

# Financial markets survey

02 November 2015

## Generous October

### WEEKLY ISSUE

#### GLOBAL MARKET

The last October turned out to be extremely lucky for the leading stock platforms across the world. Growth of the American S&P 500 Index surpassed 8% in October 2015, which was a record-high monthly growth indicator registered over the last four years.

Such a successful month raised the chances of many traders to finish this year at least without losses. At the same time, there are fears that the entire margin of possible growth has already been exhausted in October. This is why December will not see the traditional rally. The last week of October demonstrated that such fears are not at all groundless.

In the course of the previous week, a number of macroeconomic indicators on the US economy were published, and many indicators turned out to be worse than expected. In the third quarter, the US GDP growth significantly slowed down, totaling 1.5% according to provisional data of the country's Department of Commerce. By the end of the previous week, statistical data on consumer confidence in October was revised – the University of Michigan Consumer Sentiment Index grew to 90 points from 87.2 points in September, whereas the provisional estimate equaled 92.1 points, and analysts polled by the Bloomberg agency expected it to be revised upward – to 92.5 points. Incomes and expenditures of US households inched up 0.1% in September 2015, which is also worse than expected.

Relatively weak macroeconomic indicators boost chances that the US Federal Reserve System (FRS) will, after all, refrain from raising the rate before the end of the current year. This is a good news item for markets. However, it has a short-term impact. Macroeconomic data, which is convincing evidence of sustainable economic growth, are more important for long-term growth of the stock market.

In the middle of the previous week, the US dollar exchange rate against the euro appreciated record-high over the last two months. This happened after the FRS gave a signal about retaining the possibility of raising the federal funds rate before the end of the current year.

#### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,079.4	0.2%	8.3%	1.0
FTSE 100 (UK)	6,361.1	-1.3%	4.9%	-3.1%
MXME (East. Eur.)	122.4	-3.8%	3.7%	1.9%
UX (Ukraine)	793.19	2.1%	-9.1%	-23.2%
RTS (Russia)	845.5	-3.1%	7.1%	6.9%

#### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	184.0	0.0%	7.0%	-21.7%
Steel. USD/ton	265.0	-2.9%	-8.0%	-34.2%
Oil. USD/barrel	49.6	3.3%	2.5%	-13.6%
Gold. USD/ounce	1,142.0	-1.9%	2.5%	-3.5%

Source: Thomson Reuters

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## MACROECONOMICS

### Balance of payments

In September 2015, surplus of Ukraine's current account balance reached USD 135 million against a deficit of USD 840 million registered in September 2014. Over January-September 2015, deficit of the country's current account totaled USD 2 million against a deficit of USD 3.2 billion over the same period last year.

Exports of goods and services shrank at a more sluggish pace – 24% in September 2015 compared to 28% in August, whereas imports shrank at a more rapid pace – 34.5% in September compared to 27.2% in August. Energy imports plummeted 40.2% in September, while non-energy imports dropped 32.5%.

Surplus of the capital account reached USD 3 million in September 2015. Over January-September 2015, surplus of the capital account equaled USD 458 million. In September, the inflow of resources under the financial account has been registered for the third consecutive month. Net borrowings landed at UAH 210 million in September 2015 mainly thanks to foreign borrowings made by the Government (a loan provided by the World Bank).

Surplus of the consolidated balance of payments reached USD 348 million in September. Over the first nine months of 2015, the consolidated balance of payments has almost reached the point of zero deficit.

Surplus of the consolidated balance of payments helped increase Ukraine's international reserves to USD 12.8 billion, which provides for financing 3.1 months of future imports.

### 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 69.1 billion against UAH 74.3 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 46.0 billion over the previous week. During the previous week, the weighted average rate for the longest-term deposit certificates (maturing in three months) remained practically unchanged and stood at 21.49% per annum against 21.50% per annum a week earlier.

