



# Financial markets survey

14 April 2015

## Optimistic moods and negative rates

### WEEKLY ISSUE

#### GLOBAL MARKETS

The majority of stock markets across the world registered growth over the previous week. European markets became growth leaders again: the British FTSE 100 Index grew 3.8% over the previous week. Since the beginning of the year, FTSE 100 rose 8%.

Data on business activity in the euro-area and optimistic moods regarding actions of central banks across the world, including the US Federal Reserve System, fostered this growth. The composite Purchasing Managers Index (PMI) of the nineteen euro-area countries grew from 53.3 points in February to 54 points in March 2015, which is a record-high since April 2014. A value of this index above 50 points is the evidence of growing business activities in the economy, whereas the value of this index below this level is the sign of declining business activity.

Last week, Switzerland became the first country in the history to place government bonds maturing in ten years with a negative yield. A number of European countries have already sold government bonds with a negative interest rate; however, all of them boasted maturity period not exceeding five years. In January 2015, the Swiss National Bank (SNB) rejected the ceiling for the national currency exchange rate against the euro, which was introduced in 2011 and stood at CHF 1.2/EUR, as well as lowered the interest rate for demand deposits from minus 0.25 to minus 0.75% per annum. According to analysts, government bonds of this country will enjoy demand among investors as long as their yielding rate is above this indicator.

There is a serious growth of activity as regards merger and acquisition (M&A) deals. Since the beginning of the year, M&A deals went above USD 1 trillion. If these activities persist for the rest of the year at the current pace, M&A deals can reach USD 3.7 trillion by the end of 2015. As a result, the current year will become the second best in terms of this indicator in the history after the record-high 2007, when M&A deals totaled USD 4.3 trillion.

Traders still have several weeks to build up a safety margin before the beginning of the traditional sale of securities in May. The geopolitical situation is relatively quiet at the current moment. This is why market participants can pay more attention to economic indicators.

#### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2102.1	1.7%	3.0%	2.1%
FTSE 100 (UK)	7089.8	3.8%	5.5%	8.0%
MXME (East. Eur.)	147.8	5.6%	16.1%	23.0%
UX (Ukraine)	1016.3	-2.8%	-7.0%	-1.6%
RTS (Russia)	999.4	7.4%	17.9%	26.4%

#### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	194.0	3.5%	1.6%	-17.4%
Steel, USD/ton	358.0	0.0%	2.3%	-11.2%
Oil, USD/barrel	57.9	5.3%	0.6%	0.9%
Gold, USD/ounce	1207.7	-0.2%	4.6%	2.0%

Source: Thomson Reuters

[www.pumb.ua](http://www.pumb.ua)

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**MACROECONOMICS**

**Inflation**

Inflation reached a record-high level in March 2015. According to information of the State Statistics Service, consumer prices grew 10.8% compared to February 2015, whereas annual inflation accelerated to 45.8%.

Same as in February, 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 March 2015, producer prices grew 10.5%, while annual inflation of producer prices reached 51.7%. Rapid depreciation of the national currency contributed to galloping inflation of producer prices. Prices went up the most in deliveries of electric energy, gas and vapor in connection with rates for electricity growing 13.5% and for thermal energy – 12.0%.

**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 at 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**

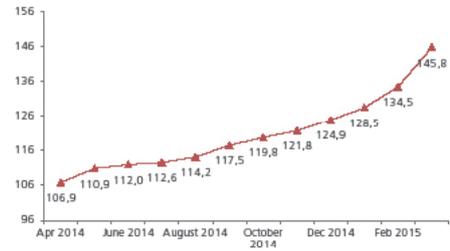
Last week, the sum allocated by the National Bank at a tender to support liquidity of banks reached UAH 420.5 million against UAH 218.0 million disbursed a week earlier. The above-mentioned refinancing resources were granted on 8 April to four banks for 13 days. The weighted average refinancing rate for the above-mentioned loans reached 30.01% per annum.

The total sum of overnight loans which the NBU issued to banks over the previous week reached UAH 3.1 billion compared to UAH 3.4 billion issued a week earlier.

