



# Financial markets survey

16 February 2015

## A wave of global optimism

WEEKLY ISSUE

### GLOBAL MARKETS

Last week, the dynamics of global financial markets was determined by two important international events: negotiations as to settling the situation in Ukraine and a meeting of Finance Ministers of the euro-area countries (Eurogroup) with respect to Greece.

The negotiations in Minsk, which started in the evening of 11 February and lasted approximately 17 hours, ended with the signing of a peace plan that provides for cease-fire by both parties effective from midnight of 15 February and withdrawal of heavy armaments that should begin on the second day after the cease-fire the latest and be completed within fourteen days.

Global markets took the news about the possible settlement of the situation in Ukraine with a huge enthusiasm. Growth was registered both on the leading and local markets. Weekly growth of the Russian RTS Index exceeded 10%.

The positive results of the Minsk negotiations "compensated" for the lack of progress in the Greek issue. The negotiations of Finance Ministers regarding Greece ended without any results. No joint statement was made by the end of the meeting that lasted more than six hours and where the International Monetary Fund and the European Central Bank participated. During the meeting, the parties discussed the text of a statement related to the possibility of extending the current assistance program for Greece beyond 28 February. However, after a consultation with Athens, Finance Minister of Greece Yanis Varoufakis raised additional objections, and, as a result, there was no agreement on the text.

Negotiations regarding Greece will continue during the current week. There is hope that the Greek Government will soften its position, and the new negotiations will bring noticeable results.

The situation in Ukraine will continue to be in the center of investors' attention during the current week. Since the beginning of the announced armistice, Ukraine has been registering numerous facts of firings from the territories occupied by gunmen. There is a high likelihood that the armistice will be suspended.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2097.0	2.0%	4.3%	1.9%
FTSE 100 (UK)	6873.5	0.3%	7.6%	4.7%
MXME (East. Eur.)	137.9	7.6%	15.3%	14.8%
UX (Ukraine)	1107.4	4.9%	4.7%	7.2%
RTS (Russia)	914.1	10.6%	23.0%	15.6%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	209.0	0.0%	-9.1%	-11.1%
Steel, USD/ton	383.0	-1.3%	-5.0%	-5.0%
Oil, USD/barrel	61.5	6.4%	26.4%	7.3%
Gold, USD/ounce	1229.2	-0.3%	0.0%	3.9%

Source: Thomson Reuters

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## MACROECONOMICS

### Agriculture

Agricultural output shrank in January 2015. According to information of the State Statistics Service, agricultural output in Ukraine dropped 2.4% compared to January 2014.

In the first half of the year, the situation in Ukraine's agriculture is determined mainly by output of livestock-breeding products. In January, meat output (live weight) shrank 3.2%, milk output dropped 2.1% and egg output fell 8.8%.

Agricultural output shrank due to the high cost of loans, growing purchasing prices for fodder, as well as the loss of control over a part of agricultural enterprises in some regions in Donetsk and Luhansk oblasts.

### BOND MARKET

Last week, the Ministry of Finance did not manage to raise resources to the State Budget of Ukraine by way of selling internal government bonds at a primary tender. No bids were submitted at a tender held by the Ministry of Finance on 10 February. At the tender, the Ministry of Finance offered bonds denominated in hryvnia and maturing in two and five years.

In our opinion, the last tender was just a formality. Evidently, the Ministry of Finance did not manage to attract banks to purchasing bonds in advance, while there has been no market demand for internal government bonds for many months.

### NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1 billion against UAH 400 million disbursed a week earlier. The above-mentioned refinancing resources were granted on 11 February to nine 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 6.4 billion against UAH 2.9 billion granted a week earlier. The rate for overnight loans did not change and stood at 23% per annum.

