

Financial markets survey

26 October 2015

Picking up steam

WEEKLY ISSUE

GLOBAL MARKET

Last week, indices of the leading western platforms began to grow. The American market grew faster than the European market, and, by the end of the previous week, the value of the S&P 500 Index went above the value registered at the beginning of the current year.

The main growth driver for the American market was the results of corporate reporting for the third quarter. In the beginning, corporate indicators did not provide a clear picture to guide investors. However, by the end of the previous week, there were publications of good financial results by such hi-tech companies as Microsoft, Alphabet and Amazon. com, and the market livened up noticeably.

European investors expected a speech of the European Central Bank President based on the results of the ECB's last meeting. The ECB President informed that the ECB may revise both the size of the current quantitative easing (QE) program, and the list of assets re-purchased as part of this program, as well as its validity period. Investors expect that the above-mentioned measures will boost market liquidity and will provide incentives for economic growth.

Market growth factors that were important during the previous week have a rather short-term impact. If good news accumulate, investors will be able to use the last two months of the current year to finish 2015 without any losses. Macroeconomic indicators should play the decisive part in this issue.

Statements of the ECB President also influenced the foreign exchange market. Rights after the statement made by Mario Draghi, the euro began to depreciate swiftly against the US dollar. By closing time on Friday, 23 October, the euro depreciated to USD 1.1014/EUR, which is a record-low exchange rate over the last two months.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,075.2	2.1%	7.0%	0.8%
FTSE 100 (UK)	6,444.1	1.0%	6.8%	-1.9%
MXME (East. Eur.)	127.2	-1.4%	7.0%	5.9%
UX (Ukraine)	777.1	-3.5%	-15.0%	-24.8%
RTS (Russia)	872.9	-0.9%	11.6%	10.4%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	184.0	0.3%	12.2%	-21.7%
Steel. USD/ton	273.0	-1.8%	-6.8%	-32.3%
Oil. USD/barrel	48.0	-4.9%	0.5%	-16.3%
Gold. USD/ounce	1,163.9	-1.1%	3.0%	-1.7%

Source: Thomson Reuters

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MACROECONOMICS

Industrial output

In September 2015, industrial output in Ukraine continued to shrink at a more sluggish pace. According to information of the State Statistics Service, industrial output declined 5.1% in September 2015 compared to September 2014. Over January-September 2015, industrial output dropped 16.6% year-on-year.

The situation in mining industry continues to improve: compared to September 2014, output went up 3.2%. In particular, coal production jumped 14.9%, whereas the production of iron ores grew 4.7%. Growth in mining industry is, in the first place, connected with a relatively low baseline of the previous year.

Output in processing industry shrank 8.3% year-on-year in September 2015. The most serious decline was registered in food and chemical industries. At the same time, output in steel industry grew 3% year-on-year, which is also mainly connected with the low baseline of the previous year.

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

Last week, the National Bank did not allocate refinancing loans to support liquidity of the banking system.

During the previous week, the National Bank of Ukraine managed to raise UAH 74.3 billion against UAH 50.5 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 45.4 billion over the previous week. The weighted average rate for the longest-term certificates (maturing in three months) went down from 21.84% per annum to 21.50% per annum over the previous week.

During the previous week, the overall level of the banking system liquidity peaked at a new record-high since the beginning of the current year once again. This growth is the result of an increase in the volume of deposit certificates in circulation.

STOCK MARKET

Last week, the downward trend on the Ukrainian stock market continued to persist. By the end of the previous week, the Ukrainian Exchange (UX) Index went down 3.5%. Since the beginning of the current year, the UX Index dropped almost 25%. On Friday, 23 October, the UX Index closed at 777.11 points.

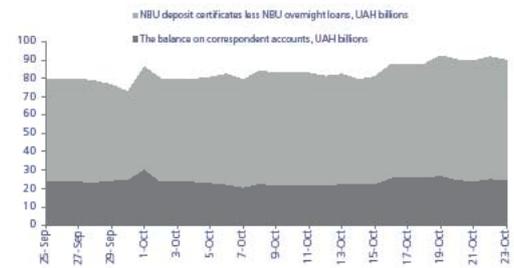
The current week should demonstrate how important the factor of the local government elections, which took place in Ukraine on Sunday, 25 October, was for the lingering decline of the UX Index.

LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in September 2015, % year-on-year	-5.1

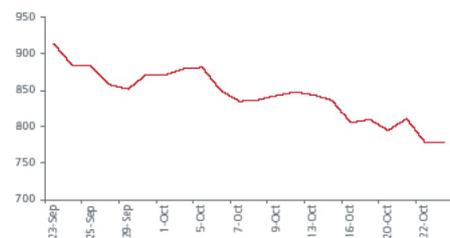
Source: the State Statistics Service

BANKING SYSTEM LIQUIDITY



Source: NBU

THE UX INDEX



Source: Thomson Reuters

FOREIGN EXCHANGE MARKET

During the previous week, the national currency of Ukraine demonstrated tangible depreciation against the US dollar. Trading on the interbank foreign exchange market ranged within the following limits: UAH 21.50-21.75/USD on Monday, 19 October, UAH 21.85-22.10/USD on Tuesday, 20 October, UAH 22.50-22.70/USD on Wednesday, 21 October, UAH 22.00-22.50/USD on Thursday, 22 October, and UAH 22.50-22.75/USD on Friday, 23 October. In the opinion of the National Bank of Ukraine, the reason for this depreciation was a temporary imbalance between foreign exchange demand and supply on the foreign exchange market.

The maximum foreign exchange sales volumes were registered on Wednesday, 21 October: above USD 0.410 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.323 billion.

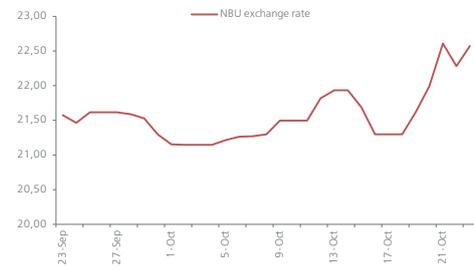
Every day in the course of the previous week, the National Bank carried out tenders to purchase foreign exchange. The weighted average exchange rate for purchasing US dollars was the highest on Wednesday, 21 October, - at UAH 22.64/USD. The NBU reduced its foreign exchange purchases at such tenders in connection with the appreciation of the US dollar exchange rate. The National Bank purchased USD 61.1 million from market participants over the previous week against USD 111.5 million purchased a week earlier.

INTERBANK LENDING MARKET

During the previous week, rates for overnight loans on the interbank lending market did not register any changes and stood at 18-19% per annum. Weekly resources cost 19-20% per annum, while monthly rates were registered at 20-21% per annum.

For the most part of the previous week, the balance on correspondent accounts stood around UAH 25 billion. As of Friday morning, 23 October, the balance on correspondent accounts totaled UAH 24.8 billion.

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	-5.1 (September)
Consumer price growth, % year-on-year	24.9	51.9 (September)
Producer price growth, % year-on-year	31.8	32.5 (September)
Balance of trade, USD billions	-5.4	-0.5 (January-August)
Official exchange rate, annual average, UAH/USD	11.89	
Weighted average interbank exchange rate, annual average, UAH/USD	11.97	21.58 (January-September)
Weighted average interbank exchange rate, by year end, UAH/USD	15.79	21.30 (end of September)
Banking system assets, % of growth	3.0	-6.8 (January-August)

Source: the State Statistics Service, NBU



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