

# Financial markets survey

02 February 2015

## Europe has taken the lead

WEEKLY ISSUE

### GLOBAL MARKETS

January of the new year brought unexpectedly good results for European stock platforms. Although bearish moods prevailed during the last week of the month, for European markets, January was marked by a record-high growth over the last 26 years. Growth of the European market during the previous month was promoted by the statement of the European Central Bank (ECB) about the launch of the quantitative easing (QE) program whose volume may reach EUR 1.1 trillion.

In addition to the ECB's solid intention to begin massive injections of money into the euro-area economy, investors in European assets are impressed by the euro depreciation against the US dollar, which improves the prospects of the euro-area's foreign trade. As before, there is no positive news stream as regards the euro-area economy. However, it seems that neutral news items are gradually squeezing out explicitly negative news items. An unexpected surprise of the previous week was the information that the rate of unemployment in the euro-area went down to 11.4%, which is a record-low indicator since August 2012.

Meanwhile, the US markets continue to move along a downward trend. Last week, the S&P 500 Index lost 2.8% and went below the psychological mark of 2,000 points. Despite the statements of the Federal Reserve System (FRS) that the regulatory authorities intend to implement a soft policy in tapering the quantitative easing program, investors are paying more and more attention to negative signals.

It seems that forecast-makers are inclined to overestimate positive trends in the US economy and have already repeatedly produced overstated forecasts for important economic indicators. In particular, durable goods orders fell 3.4% in December 2014 compared to the previous month, whereas experts polled by the Bloomberg agency expected this indicator to inch up 0.3%. The US GDP growth slowed down to 2.6% in the fourth quarter of 2014, whereas analysts expected this indicator to land at 3%.

As before, the geopolitical background continues to be the center of investors' attention across the world. Expectations that the West may soften sanctions against Russia did not come true.

### STOCK MARKETS

| Index             | last   | week ch. | mon. ch. | YTD   |
|-------------------|--------|----------|----------|-------|
| S&P 500 (US)      | 1995.0 | -2.8%    | -3.1%    | -3.1% |
| FTSE 100 (UK)     | 6749.4 | -1.2%    | 2.8%     | 2.8%  |
| MXME (East. Eur.) | 117.6  | -7.0%    | -2.1%    | -2.1% |
| UX (Ukraine)      | 991.42 | -4.9%    | -4.1%    | -4.1% |
| RTS (Russia)      | 737.4  | -10.2%   | -6.7%    | -6.7% |

### COMMODITIES

| Commodity       | last   | week ch. | mon. ch. | YTD   |
|-----------------|--------|----------|----------|-------|
| Wheat, USD/ton  | 212.5  | -7.6%    | -9.6%    | -9.6% |
| Steel, USD/ton  | 388.0  | -3.0%    | -3.7%    | -3.7% |
| Oil, USD/barrel | 53.0   | 8.6%     | -7.6%    | -7.6% |
| Gold, USD/ounce | 1282.8 | -0.9%    | 8.4%     | 8.4%  |

Source: Thomson Reuters

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## MACROECONOMICS

### Wages

According to information of the State Statistics Service, real wages in Ukraine shrank 6.5% in 2014. The main reasons for real wages to shrink were the decline of the country's economy and galloping inflation. In December 2014, real wages dropped 13.6% compared to December 2013.

Wages shrank the most in Donetsk and Luhansk oblasts. In December 2014, the average monthly wage of full-time employees totaled UAH 4,012. The highest wages were observed in the city of Kyiv, Donetsk and Mykolayiv oblasts. The lowest wages were registered in Chernihiv, Ternopil and Chernivtsi oblasts.

### BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 4.4 billion to the State Budget of Ukraine by way of selling internal government bonds. On 26 and 27 January, the Ministry of Finance placed internal government bonds maturing in three months and yielding 17% per annum.

Most likely, the above-mentioned bonds were placed among state-owned banks. Neither the high earning rate, nor the short maturity period of the above-mentioned bonds are sufficient factors for the circle of investors to expand.

### NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 500 million against UAH 700 million disbursed a week earlier. The above-mentioned refinancing resources were granted on 28 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 2.5 billion against UAH 1.2 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 56.8 billion against UAH 55.2 billion raised a week earlier by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 51.9 billion. The interest rate for overnight certificates of deposits was 11.00% per annum. The interest rate for longer-term deposit certificates stood at 13% per annum. The longest term of deposit certificates placed during the previous week reached 30 days. The recent increase of interest rates resulted in shorter periods for placing deposit certificates. In particular, weekly deposit certificates were placed under 13% per annum last week, whereas such a rate was awarded to deposit certificates maturing in 45 days at the beginning of January.