Last week, the National Bank of Ukraine managed to raise UAH 61.0 billion against UAH 65.7 billion raised a week earlier by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 55.1 billion against UAH 59.2 billion placed a week earlier. On 11 February, the National Bank raised the rate for overnight deposit certificates from 13% to 14% per annum. Rates for longer-term deposit certificates also went up: rates landed at 17-19% per annum, depending on the maturity period of deposit certificates.

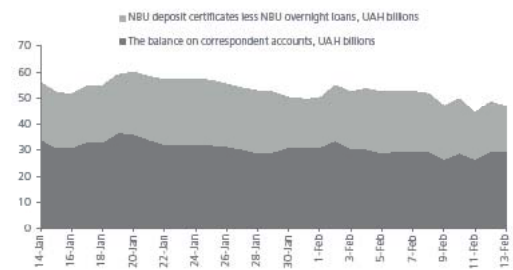
During the previous week, the overall level of the banking system liquidity went down. This happened mainly because of shrinking volumes of deposit certificates. Growing rates for deposit certificates did not result in an increase in their volumes. A significant growth of overnight loans and the volume of refinancing resources for banks point to the deteriorating situation in the sector.

### LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output in January 2015, % year-on-year	-2.4%

Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

**EQUITY MARKET**

The Ukrainian stock market finished one more week in the “green” zone. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 4.9% and closed at 1,107.41 points on Friday, 13 February.

In addition to the results of negotiations in Minsk, an important factor for Ukraine during the previous week was the decision of the IMF mission regarding the new Extended Fund Facility (EFF) program with Ukraine for the total of approximately USD 17.5 billion. This program provides for a broader international financial assistance compared to the effective stand-by program. Also, given the intention of the Ukrainian Government to hold consultations with international creditors with respect to raising the sovereign debt sustainability in the medium term, the IMF estimates the overall financial support to the country within four years at the level of USD 40 billion.

**FOREIGN EXCHANGE MARKET**

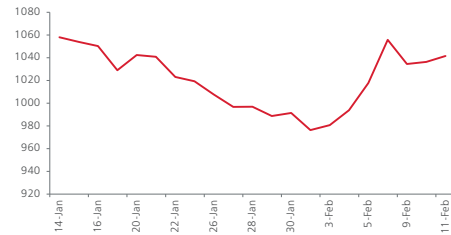
Trading on the interbank foreign exchange market ranged within the limits of UAH 25.40-25.90/USD on Monday, 9 February, UAH 25.10-25.50/USD on Tuesday and UAH 25.70-26.10/USD on Wednesday. On Thursday, the exchange rate depreciated more rapidly and reached UAH 26.50-26.80/USD. Friday, to the contrary, saw a swift appreciation to UAH 25.80-26.10/USD. As we can see, the market is rather volatile. The maximum foreign exchange sales volumes were registered on Thursday, 12 February: above USD 0.32 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.21 billion.

**INTERBANK LENDING MARKET**

Last week, the cost of resources on the interbank lending market went up because of the deteriorating situation in the banking sector and shrinking liquidity. By the end of the previous week, the cost of overnight loans on the interbank lending market was 13-17% per annum, while the cost of weekly resources stood at 14-19% per annum, and monthly resources cost 15-21% per annum.

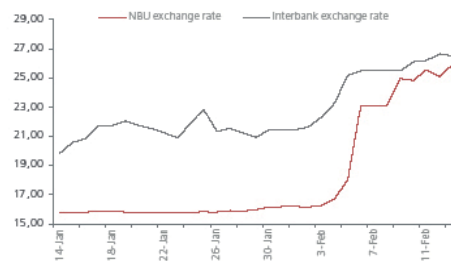
Last week, the balance on correspondent accounts went down; however, it did not drop record-low. As of Friday morning, 13 February, the balance on correspondent accounts stood at UAH 29.6 billion.

**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	28.5 (January 2015)
Producer price growth, %	1.7	34.1 (January 2015)
Balance of trade, USD billions	-15.6	-5.4 (January-December)
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	3.0 (January-December)

Source: the State Statistics Service, NBU



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