months.

NBU OPERATIONS

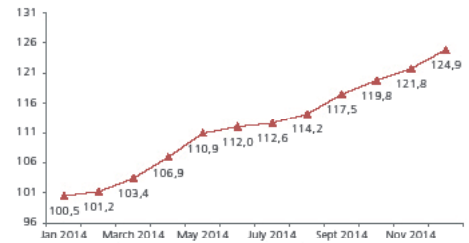
Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.1 billion. The above-mentioned refinancing resources were granted on 6 January to six banks for 15 days with a 19.50% interest rate. Compared to the previous tender, which took place on 24 December, the refinancing rate did not change.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 2.2 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 31.3 billion by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 24.6 billion. The annual interest rate for overnight certificates of deposits did not change and stood at 7.50%. The longest term of deposit certificates placed during the previous week reached 45 days. The above-mentioned certificates were placed with a 13.00% annual interest rate.

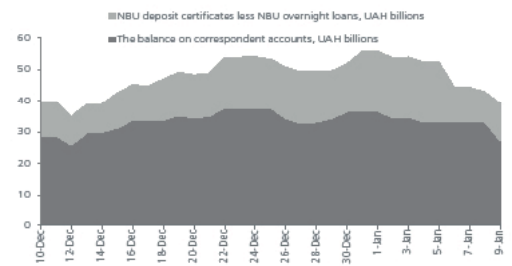
During the first working week of January, the overall level of the banking system liquidity went down as a result of shrinking deposit certificates. The subsequent two weeks should demonstrate whether this decline was

CONSUMER PRICE INDEX (year-on-year)



Source: the State Statistics Service

BANKING SYSTEM LIQUIDITY



Source: NBU

connected only with traditionally weak business activities in the first half of January or it has deeper roots.

FOREIGN EXCHANGE MARKET

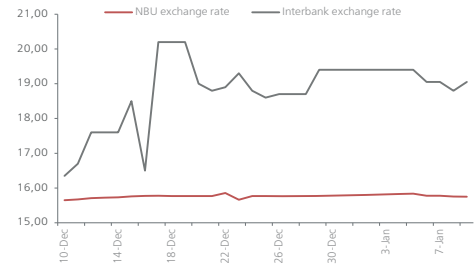
During the first working week of January, the national currency exchange rate against the US dollar was relatively stable. The NBU exchange rate was UAH 15.7796/USD on Tuesday, 6 January, and UAH 15.7596/USD on Friday, 9 January. The market worked a shortened week in connection with the Orthodox Christmas holidays in Ukraine. The situation on the interbank foreign exchange market was close to that prevailing during the last days of December 2014.

INTERBANK LENDING MARKET

During the first working week of January, the cost of resources on the interbank lending market was lower than that registered at the end of 2014. However, it is inappropriate to speak about the beginning of any stabilization on the market. The cost of overnight loans went down from 14-18% per annum on Tuesday, 6 January, to 10-14% per annum on Friday, 9 January. The cost of weekly resources stood at 12-17% per annum as of Friday, 9 January.

During the post-holiday period, the balance on correspondent accounts was relatively high. As of Friday morning, 9 January, the balance on correspondent accounts reached UAH 36.8 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

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	24.9 (December 2014, year-on-year)
Producer price growth, %	1.7	31.8 (December 2014, year-on-year)
Balance of trade, USD billions	-20.0	-4.5 (January-November)
Official exchange rate, annual average, UAH/USD	7.99	11.89 (January-December)
Weighted average interbank exchange rate, annual average, UAH/USD	8.12	11.97 (January-December)
Weighted average interbank exchange rate, by year end, UAH/USD	8.15	15.79 (end of December)
Banking system assets, % of growth	13.4	3.1 (January-November)

Source: the State Statistics Service, NBU



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