



Financial markets survey

19 January 2015

Deflation and uncertainty

WEEKLY ISSUE

GLOBAL MARKETS

Last week was rather boring on global financial markets. Statistical data and regulatory bodies did not give any surprises, while corporate reporting results that have just started to come in, so far, have no clear outlines for US traders to shape a trend on the market.

American indices did not demonstrate a uniform dynamics in the course of the previous week. However, "bearish" moods eventually prevailed. An unpleasant surprise was a drop in retail sales in the US in December 2014, which was record-low for almost a year. Nevertheless, if we look at the 2014 results, the prospects for investment into the American market look quite good. The situation on the labor market improved noticeably in terms of a number of indicators, the number of bankruptcies in the country was record-low for the last seven years, and venture funds registered a 62% increase in their fund-raising.

As before, the reasons for anxiety among investors are shrinking petroleum prices and their impact on global economy, as well as the lingering period of low inflation, which, in some countries, threatens to turn into deflation.

It is possible to expect that, in the near future, the European Central Bank (ECB) will begin actively implementing measures to provide incentives for the euro-area economy. The European Court of Justice decided that re-purchase of government bonds by the ECB, on the whole, did not contradict EU treaties. It is expected that the ECB will undertake the first serious steps already in January, since shrinking global petroleum prices do not make it possible to control deflation in the region.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2019.4	-1.2%	0.3%	-1.9%
FTSE 100 (UK)	6550.3	0.8%	3.4%	-0.2%
MXME (East. Eur.)	119.6	-3.5%	0.6%	-0.4%
UX (Ukraine)	1050.3	0.8%	5.0%	1.6%
RTS (Russia)	769.8	-1.6%	7.2%	-2.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	230.0	-2.1%	7.0%	-2.1%
Steel. USD/ton	403.0	0.0%	1.3%	0.0%
Oil. USD/barrel	50.2	0.1%	-18.0%	-12.5%
Gold. USD/ounce	1279.8	4.7%	7.7%	8.1%

Source: Thomson Reuters

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MACROECONOMICS

Agriculture

According to information of the State Statistics Service, agricultural output in Ukraine grew 2.8% in 2014. To a large extent, such a relatively modest indicator of agricultural output can be explained by the high baseline of 2013, when agricultural output jumped 13.6%.

In 2014, the country registered a record-high harvest of grain crops and leguminous plants – 63.8 million tons, which is a 2.4% growth compared to the previous historical record-high registered in 2013. Growth was registered with respect to all agricultural crops, except for sun-flower, corn, rape, fruits and berries, and grapes.

Output in livestock-breeding went up 2.0% in 2014. This growth was secured thanks to output of agricultural enterprises, while livestock-breeding output at private farms remained flat compared to the previous year. Headcounts of the main livestock species and poultry shrank in the course of 2014.

BOND MARKET

Last week, the Ministry of Finance resumed the practice of placing ultra short-term internal government bonds. Out of three tenders held by the Ministry of Finance on 13, 15 and 16 January, the last two ended successfully.

On 15 January, four participants purchased internal government bonds maturing in 76 days and yielding 17% per annum for the total of UAH 3.1 billion. Next day, three participants purchased the same internal government bonds for the total of UAH 2.4 billion.

It is possible that the Ministry of Finance will continue the practice of compensating the deficit of Budget resources by way of issuing ultra short-term bonds at least until the situation with the conditions of disbursing a new tranche as part of the IMF loan becomes clear.

NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 691.3 million against UAH 1.1 billion disbursed a week earlier. The above-mentioned refinancing resources were granted on 14 January to seven banks for 13 days. The refinancing rate did not change and equaled 19.50% per annum.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 1.2 billion against UAH 2.2 billion granted 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 49.7 billion against UAH 31.3 billion raised a week earlier by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 39.6 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 somewhat longer. The longest term of deposit certificates placed during the previous week reached 85 days. The above-mentioned certificates were placed with a bank for the total of UAH 100 million with a 13.50% annual interest rate.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output in 2014, %	2.8%

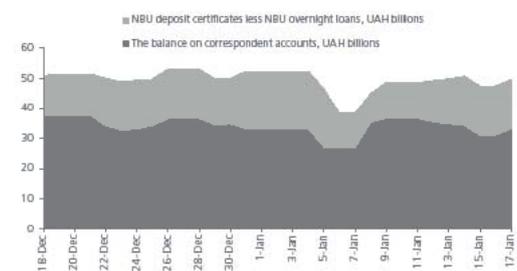
Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
15 Jan	76 days	17.00%	4/4	3 116.7
16 Jan	75 days	17.00%	3/3	2 424.6

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

During the previous week, the overall level of the banking system liquidity went up a little thanks to restoring the volume of deposit certificates. The overall volume of deposit certificates corresponds to the volume registered during the last week of December 2014.

EQUITY MARKET

The Ukrainian stock market finished the first full-fledged working week of the new year with a positive result. On Friday, 16 January, the Ukrainian Exchange (UX) Index closed at 1,050.28 points, rising 1.6% since the beginning of the year.

Nevertheless, "bearish" moods prevailed on the market for the most part of the previous week, whereas growth was registered on Monday and Tuesday only. The moods changed as a result of a worsening in the armed conflict in the eastern part of the country.

FOREIGN EXCHANGE MARKET

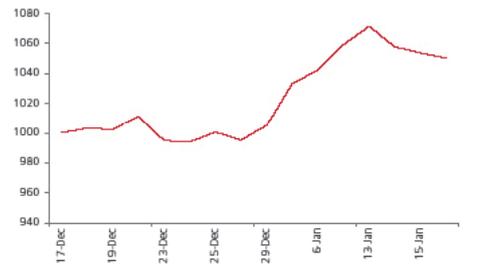
Last week, the foreign exchange market felt a more serious deficit of foreign exchange. In the course of the previous week, the UAH/USD exchange rate set by the National Bank did not change much: it grew from UAH 15.7580/USD on Monday to UAH 15.8764/USD on Saturday. At the same time, foreign exchange demand is significantly higher than supply, and the pressure of depreciation grew seriously. It is possible to assume that the situation on the foreign exchange market will continue to remain strained until the country receives foreign exchange under a new tranche as part of the IMF loan.

INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market went down; however, it continues to stay high. For the most part of the previous week, the cost of overnight loans was 8-13% per annum, while the cost of weekly resources stood at 9-14%. After a long break, the market saw the appearance of loans longer than one week. By the end of the previous week, the cost of monthly resources was 11-16% per annum.

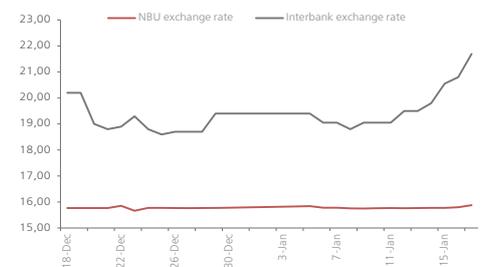
During the previous week, the balance on correspondent accounts went down compared to the indicator registered a week earlier; however, it continued to be relatively high. As of Saturday morning, 17 January, the balance on correspondent accounts reached UAH 33.3 billion.

THE UX INDEX



Source: Thomson Reuters

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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