



Financial markets survey

26 January 2015

ECB is toeing the starting line

WEEKLY ISSUE

GLOBAL MARKETS

Last week, the dynamics of the leading trading platforms across the world was determined by the expectations of the European Central Bank (ECB) decision to launch the quantitative easing (QE) program.

ECB President Mario Draghi made public this decision on Thursday, 22 January. Markets expected that the volume of securities purchase would total EUR 50 billion per month. Nevertheless, the final decision exceeded expectations of the market: Mr. Draghi announced the intention to inject EUR 60 billion on a monthly basis into the euro-area economy until the end of 2016.

Both the American and the European markets took the above-mentioned new positively. The British FTSE Index 100 grew 4.3% over the previous week. The euro continued to depreciate rapidly and, by the end of the previous week, fell record-low against the US dollar for the last eleven years.

The ECB statement was the main news of the week for American investors as well. However, the impact of other factors was also noticeable. While Europe is only starting its economic recovery program sponsored by the government, the US regulatory authorities are stating stronger and stronger intentions to let the American economy function on its own. The FRS is confidently announcing that it will raise the rate during the current year and is refusing to take into account the fact that some signals are not so favorable. This makes American investors to be visibly nervous.

The current week will be difficult for politicians of top countries across the world. They are expected to introduce tougher sanctions against the Russian Federation.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2051.8	1.6%	-1.4%	-0.3%
FTSE 100 (UK)	6832.8	4.3%	3.4%	4.1%
MXME (East. Eur.)	126.4	5.7%	-1.0%	5.2%
UX (Ukraine)	1019.3	-2.2%	2.6%	-1.4%
RTS (Russia)	821.0	6.6%	0.7%	3.8%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	230.0	0.0%	7.0%	-2.1%
Steel. USD/ton	400.0	-0.7%	0.5%	-0.7%
Oil. USD/barrel	48.8	-2.8%	-19.0%	-14.9%
Gold. USD/ounce	1294.2	1.1%	10.3%	9.3%

Source: Thomson Reuters

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MACROECONOMICS

Industry

According to information of the State Statistics Service, industrial output shrank 10.7% in 2014. In December 2014, industrial output dropped 17.9% compared to December 2013. The main reasons for shrinking industrial output were the deterioration of trading relations with Russia and the CIS countries as a result of the destabilized political situation, the loss of control over a part of industrial companies owing to the occupation of the Autonomous Republic of Crimea and hostilities in the eastern part of the country, declining investment, depreciation, and shrinking consumption as a result of lower real personal incomes.

Mining industry sustained the most serious losses, since a significant part of its companies is located in the eastern part of Ukraine. In the course of the previous year, output in mining industry shrank 15.7%. In particular, coal production dropped 30.5%.

Output in processing industry went down 10.1%. Output shrank the most in coke industry and oil refining, machine-building and steel industry. In 2014, output in textile industry grew 6.7%. This growth can be explained by import substitution as a result of the national currency depreciation.

Deliveries of electric energy and gas dropped 6.4% in 2014.

BOND MARKET

Last week, the Ministry of Finance did not manage to raise funds to the State Budget of Ukraine by way of selling internal government bonds. No bids were submitted at a tender held on 20 January. Investors were not interested in purchasing internal government bonds denominated in hryvnia and maturing in six months and in two years offered by the Ministry of Finance.

During the current week, the Ministry of Finance plans to hold a tender on Monday, 26 January. At this tender, the Ministry of Finance will offer internal government bonds maturing in three months.

NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 700 million against UAH 691.3 million disbursed a week earlier. The above-mentioned refinancing resources were granted on 21 January to six 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, which is the same as the amount granted a week earlier. The weighted average interest rate for overnight loans did not change and stood at 17.50%.

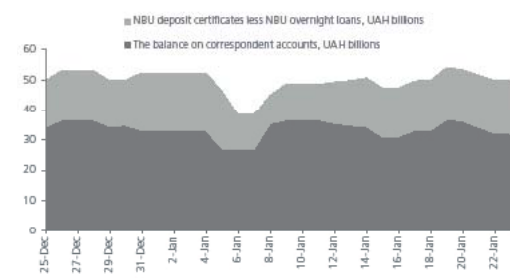
Last week, the National Bank of Ukraine managed to raise UAH 55.2 billion against UAH 49.7 billion raised a week earlier by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 46.4 billion. Last week, the National Bank raised the annual interest rate for overnight certificates of deposits from 7.50% to 11.00% per annum, which led to an increase in the sum of deposit certificates placed. Accordingly, interest rates for longer-term deposit certificates were also raised: rates for weekly certificates grew from 11.00% to 13.00% per

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in 2014, %	-10.7%

Source: the State Statistics Service

BANKING SYSTEM LIQUIDITY



Source: NBU

annum, while rates for certificates for 42-45 days went up from 13.00% to 13.50% per annum. Despite higher rates, banks did not place certificates longer than 45 days over the previous week.

During the previous week, the overall level of the banking system liquidity went up a little thanks to growing volumes of deposit certificates.

EQUITY MARKET

The Ukrainian stock market finished the previous week in the red. On Friday, 23 January, the Ukrainian Exchange (UX) Index closed at 1,019.28 points, having lost 2.2% over the previous week.

Last week, the situation in the country grew seriously worse: the hostilities in the eastern part of the country became more active. This had a negative impact on the moods on the market.

FOREIGN EXCHANGE MARKET

Last week, the foreign exchange market, as before, felt a serious deficit of foreign exchange. In the course of the previous week, the UAH/USD exchange rate set by the National Bank stayed around UAH 15.80/USD. At the same time, foreign exchange demand is significantly higher than supply, and the pressure of depreciation remained high as well. 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 up again. The cost of overnight loans was 11-15% per annum, while the cost of weekly resources reached 13-18% per annum.

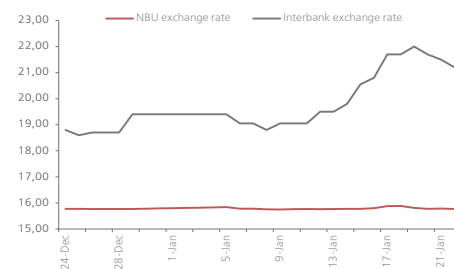
During the entire previous week, the balance on correspondent accounts was above UAH 32 billion. As of Friday morning, 23 January, the balance on correspondent accounts stood at UAH 32.1 billion.

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	-10.7 (January-December)
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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