

Financial markets survey

05 May 2015

Intrigue around the rate is still on

WEEKLY ISSUE

GLOBAL MARKETS

In the course of the previous week, the dynamics of the leading trading platforms across the world was uneven. In the end, bears won; however, April turned out to be rather successful for the stock market.

Investors expected the results of the US Federal Reserve System (FRS) meeting that took place on 28-29 April. At this meeting, the American central bank kept the federal funds rate in the targeted range from zero to 0.25% per annum. This decision was consistent with estimates of economists.

Nevertheless, the main question for investors is what will happen to the rate in June. For many months, the market has been preparing itself that the FRS will raise the rate specifically in June, which should mean the end of the cheap money period and government support for the economy. This is why the market is closely following the main macroeconomic indicators.

On 28 April, it became known that the US GDP grew 0.2% over the first quarter of 2015, whereas analysts forecast 1% growth. If the US economy continues demonstrating such a hesitant growth, there are growing chances that the FRS will postpone its decision to raise the rate. However, hopes of investors for the period of low rates to be extended evaporated, since data on the labor market appeared a day later and demonstrated that, last week, the number of Americans applying for their unemployment benefit for the first time fell record-low over the last fifteen years. Labor market indicators are as important for the FRS as the GDP indicator. This is why a good standing of the labor market can be a sufficient reason for the FRS to make the decision to raise the rate.

Most likely, the behavior of markets will be rather hectic during the current month. As we can see, market players are still cherishing the hope that the FRS will go back on its word and will postpone the revision of the rate upward for several months.

STOCK MARKETS

| Index | last | week ch. | mon. ch. | YTD |
|-------------------|---------|----------|----------|-------|
| S&P 500 (US) | 2,108.3 | -0.4% | 2.4% | 2.4% |
| FTSE 100 (UK) | 6,986.0 | -1.2% | 2.6% | 6.4% |
| MXME (East. Eur.) | 152.8 | 0.1% | 12.1% | 27.2% |
| UX (Ukraine) | 1,077.6 | 1.1% | 4.0% | 4.3% |
| RTS (Russia) | 1,029.3 | -0.8% | 13.1% | 30.2% |

COMMODITIES

| Commodity | last | week ch. | mon. ch. | YTD |
|-----------------|---------|----------|----------|--------|
| Wheat, USD/ton | 181.0 | 0.0% | -3.5% | -23.0% |
| Steel, USD/ton | 365.0 | 0.0% | 2.0% | -9.4% |
| Oil, USD/barrel | 66.5 | 1.8% | 16.4% | 15.9% |
| Gold, USD/ounce | 1,178.1 | -0.1% | -2.2% | -0.5% |

Source: Thomson Reuters

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MACROECONOMICS

Balance of payments

In March 2015, Ukraine's balance of payments significantly improved. The current account deficit totaled USD 13 million compared to USD 460 million in February 2015. Over the first quarter of 2015, the country's current account deficit reached USD 836 million against USD 1.5 billion in the first quarter of 2014.

Growing exports of goods contributed to improving the country's balance of trade. In March, exports of goods went up to USD 4.4 billion from USD 3.8 billion in February 2015. Nevertheless, exports of goods shrank 32.9% in the first quarter of 2015 compared to the first quarter of 2014. Imports of goods dropped 33.7% over the above-mentioned period.

Deficit of the capital and financial account equaled USD 292 million in March 2015. The flow-out under loans and bonds reached USD 1.6 billion. Over the first quarter of 2015, outflow under loans and bonds totaled USD 3.3 billion.

Deficit of the consolidated balance of payments totaled USD 1.9 billion in the first quarter of 2015 against USD 4.3 billion in the first quarter of 2014.

The disbursement of the IMF loan totaling USD 4.9 billion made it possible to increase foreign-exchange reserves to USD 10.0 billion, which provides for financing 2.1 months of future imports.

