

Financial markets survey

28 September 2015

Federal Reserve shuffles all cards

WEEKLY ISSUE

GLOBAL MARKET

The leading stock platforms across the world operated the previous week in an uncertainty regarding the deadlines for the US Federal Reserve System (FRS) to raise the federal funds rate. There were growing rumors that the Federal Reserve was inclined to raise the rate before the beginning of the next year.

Speaking in the University of Massachusetts on Thursday, 24 September, FRS Chair Janet Yellen stated that the Federal Reserve was prepared to raise the cost of lending in 2015. Next day, the US Department of Commerce upgraded its estimate for growth of the US economy in the second quarter of 2015 from 3.7% to 3.9% in annual terms, which is a record-high indicator from July-September 2014. These data, as well as good indicators of the real estate market published earlier supported the opinion that the rate can be raised earlier – before 2016.

At the beginning of the previous week, markets were under the impact of a scandal involving Volkswagen AG, a German car-maker. Volkswagen AG was accused by the US Environmental Protection Agency of fabricating the results of pollution emissions tests. This news item resulted in lower quotations of the company's shares, as well as shares of other car-makers.

Macroeconomic news items from Europe were mainly positive. In the third quarter of 2015, the average indicator of business activity in the euro-area grew record-high over the last four years. The IFO Business Climate Index in Germany grew unexpectedly in September 2015.

The uncertainty as regards the deadlines for the FRS to revise the rate will force investors to follow macroeconomic indicators of the US very attentively. If many indicators turn out to be better than forecasts, it makes sense to expect that the FRS will bring itself to raising the rate at one of the two meetings remaining in 2015.

STOCK MARKETS

| Index | last | week ch. | mon. ch. | YTD |
|-------------------|---------|----------|----------|--------|
| S&P 500 (US) | 1,931.3 | -1.4% | -0.5% | -6.2% |
| FTSE 100 (UK) | 6,109.0 | 0.1% | 2.2% | -7.0% |
| MXME (East. Eur.) | 118.4 | -5.2% | 1.7% | -1.4% |
| UX (Ukraine) | 883.8 | -7.0% | -8.3% | -14.5% |
| RTS (Russia) | 788.6 | -3.4% | 4.5% | -0.3% |

COMMODITIES

| Commodity | last | week ch. | mon. ch. | YTD |
|-----------------|---------|----------|----------|--------|
| Wheat. USD/ton | 164.0 | 2.5% | -2.7% | -30.2% |
| Steel. USD/ton | 293.0 | -5.5% | -9.3% | -27.3% |
| Oil. USD/barrel | 48.6 | 2.4% | 12.7% | -15.2% |
| Gold. USD/ounce | 1,145.9 | 0.6% | 1.8% | -3.2% |

Source: Thomson Reuters

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MACROECONOMICS

Unemployment

In the first half of 2015, the rate of unemployment in Ukraine reached 9.2% (in accordance with the International Labor Organization methodology). In the first half of 2014, the rate of unemployment totaled 8.6%.

In H1'2015, the rate of unemployment among male population totaled 10.3% and among female population – 8.0%. Unemployment rates among rural residents reached 9.7% and among urban population – 9.0%.

The highest rates of unemployment were registered in Luhansk, Donetsk and Poltava oblasts, while the lowest rates of unemployment can be observed – in the city of Kyiv, Kyiv and Dnipropetrovsk oblasts.

Wages

In August 2015, real wages in Ukraine shrank 19.2% compared to August 2014. The main reasons for real wages to shrink were the recession of the country's economy and a high inflation rate.

In August 2015, the average monthly wage of full-time employees totaled UAH 4,205, which is 24.8% above the similar indicator registered in August 2014.

The lowest wages were registered in Ternopil, Chernivtsi and Kherson oblasts. The highest wages were observed in the city of Kyiv, Donetsk and Dnipropetrovsk oblasts.

BOND MARKET

Last week, the Ministry of Finance did not hold any primary tenders to place internal government bonds. The last placement of internal government bonds took place on 21 July 2015.

NBU OPERATIONS

On 25 September, the National Bank lowered its discount rate from 27% to 22%. The previous revision of this rate took place on 28 August 2015. A lower discount rate is the evidence that the situation in the country's financial sector is improving, in particular, risks are getting lower.

