First Ukrainian International Bank

# Financial markets survey

10 March 2015

## Investors do not like good news

WEEKLY ISSUE

### GLOBAL MARKETS

Last week, indices of the leading stock platforms across the world continued going down. Pessimistic moods won among investors regardless of the fact that the news stream related to economic indicators of the US and the euro-area was positive in general.

For the entire previous week, American investors expected indicators of the labor market, which should have come out on Friday. The indicators turned out to be very good and exceeded expectations. According to data of the US Department of Labor, the number of new jobs in the country's economy grew 295,000 in February 2015. Experts polled by the Bloomberg agency expected this indicator to grow 235,000 jobs on the average. The rate of unemployment in the US dropped to 5.5% in February 2015 from 5.7% a month earlier. Analysts expected this indicator to inch down to 5.6%.

As is well known, the Federal Reserve System is closely following the labor market indicators, and their improvement should serve as one of the signals to toughen the policy, that is, to raise rates. Therefore, the labor market indicators, which turned out to be better than expected, also turned out to be a bad signal for investors who have fears that the central bank may raise the rates earlier than was generally expected in June.

Last week, the euro exchange rate against the US dollar fell record-low on the eve of launching the quantitative easing (QE) program in the euro-area. It is expected that the European Central Bank will begin re-purchasing government bonds as part of the QE program on 9 March.

Economic indicators of the euro-area are gradually continuing to form a positive trend. In January 2015, retail sales in Germany grew record-high over the last seven years and turned out to grow higher than forecast. Retail sales in the entire euro-area grew record-high in January since 2013. In January, industrial output in Germany has been growing for the fifth consecutive month. The composite Purchasing Managers Index (PMI) of the nineteen euro-area countries grew to 53.3 points in February 2015, which a record-high since July 2014.

### STOCK MARKETS

| Index | last | week ch. | mon. ch. | YTD |
|---|---|---|---|---|
| S&P 500 (US) | 2071.3 | -1.6% | 1.5% | 0.6% |
| FTSE 100 (UK) | 6911.8 | -0.5% | 0.8% | 5.3% |
| MXME (East. Eur.) | 134.3 | -1.1% | 10.0% | 11.8% |
| UX (Ukraine) | 1107.3 | -1.6% | 11.4% | 7.2% |
| RTS (Russia) | 903.5 | 0.8% | 17.2% | 14.3% |

### COMMODITIES

| Commodity | last | week ch. | mon. ch. | YTD |
|---|---|---|---|---|
| Wheat, USD/ton | 207.0 | -0.5% | -1.0% | -11.9% |
| Steel, USD/ton | 350.0 | -2.2% | -9.8% | -13.2% |
| Oil, USD/barrel | 59.7 | -4.6% | 10.3% | 4.2% |
| Gold, USD/ounce | 1166.7 | -3.8% | -8.1% | -1.4% |

Source: Thomson Reuters

**www.pumb.ua**

Department of Investment Business
Andriivska St., 4, Kiev, Ukraine 04070
tel. +38 044 231 7380

## MACROECONOMICS

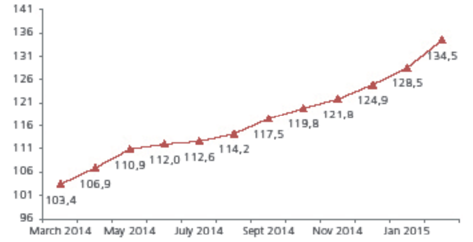
### Inflation

Inflation was galloping at a much more rapid pace in February 2015. According to information of the State Statistics Service, consumer prices grew 5.3% compared to January 2015, whereas annual inflation accelerated to 34.5%.

The main reason for inflation was drastic depreciation of the national currency, which resulted in growing prices for imported products, as well as for domestic products with a high share of imported components. Rapid depreciation resulted in panic on the market, which led to a quickly growing demand on the part of households for food products with a long shelf life. In addition, the lingering decline of output is also contributing to inflation.

In February 2015, producer prices grew 4.8%, while annual inflation of producer prices reached 41.0%. Prices continued to grow the most in mining and processing industries. Rapid depreciation of the national currency also contributed to higher inflation of producer prices in February 2015.

CONSUMER PRICE INDEX (year-on-year)




Source: the State Statistics Service

## 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. At a tender held on 3 March, the Ministry of Finance offered internal government bonds maturing in two years and nominally yielding 16.70% per annum. However, this offer did not receive any bids. Investors are not interested in the above-mentioned bonds, since their yields are 50% lower than the rate of inflation at the moment.

During the current week, the Ministry of Finance plans to hold a tender on 10 March. The Ministry of Finance will offer bonds denominated in hryvnia and maturing in two years.

## NBU OPERATIONS

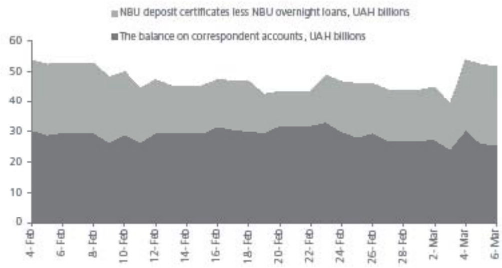
Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 1.3 billion against UAH 1 billion disbursed a week earlier. The above-mentioned refinancing resources were granted on 4 March to twelve banks for 84 days. Last week, the National Bank raised the refinancing rate, and the weighted average refinancing rate for the above-mentioned loans reached 32.32% per annum.