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 National Bank provided refinancing resources totaling UAH 815 million to two commercial banks for 89 days. The weighted average refinancing rate reached 30.0%. After a one-week break, the National Bank resumed the practice of issuing overnight loans. The total sum of overnight loans which the NBU disbursed to banks over the previous week reached UAH 2.2 billion.

Last week, the National Bank of Ukraine managed to raise UAH 37.1 billion by way of placing certificates of deposit. At that, the NBU placed overnight certificates of deposit for the total of UAH 27.8 billion over the previous week.

During the previous week, the overall level of the banking system liquidity went down. The balance on correspondent accounts also shrank. The resumed issuance of overnight loans also contributed to shrinking liquidity.

EQUITY MARKET

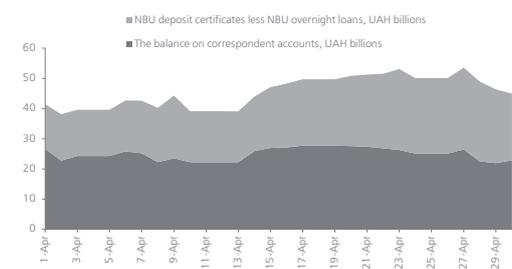
Last week, the Ukrainian stock market continued the upward trend. In the course of the previous week, the Ukrainian Exchange (UX) Index grew 1.1% and closed at 1,077.60 points on Thursday, 30 April.

LATEST MACROECONOMIC DATA

| Indicator | Value |
|---|-------|
| Current account balance in March 2015, USD millions | -13 |

Source: the National Bank of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

Since the market worked a shortened week, the negative moods prevailing on western markets at the end of the previous week could not affect the Ukrainian stock market in full.

During the first 10 days of May, the Ukrainian stock market will demonstrate little activity in connection with numerous public holidays in Ukraine.

FOREIGN EXCHANGE MARKET

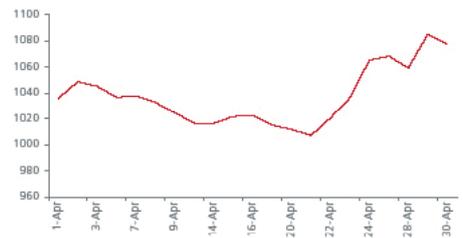
During the previous week, trading on the interbank foreign exchange market ranged within the limits of UAH 22.80-23.00/USD on Monday, 27 April, UAH 22.10-22.40/USD on Tuesday, UAH 20.90-21.20/USD on Wednesday, and UAH 21.10-21.40/USD on Thursday. The maximum foreign exchange sales volumes were registered on Tuesday, 28 April: above USD 0.296 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.232 billion.

INTERBANK LENDING MARKET

Owing to the beginning of a new month and the four-day holiday period, the cost of overnight loans went up over the previous week. On the last day of April, the cost of overnight loans on the interbank lending market stood at 22-28% per annum. During the previous week, the cost of weekly resources reached 18-25% per annum, while monthly resources cost 18-20% per annum.

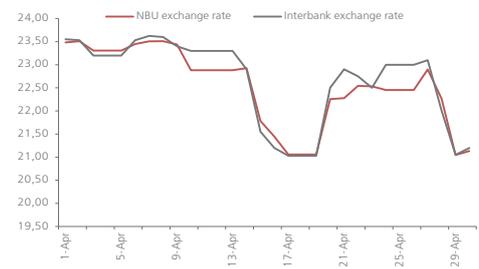
The balance on correspondent accounts went down and stood around UAH 22-23 billion for the most part of the previous week. As of Thursday morning, 30 April, the balance on correspondent accounts totaled UAH 22.7 billion

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 | -21.1 (March) |
| Consumer price growth, % year-on-year | 24.9 | 45.8 (March) |
| Producer price growth, % year-on-year | 31.8 | 51.7 (March) |
| Balance of trade, USD billions | -5.4 | -1.0 (January-March) |
| 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 | 21.13 (end of April) |
| Banking system assets, % of gr owth | 3.0 | 9.4 (January-March) |

Source: the State Statistics Service, NBU



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