



# Financial markets survey

23 March 2015

## The British index is beating all records

WEEKLY ISSUE

### GLOBAL MARKETS

Last week was marked by a breakthrough of the British FTSE 100 Index that set a new record-high on Friday, 20 March, rising above 7,000 points for the first time in the entire history of this index. Earlier, FTSE 100 already approached 7,000 points, in particular, in December 1999 – before the “dotcoms bubble” burst out, and in October 2007 – before the beginning of the global financial and economic crisis.

The immediate reason for the British index to grow during the previous week was an improvement in the moods of investors connected with restoring petroleum prices, as well as encouraging indications that the debt crisis in Greece will be resolved. Optimistic moods of European investors are fueled by the solid position of the European Central Bank regarding the long-term incentive program for the euro-area economy, as well as expectations that global financial flows will be re-distributed in favor of European markets. Since the beginning of the year, the FTSE 100 Index grew 7%.

The American market also finished the previous week in the green zone; however, its growth was less impressive. American investors expected the results of the March meeting of the US Federal Reserve System. As usual, indices went down before the publication of the results of the FRS meeting. However, FRS statements turned out to be a pleasant surprise for investors who are not willing the era of low rates to be over.

This time the central bank made it clear that the country’s economic growth will be more moderate, while interest rates may be raised later than expected. The American central bank stated that an increase in the target range for the federal funds rate remains unlikely in April and that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective.

It seems that the competition between the American and the European markets will be one of the intrigues during the current year.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,108.1	2.7%	0.4%	2.4%
FTSE 100 (UK)	7,022.5	4.2%	1.8%	7.0%
MXME (East. Eur.)	132.5	6.1%	-4.5%	10.3%
UX (Ukraine)	1,051.5	-2.0%	-5.7%	1.8%
RTS (Russia)	862.1	3.4%	-7.2%	9.0%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	196.5	2.9%	-5.3%	-16.4%
Steel, USD/ton	360.0	2.9%	-3.5%	-10.7%
Oil, USD/barrel	55.3	1.2%	-8.6%	-3.5%
Gold, USD/ounce	1,182.2	2.0%	-2.5%	-0.1%

Source: Thomson Reuters

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**MACROECONOMICS**

**Industry**

In February 2015, industrial output shrank at a more rapid pace. According to information of the State Statistics Service, industrial output declined 22.5% in February 2015 compared to February of the previous year.

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 61.7% compared to February 2014.

Some positive trends took shape in processing industry, where output grew 8.6% in February 2015 compared to the previous month. The most serious growth was registered in machine-building (26.9%). In our opinion, this trend is connected with growing orders in defense industry.

**BOND MARKET**

Last week, the Ministry of Finance did not hold any tenders to place internal government bonds. There is no schedule of tenders for the current month. Perhaps, the Ministry of Finance gave up the idea of raising financial resources on the domestic market owing to the high cost of resources. At the current stage, the Budget deficit will be financed with the help of the IMF loan.

**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 1.2 billion disbursed a week earlier. The above-mentioned refinancing resources were granted on 18 March to six banks for 13 days. The weighted average refinancing rate for the above-mentioned loans grew to 31.72% per annum compared to 30.94% a week earlier.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 1.4 billion against UAH 1.8 billion granted a week earlier.

Last week, the National Bank of Ukraine managed to raise UAH 68.6 billion against UAH 46.8 billion raised a week earlier by way of placing certificates of deposit. At that, the NBU placed overnight certificates of deposit for the total of UAH 59.5 billion over the previous week. The volume of deposit certificates placed over the previous week went up; however, banks prefer purchasing overnight certificates of deposit.

Last week, the overall level of the banking system liquidity was comparable to what was registered a week earlier.

**EQUITY MARKET**

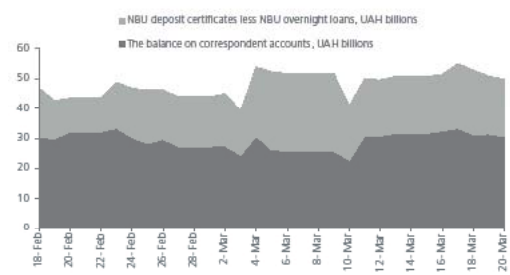
By the end of the previous week, the Ukrainian stock market turned out to be in discordance with the leading trading platforms across the world. The Ukrainian Exchange (UX) Index started the previous week with some growth. However, the positive trend was terminated on Wednesday, 18 March. By the end of the previous week, the UX Index lost 2%.

**LATEST MACROECONOMIC DATA**

Indicator	Value
Industrial output change in February 2015, % year-on-year	-22.5%

Source: the State Statistics Service

**BANKING SYSTEM LIQUIDITY**



Source: NBU

**THE UX INDEX**



Source: Thomson Reuters

During the current week, investors in the Ukrainian stock market will closely follow the development of the conflict around the Ukrnafta company, which broke out at the end of the previous week.

### FOREIGN EXCHANGE MARKET

Last week, the interbank foreign exchange market demonstrated gradual growth. Trading on the interbank foreign exchange market ranged within the limits of UAH 21.50-22.00/USD on Monday, UAH 22.00-22.50/USD on Tuesday, UAH 23.00-23.50/USD on Wednesday, UAH 23.40-23.50/USD on Thursday, and UAH 23.10-23.30/USD on Friday. During the first four days of the previous week, the National Bank carried out daily interventions at the exchange rate of UAH 21.50-23.50/USD. No interventions were carried out on Friday.

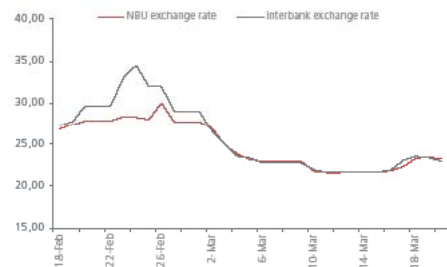
The maximum foreign exchange sales volumes were registered on Thursday, 19 March: above USD 0.32 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.25 billion.

### INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market did not change and remained high. During the previous week, the cost of overnight loans was 21-25% per annum, while rates for weekly resources stood at 22-26% per annum. The cost of monthly resources was 22-27% per annum.

The balance on correspondent accounts was relatively high and stood above UAH 30 billion for the entire previous week. As of Friday morning, 20 March, the balance on correspondent accounts equaled UAH 30.6 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015
GDP, %	-15.2 (Q4'2014)	-
Industrial output, %	-10.7	-22.5 (February)
Consumer price growth, %	24.9	34,5 (February)
Producer price growth, %	31.8	41,0 (February)
Balance of trade, USD billions	-5.4	-0.4 (January)
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 growth	3.0	-0.8 (January)

Source: the State Statistics Service, NBU



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