Since 4 March, the rate for overnight loans has stood at 33% per annum. The refinancing rates were brought in compliance with the galloping inflation.

Last week, the National Bank of Ukraine managed to raise UAH 76.3 billion against UAH 52.6 billion raised a week earlier by way of placing certificates of deposit. On 4 March, interest rates for overnight certificates deposit grew from 14% to 20% per annum, while the rate for one-week and two-week deposit certificates totaled 26% per annum.

By the end of the previous week, the overall level of the banking system liquidity went up in connection with rapid growth of deposit certificates, which was the result of higher interest rates for them. At the same time, the volume of overnight loans shrank in connection with rapid growth of their cost.

BANKING SYSTEM LIQUIDITY




Source: NBU

## EQUITY MARKET

Last week, the upward trend on the Ukrainian stock market was interrupted. Over the previous week, the Ukrainian Exchange (UX) Index lost 1.6% and closed at 1,107.31 points on Friday, 6 March.

It is possible to assume that, last week, participants in the Ukrainian stock market were guided by the trends on global markets in general, since the situation within the country was relatively stable.

### THE UX INDEX


Source: Thomson Reuters

## FOREIGN EXCHANGE MARKET

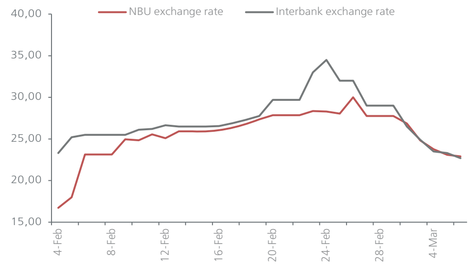
The earlier instituted restrictions of the National Bank were reinforced during the previous week. The most important restrictions were the following: 1) importers that have a positive current balance in foreign exchange were deprived of the right to purchase foreign exchange until they spend the available resources; 2) by the end of the day, commercial banks may purchase no more than 0.1% of their regulatory capital as per a foreign exchange position.

This is the reason why there were no significant foreign exchange purchases on the interbank foreign exchange market. As a result, the market was shrinking for the entire previous week. At the beginning of the previous week, the market saw only mandatory foreign exchange sales by exporters. The National Bank purchased foreign exchange surplus by way of interventions on the foreign exchange market. The following exchange rates were used for the above interventions: UAH 26.858114/USD on Monday, UAH 24.820658/USD on Tuesday, UAH 23.771263/USD on Wednesday, UAH 23.00/USD on Thursday, and UAH 22.50/USD on Friday.

Trading on the interbank foreign exchange market ranged within the limits of UAH 26-27/USD on Monday, UAH 24.60-25/USD on Tuesday, UAH 23.50-24/USD on Wednesday, UAH 23-23.50/USD on Thursday, and UAH 22.50-23/USD on Friday. By the end of the previous week, foreign exchange demand went up, and the market declined at a more sluggish pace. During the current week, analysts expect an increase in foreign exchange demand, since importers will adjust to new rules of operation on the interbank foreign exchange market.

The maximum foreign exchange sales volumes were registered on Thursday, 5 March: above USD 0.20 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.17 billion.

### EXCHANGE RATE (UAH/USD)




Source: NBU, kurs.com.ua

## INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market continued growing. By the end of the previous week, the cost of overnight loans was 18-22% per annum, while rates for weekly resources stood at 20-25% per annum, and monthly resources cost 22-27% per annum.

Last week, the balance on correspondent accounts went down. As of Friday morning, 6 March, the balance on correspondent accounts stood at UAH 25.8 billion.

## UKRAINE'S MACROECONOMIC INDICATORS

| Indicator | 2014 | 2015 |
|---|---|---|
| GDP, % | -15,2 (Q4'2014) | – |
| Industrial output, % | -10,7 | -21,3 (January) |
| Consumer price growth, % | 24,9 | 34,5 (February) |
| Producer price growth, % | 31,8 | 41,0 (February) |
| Balance of trade, USD billions | -5,4 | – |
| Official exchange rate, annual average, UAH/USD | 11,89 | 20,36 (January-February) |
| Weighted average interbank exchange rate, annual average, UAH/USD | 11,97 | 20,36 (January-February) |
| Weighted average interbank exchange rate, by year end, UAH/USD | 15,79 | 30,01 (end of February) |
| Banking system assets, % of gr owth | 3,0 | -0,8 (January) |

Source: the State Statistics Service, NBU

| | |
|---|---|
| **DEPARTMENT OF INVESTMENT BUSINESS** | Anton Stadnik<br>Head of department<br>+38 044 231 7046<br>anton.stadnik@fuib.com |
| | Marina Timbay<br>Trading and brokerage<br>+38 044 231 7053<br>marina.timbay@fuib.com |
| | Yevhenia Akhtyrko<br>Research<br>+38 044 231 7380<br>evgeniya.ahtirko@fuib.com |
| **INTERNATIONAL FINANCING AND TRANSACTION STRUCTURING** | Serhiy Zubro<br>+38 044 231 7055<br>serhiy.zubro@fuib.com |
| **TRANSACTION SERVICES** | Anton Gurban<br>+38 044 231 7530<br>anton.gurban@fuib.com |
| **PUBLIC RELATIONS** | Anna Kokoba<br>+38 044 231 7252<br>anna.kokoba@fuib.com |