

# Financial markets survey

09 November 2015

## The American labor market surpasses expectations

WEEKLY ISSUE

### GLOBAL MARKET

Growth of the American stock market continued into the first week of November. The US economy is giving more and more signs that it is quite prepared to the federal funds rate to be raised before the end of the current year.

Statistical data on the US labor market brought several pleasant surprises. In the third quarter of 2015, labor productivity in the US grew 1.6%. Analysts polled by the Bloomberg agency expected this indicator to inch down 0.3%.

Meanwhile, the rate of unemployment in the US inched down from 5.1% to 5% in October, hitting a new record-low since April 2008. The number of jobs in the US economy grew 271,000 in October 2015, which is a record-high indicator during 2015. Serious growth of the employment indicator in October was registered after weak data for August and September, which raised concerns regarding slower growth of the American economy. At the same time, top officials of the US Federal Reserve System (FRS) repeatedly emphasized that statistical data on the labor market were an extremely important factor for making the decision to change the base interest rate in the country.

Such strong data on the labor market raised some turmoil among investors on the last trading day of the previous week. Again, there were growing concerns that the FRS will, nevertheless, resort to raising the federal funds rate before the end of the current year. Although the opinion that the FRS is prepared to wait prevailed on the market only several days earlier.

The British FTSE 100 Index has been making no headway for a rather long time. The market is simply lacking a strong stream of good news. Last week, statements of Mario Draghi, President the European Central Bank, saying that measures to provide incentives for the euro-area economy would expand, did not result in growing confidence among European investors, since the latest macroeconomic data turned out to be worse than expected. Also, it became known that the European Commission downgraded its forecast for the euro-area's GDP and inflation for 2016.

News about stronger positions of the US economy resulted in further appreciation of the US dollar against the euro. On Friday, 6 November, trading in the "euro/US dollar" pair closed at USD 1.0738/EUR, which is a record-low exchange rate for the euro since April of the current year.

### STOCK MARKETS

| Index             | last    | week ch. | mon. ch. | YTD    |
|-------------------|---------|----------|----------|--------|
| S&P 500 (US)      | 2,099.2 | 1.0%     | 5.2%     | 2.0%   |
| FTSE 100 (UK)     | 6,353.8 | -0.1%    | 0.3%     | -3.2%  |
| MXME (East. Eur.) | 122.0   | -0.3%    | -2.7%    | 1.6%   |
| UX (Ukraine)      | 765.2   | -3.5%    | -8.4%    | -25.9% |
| RTS (Russia)      | 854.3   | 1.0%     | 1.2%     | 8.0%   |

### COMMODITIES

| Commodity       | last    | week ch. | mon. ch. | YTD    |
|-----------------|---------|----------|----------|--------|
| Wheat. USD/ton  | 183.0   | -0.5%    | 7.0%     | -22.1% |
| Steel. USD/ton  | 265.0   | 0.0%     | -6.4%    | -34.2% |
| Oil. USD/barrel | 47.4    | -4.3%    | -7.6%    | -17.3% |
| Gold. USD/ounce | 1,088.3 | -4.7%    | -5.0%    | -8.1%  |

Source: Thomson Reuters

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

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## MACROECONOMICS

### Inflation

According to information of the State Statistics Service, consumer prices went down 1.3% in October 2015 compared to the previous month. In annual terms, consumer prices landed at 46.4%.

The main factor of deflation in October was a seasonal drop in gas prices: natural gas prices fell 32.6%, which resulted in prices for housing, water, electricity, and gas going down 14.8% compared to September. At the same time, prices for hot water and heating soared 39.9% in connection with the beginning of the heating season.

Prices for food products inched up 1.1% in October. The country registered that prices for eggs, sugar and vegetables grew the most as a result of seasonal factors.

In October 2015, producer prices shrank 2.4%. In annual terms, producer prices slowed down to 30.2% in October. In particular, prices in mining industry inched down 0.7% as a result of coal prices shrinking 5.4%. Electricity rates for industrial consumers went down 9.7% in October 2015.

### 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 79.5 billion against UAH 69.1 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 52.4 billion over the previous week. During the previous week, the weighted average rate for the longest-term deposit certificates (maturing in three months) remained unchanged and stood at 21.49% per annum.

