

# Financial markets survey

23 February 2015

## Growth based on inventories

WEEKLY ISSUE

### GLOBAL MARKETS

Last week, global optimism on stock markets began to subside. The leading western platforms kept on growing, but less potent local markets saw a sudden change in the trend.

The Greek issue was the center of attention for investors. During the Eurogroup (council of Finance Ministers of the euro-area) meeting on Monday, 16 February, Greece and the euro-area countries did not manage to draw closer their positions after Athens categorically rejected the proposal to extend the current assistance program. The Eurogroup took a firm stand and did not accept any alternative proposals to settle the financial crisis in Greece. On Friday, 20 February, the parties reached an agreement regarding the extension of the assistance program. However, at the beginning of the current week, Greece should submit the first list of reforms.

Last week, the US stock market received a new temporal reference point. It is expected that the US Federal Reserve System will raise rates in July. Investors are trying to understand whether the US economy will be able to operate successfully in the environment of more expensive resources after a rather long period of generous government support.

Last week, there were several positive signals regarding the European economy again. In February, the ZEW Indicator of Economic Sentiment for Germany grew record-high for the last twelve months. Improved expectations are connected with the upcoming launch of the quantitative easing program by the European Central Bank. In February 2015, the composite Purchasing Managers Index (PMI) of the nineteen euro-area countries grew to 53.5 points compared to 52.6 points a month earlier. A value of this index above 50 points is the evidence of growing business activities in the economy. The above-mentioned signals are too weak for European investors to use them as a basis for their investment policies. However, with a positive external background, they are undoubtedly adding confidence.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2110.3	0.6%	3.8%	2.5%
FTSE 100 (UK)	6915.2	0.6%	2.8%	5.3%
MXME (East. Eur.)	136.7	-0.9%	11.9%	13.8%
UX (Ukraine)	1098.9	-0.8%	5.6%	6.4%
RTS (Russia)	910.4	-0.4%	16.4%	15.1%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	207.5	-0.7%	-9.8%	-11.7%
Steel, USD/ton	373.0	-2.6%	-6.8%	-7.4%
Oil, USD/barrel	60.2	-2.1%	22.8%	5.0%
Gold, USD/ounce	1201.9	-2.2%	-7.0%	1.6%

Source: Thomson Reuters

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## MACROECONOMICS

### Industrial output

In January 2015, industrial output shrank at a more rapid pace. According to information of the State Statistics Service, industrial output declined 21.3% in January 2015 compared to January 2014.

The main reasons for industrial output to continue shrinking are the removal of a number of industrial enterprises in Donetsk and Luhansk oblasts as a result of active hostilities, declining investment and lower purchasing capacity of households.

Mining industry is suffering the most serious fall. In particular, production of black and brown coal dropped more than 50% compared to January 2014. Output in processing industry went down 21.1% year-on-year. Output shrank the most in coke production and oil refining, chemical industry and machine-building.

### BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 3.7 billion to the State Budget of Ukraine by way of selling internal government bonds denominated in US dollars and maturing in 28 days. The above-mentioned bonds were purchased at tenders held on 17 and 18 February. Only one bidder participated in each of the above tenders.

The ultra short-term maturity period of these bonds points to the following: the borrowing was made for the purpose of covering the country's current needs for foreign currency payments. Perhaps, the Ministry of Finance plans to pay off the above-mentioned bonds with the help of a new tranche as part of the IMF loan, which Ukraine expects to receive at the beginning of March.

### NBU OPERATIONS

Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 800 million against UAH 1 billion disbursed a week earlier. The above-mentioned refinancing resources were granted on 18 February to ten 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 10.8 billion against UAH 6.4 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 38.5 billion against UAH 61.0 billion raised a week earlier by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 32.6 billion against UAH 55.1 billion placed a week earlier. Rates for deposit certificates did not change over the previous week.

Shrinking volumes of deposit certificates and a simultaneous increase in NBU overnight loans are the evidence that the situation in the banking sector continues to remain difficult. During the previous week, the overall level of the banking system liquidity did not change: a drop in the volume of deposit certificates in circulation was compensated by an increase in the balance on correspondent accounts.

### LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in January 2015, % year-on-year	-21.3%

Source: the State Statistics Service

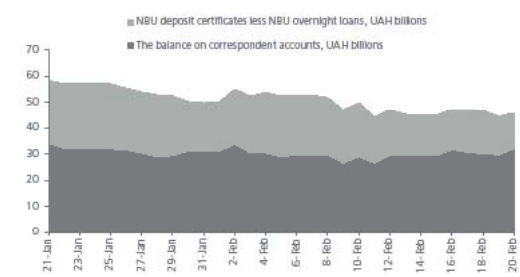
### THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
17 Feb.	28 days. denom. in USD.	8,75%	1/1	99,4*
18 Feb.	27 days. denom. in USD	8,75%	1/1	40,0*

\* USD millions

Source: the Ministry of Finance of Ukraine

### BANKING SYSTEM LIQUIDITY



Source: NBU

### EQUITY MARKET

Same as most local markets, the Ukrainian stock market stopped growing during the previous week. In the course of the previous week, the Ukrainian Exchange (UX) Index remained practically flat and, by the end of the previous week, lost 0.8%, having closed at 1,098.93 points on Friday, 20 February.

If there are no significant changes in the military and political situation in the country, investors operating on the Ukrainian stock market will, most likely, direct their attention towards the trends observed on external markets.

### FOREIGN EXCHANGE MARKET

Trading on the interbank foreign exchange market ranged within the limits of UAH 26.20-26.70/USD on Monday, 16 February, UAH 26.50-27.00/USD on Tuesday, UAH 27.00-27.50/USD on Wednesday, and UAH 27.20-27.70/USD on Thursday. The exchange rate depreciated swiftly on Friday, to UAH 28.50-29.50/USD. The national currency continues to depreciate and to set new record-lows. The maximum foreign exchange sales volumes were registered on Tuesday, 17 February: above USD 0.44 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.35 billion.

### INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market went up. By the end of the previous week, the cost of overnight loans on the interbank lending market was 15-18% per annum, while rates for weekly resources stood at 17-22% per annum, and monthly resources cost 19-25% per annum.

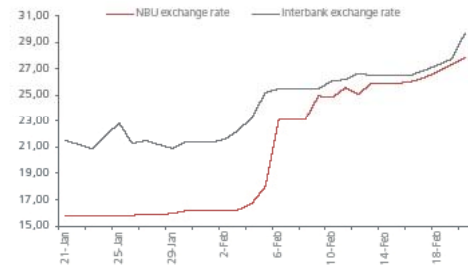
Last week, the balance on correspondent accounts went up and, for the most part of the previous week, stood above UAH 30 billion. As of Friday morning, 20 February, the balance on correspondent accounts landed at UAH 32.2 billion.

### 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	-15.2 (Q4'2014)
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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