During the previous week, the overall level of the banking system liquidity went down both owing to lower total volumes of deposit certificates in circulation and as a result of the shrinking balance on correspondent accounts.

### LATEST MACROECONOMIC DATA

| Indicator                       | Value |
|---------------------------------|-------|
| Change in real wages in 2014, % | -6.5  |

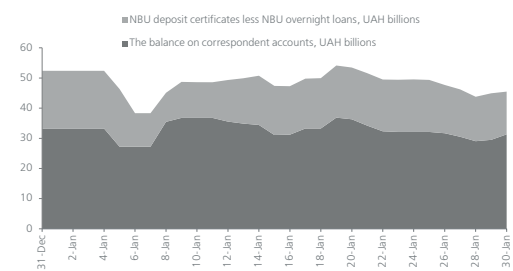
Source: the State Statistics Service

### THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

| Date of placement | Type of bonds | Weight. av. rate | Submit./satisfied bids | Funds raised, UAH mln |
|-------------------|---------------|------------------|------------------------|-----------------------|
| 26 Jan            | 88 days       | 17.00%           | 2/2                    | 1440.9                |
| 27 Jan            | 87 days       | 17.00%           | 3/3                    | 2953.3                |

Source: the Ministry of Finance of Ukraine

### BANKING SYSTEM LIQUIDITY



Source: NBU

### EQUITY MARKET

Last week, the Ukrainian stock market continued its downward trend. By the end of January, the Ukrainian Exchange (UX) Index lost 4.1% and went below 1,000 points, having closed the week at 991.42 points.

In addition to the negative background prevailing on western markets, investors in Ukrainian assets were concerned about the escalation of hostilities in the eastern part of the country. Last week, there were growing fears that the Ukrainian Armed Forces may leave several strategically important settlements in the area of active hostilities.

### FOREIGN EXCHANGE MARKET

As before, the situation on the foreign exchange market remains strained. Foreign exchange demand is significantly higher than supply. Last week, the weighted average indicative exchange rate of the National Bank stood at: UAH 15.80/USD on Monday, 26 January, UAH 15.8312/USD on Tuesday, UAH 15.8755/USD on Wednesday, UAH 15.9431/USD on Thursday, and UAH 16.0072/USD on Friday.

The maximum foreign exchange sales volumes were registered on Tuesday, 27 January: above USD 0.42 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 remains very high. Last week, the cost of overnight loans was 8-13% per annum, while the cost of weekly resources stood at 10-15% per annum, and monthly resources cost 12-18% per annum. Rates will continue to be high, until the problem of foreign exchange deficit on the interbank lending market is somehow tackled.

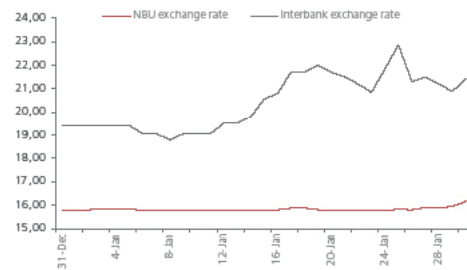
Last week, the balance on correspondent accounts went down; however, it continued to stay rather high, above UAH 29 billion. As of Friday morning, 30 January, the balance on correspondent accounts stood at UAH 31.3 billion.

### THE UX INDEX



Source: Thomson Reuters

### EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

UKRAINE'S MACROECONOMIC INDICATORS

| Indicator   | 2013  | 2014<br>(latest data)                 |
|---|-------|---------------------------------------|
| GDP, %  | 0.0   | -5.3<br>(Q3'2014)                     |
| Industrial output, %  | -4.7  | -10.7<br>(January-December)           |
| Consumer price growth, %  | 0.5   | 24.9<br>(December 2014, year-on-year) |
| Producer price growth, %  | 1.7   | 31.8<br>(December 2014, year-on-year) |
| Balance of trade, USD billions                                    | -20.0 | -4.5<br>(January-November)            |
| Official exchange rate, annual average, UAH/USD                   | 7.99  | 11.89<br>(January-December)           |
| Weighted average interbank exchange rate, annual average, UAH/USD | 8.12  | 11.97<br>(January-December)           |
| Weighted average interbank exchange rate, by year end, UAH/USD    | 8.15  | 15.79<br>(end of December)            |
| Banking system assets, % of growth                                | 13.4  | 3.1<br>(January-November)             |

Source: the State Statistics Service, NBU



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