The National Bank allocated an overnight loan totaling UAH 25 million to one bank on a daily basis in the course of the previous week. The interest rate for this loan went down from 29% per annum to 24% per annum on 25 September. Longer-term refinancing loans were not provided.

During the previous week, the National Bank of Ukraine managed to raise UAH 57.4 billion against UAH 61.7 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 33.8 billion over the previous week. Last week, the volume of deposit certificates in circulation grew record-high since the beginning of the current year.

Thanks to the above-mentioned increase in deposit certificates in circulation, the overall level of the banking system liquidity went up, rising record-high since the beginning of the current year.

LATEST MACROECONOMIC DATA

| Indicator | Value |
|---|-------|
| Unemployment rate (ILO methodology) in H1'2015, % | 9.2 |
| Change in real wages in August 2015, % year-on-year | -19.2 |

Source: the State Statistics Service

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

Last week, the Ukrainian stock market continued falling. Over the previous week, the Ukrainian Exchange (UX) Index lost 7.0%, having closed at 883.77 points on Friday, 25 September.

Perhaps, this collapse was connected with negative moods reigning on western markets, as well as with the growing political uncertainty in the country linked to the upcoming local government elections.

FOREIGN EXCHANGE MARKET

Last week, trading on the interbank foreign exchange market ranged within the following limits: UAH 21.60-21.70/USD on Monday, 21 September, UAH 21.60-21.80/USD on Tuesday, 22 September, UAH 21.10-21.50/USD on Wednesday, 23 September, UAH 21.50-21.70/USD on Thursday, 24 September, and UAH 21.75-21.85/USD on Friday, 25 September.

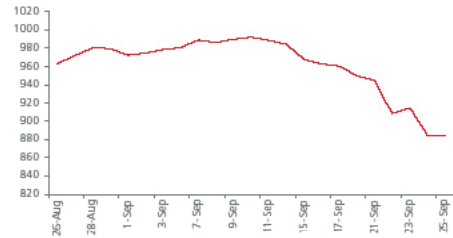
The maximum foreign exchange sales volumes were registered on Tuesday, 22 September: above USD 0.326 billion (all currencies), including sales of the American currency alone for the total of USD 0.241 billion. Every day in the course of the previous week, the National Bank carried out tenders to purchase US dollars. The NBU purchased US 72.7 million from market participants over the previous week. The weighted average exchange rate for purchasing US dollars fluctuated within the limits of UAH 21.46/USD and UAH 21.90/USD in the course of the previous week.

INTERBANK LENDING MARKET

During the previous week, rates for loans on the interbank lending market stood at 19-22% per annum regardless of their due date. The lower limit of lending rates inched down; however, so far, there has been no noticeable trend towards lower cost of lending resources.

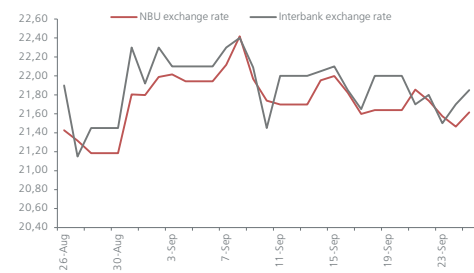
For the most part of the previous week, the balance on correspondent accounts stood around UAH 23-26 billion. As of Friday morning, 25 September, the balance on correspondent accounts totaled UAH 24.1 billion.

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 | -14.6 (2nd quarter) |
| Industrial output, % | -10.7 | -5.8 (August) |
| Consumer price growth, % year-on-year | 24.9 | 52.8 (August) |
| Producer price growth, % year-on-year | 31.8 | 33.0 (August) |
| Balance of trade, USD billions | -5.4 | -0.2 (January-July) |
| Official exchange rate, annual average, UAH/ USD | 11.89 | |
| Weighted average interbank exchange rate, annual average, UAH/USD | 11.97 | 21.55 (January-August) |
| Weighted average interbank exchange rate, by year end, UAH/USD | 15.79 | 21.81 (end of August) |
| Banking system assets, % of gr owth | 3.0 | -4.7 (January-July) |

Source: the State Statistics Service, NBU



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