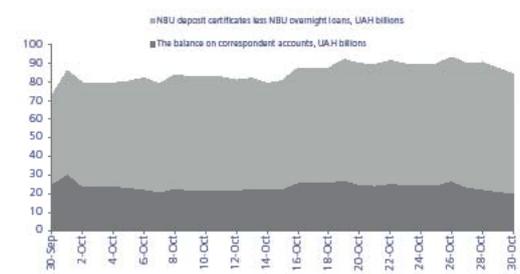
On Monday, 26 October, the overall level of the banking system liquidity peaked at a new record-high since the beginning of the current year once again. However, by the end of the previous week, the overall level of the banking system liquidity went down a little in connection with a decline in the balance on correspondent accounts, which is traditional for the end of any month.

### LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in September 2015, USD millions	135

Source: the National Bank of Ukraine

### BANKING SYSTEM LIQUIDITY



Source: NBU

## STOCK MARKET

Last week, the downward trend on the Ukrainian stock market was finally broken. By the end of the previous week, the Ukrainian Exchange (UX) Index went up 2.3% and closed at 793.19 points on Friday, 30 October.

This U-turn made by the Ukrainian stock market demonstrated that the factor of the local government elections, which took place in Ukraine on 25 October, was very important. The elections were rather quiet, observers registered only minor violations. The outcomes point to the formation of new political forces in the country.

## FOREIGN EXCHANGE MARKET

During the previous week, demand for foreign exchange exceeded supply, and the national currency of Ukraine continued to depreciate. Trading on the interbank foreign exchange market ranged within the following limits: UAH 22.85-23.00/USD on Monday, 26 October, UAH 22.80-23.00/USD on Tuesday, 27 October, UAH 22.85-23.00/USD on Wednesday, 28 October, UAH 22.90-23.05/USD on Thursday, 29 October, and UAH 22.95-23.10/USD on Friday, 30 October. The maximum foreign exchange sales volumes were registered on Friday, 30 October: above USD 0.331 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.253 billion.

In order to support the market, the NBU carried out one intervention on Tuesday, 27 October, offering US dollars at the UAH 23.00/USD exchange rate.

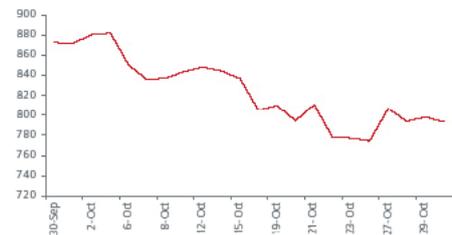
The National Bank carried out only one successful foreign exchange tender on Friday, 30 October. That day, the NBU purchased USD 37.5 million at the weighted average exchange rate of UAH 23.00/USD.

## INTERBANK LENDING MARKET

During the previous week, the cost of resources on the interbank lending market went up in connection with depreciation of the UAH exchange rate. For the most part of the previous week, rates for overnight loans stood at 18.5-19.5% per annum. Weekly resources cost 20-21% per annum, while monthly rates were registered at 20-22% per annum.

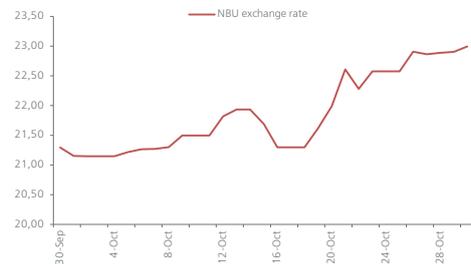
In the course of the previous week, the balance on correspondent accounts was shrinking gradually, as it usually happens during the last week of any month. As of Friday morning, 30 October, the balance on correspondent accounts totaled UAH 20.5 billion.

## 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	-5.1 (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	-0.4 (January-September)
Official exchange rate, annual average, UAH/ USD	11.89	
Weighted average interbank exchange rate, annual average, UAH/USD	11.97	21.62 (January-October)
Weighted average interbank exchange rate, by year end, UAH/USD	15.79	22.99 (end of October)
Banking system assets, % of gr owth	3.0	-8.2 (January-August)

Source: the State Statistics Service, NBU



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