Last week, the National Bank of Ukraine managed to raise UAH 44.5 billion by way of placing certificates of deposit against UAH 33.8 billion raised a week earlier. At that, the NBU placed overnight certificates of deposit for the total of UAH 38.4 billion over the previous week.

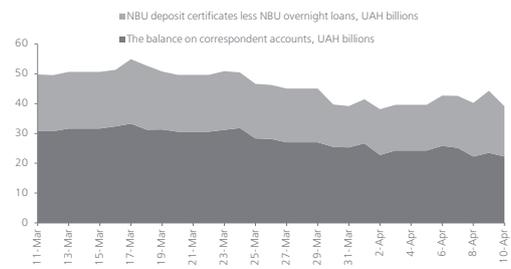
Over the previous week, the overall level of the banking system liquidity grew a little, but did not stabilize. The volume of deposit certificates in circulation went up; however, the balance on correspondent accounts remained at a relatively low level.

**CONSUMER PRICE INDEX (year-on-year)**



Source: the State Statistics Service

**BANKING SYSTEM LIQUIDITY**



Source: NBU

**EQUITY MARKET**

Last week, the Ukrainian stock market followed a downward trend again contrary to the overall upheaval on global markets. Over the previous week, the Ukrainian Exchange (UX) Index lost 2.8% and closed at 1,016.28 points on Friday, 10 April.

During the previous week, there were growing concerns regarding a new escalation of the situation in the area of active hostilities in the eastern part of the country.

**FOREIGN EXCHANGE MARKET**

At the beginning of the previous week, trading on the interbank foreign exchange market ranged within the limits of UAH 23.40-23.65/USD. However, starting from Wednesday, the exchange rate began to appreciate. By Friday, 10 April, trading ranged within the limits of UAH 22.80-23.30/USD.

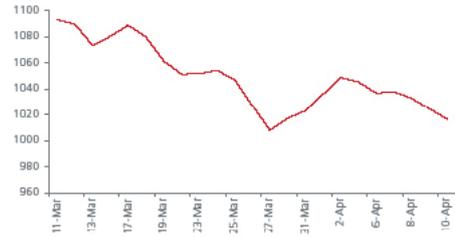
The current week should demonstrate whether this appreciation of the exchange rate was situational or there is a real drop in foreign exchange demand.

**INTERBANK LENDING MARKET**

Last week, the cost of resources on the interbank lending market remained high. The limits for the cost of overnight loans grew to those of weekly resources and reached 22-26% per annum, while the cost of monthly resources was 22-27% per annum.

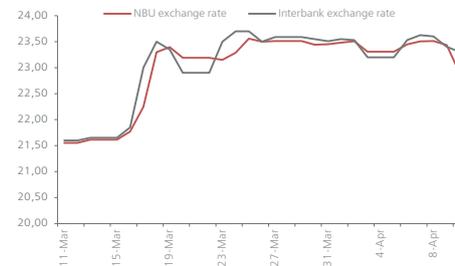
The balance on correspondent accounts fluctuated in the course of the previous week. At the beginning of the previous week, the balance on correspondent accounts was above UAH 25 billion. However, by the end of the previous week, it dropped record-low over the previous year. As of Friday morning, 10 April, the balance on correspondent accounts totaled UAH 22.2 billion

**THE UX INDEX**



Source: Thomson Reuters

**EXCHANGE RATE (UAH/USD)**



Source: NBU, kurs.com.ua

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015
GDP, %	-6.8	-
Industrial output, %	-10.7	-22.5 (February)
Consumer price growth, %	24.9	45.8 (March)
Producer price growth, %	31.8	51.7 (March)
Balance of trade, USD billions	-5.4	-0.8 (January-February)
Official exchange rate, annual average, UAH/USD	11.89	
Weighted average interbank exchange rate, annual average, UAH/USD	11.97	21.43 (January-March)
Weighted average interbank exchange rate, by year end, UAH/USD	15.79	23.44 (end of March)
Banking system assets, % of growth	3.0	26.8 (January-February)

Source: the State Statistics Service, NBU



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