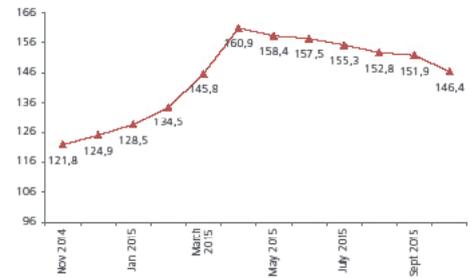
Last week, the overall level of the banking system liquidity peaked at a new record-high since the beginning of the current year once again. The level of liquidity grew thanks to an increase in the volume of deposit certificates in circulation. The above-mentioned indicator also grew record-high since the beginning of the current year.

### STOCK MARKET

Last week, the Ukrainian stock market returned to the downward trend again. By the end of the previous week, the Ukrainian Exchange (UX) Index shrank 3.5% and closed at 765.17 points on Friday, 6 November.

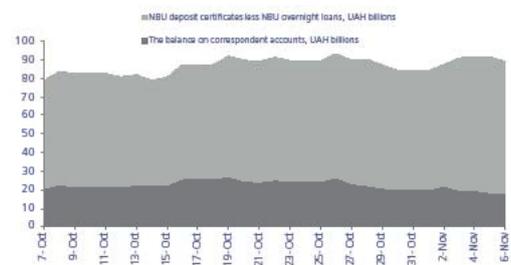
Perhaps, the anxiety on the market is connected with the possibility of stronger political confrontation resulting from the unexpected arrest of Hennadiy Korban, a well-known Dnepropetrovsk businessman and politician, who is insider of oligarch Ihor Kolomoyskiy's immediate circle. In addition, on Thursday, 5 November, the Ukrainian Parliament failed to vote for a number of bills which Ukraine needs to obtain a visa-free status with

### CONSUMER PRICE INDEX (month-on-month of the previous year)



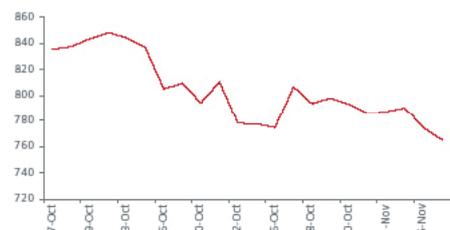
Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

### THE UX INDEX



Source: Thomson Reuters

the European Union.

### FOREIGN EXCHANGE MARKET

By the end of the previous week, the national currency of Ukraine ceased to depreciate. In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 22.95-23.10/USD on Monday, 2 November, UAH 22.95-23.10/USD on Tuesday, 3 November, UAH 23.00-23.15/USD on Wednesday, 4 November, UAH 22.75-23.00/USD on Thursday, 5 November, and UAH 22.55-22.95/USD on Friday, 6 November. The maximum foreign exchange sales volumes were registered on Thursday, 5 November: above USD 0.402 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.289 billion.

The National Bank carried out only one successful foreign exchange tender on Monday, 2 November. That day, the NBU purchased USD 30.0 million at the weighted average exchange rate of UAH 23.01/USD

EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

### INTERBANK LENDING MARKET

During the previous week, the cost of resources on the interbank lending market did not change and remained high. Rates for overnight loans stood at 18.5-19.5% per annum. Weekly resources cost 20-21% per annum, while rates for monthly resources were registered at 20-22% per annum.

In the course of the previous week, the balance on correspondent accounts was shrinking gradually. Evidently, at the moment, banks prefer to invest spare resources in purchases of deposit certificates. As of Friday morning, 6 November, the balance on correspondent accounts totaled UAH 18.8 billion.

UKRAINE'S MACROECONOMIC INDICATORS

| Indicator   | 2014  | 2015                        |
|---|-------|-----------------------------|
| GDP, %  | -6.8  | -14.6<br>(2nd quarter)      |
| Industrial output, %  | -10.7 | -5.1<br>(September)         |
| Consumer price growth,<br>% year-on-year                                | 24.9  | 46.4<br>(October)           |
| Producer price growth, %<br>year-on-year                                | 31.8  | 30.2<br>(October)           |
| Balance of trade, USD<br>billions                                       | -5.4  | -0.4<br>(January-September) |
| Official exchange rate,<br>annual average, UAH/<br>USD                  | 11.89 |                             |
| Weighted average interbank<br>exchange rate, annual average,<br>UAH/USD | 11.97 | 21.62<br>(January-October)  |
| Weighted average interbank<br>exchange rate, by year end,<br>UAH/USD    | 15.79 | 22.99<br>(end of October)   |
| Banking system assets, % of gr<br>owth                                  | 3.0   | -8.2<br>(January-August)    |

Source: the State Statistics Service, NBU



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