



# Financial markets survey

23 November 2015

## FRS makes promises, markets liven up

WEEKLY ISSUE

### GLOBAL MARKET

Last week, investors recovered the losses sustained earlier. The American S&P 500 Index grew 3.3% over the previous week, while the British FTSE 100 Index went up 3.5%.

Investors waited impatiently for publication of the minutes of the Federal Reserve System (FRS) meeting in October. The minutes registered a rather soft ("pigeon") position of the American central bank top officials. This document made investors more confident that the FRS will rate interest rates gradually, whereas confidence in the US economy grew even stronger.

In addition to these minutes, FRS top officials made several statements, which reinforced the euphoria among traders. On Friday, 20 November, Saint Louis Federal Reserve Bank (FRB) President James Bullard mentioned that the degree of global uncertainty has gone down, the financial conditions in the US have improved, the American labor market has been nearly balanced, and the only unpredictable factor continued to be sharp fluctuations of the US dollar exchange rate against the euro. He also drew attention to fewer fears regarding economic growth in China and the associated weaker volatility on financial markets.

European Central Bank President Mario Draghi also gave the market good signals. He confirmed the ECB's readiness to undertake all the necessary measures to quickly raise the inflation rate in the euro-area to the targeted level of 2%. Mr. Draghi emphasized that the ECB was prepared to expand the frames of the incentive program as soon as possible, if it becomes evident that measures implemented at the moment are not sufficient.

The common European currency depreciated against the US dollar in the course of the previous week. ECB President Mario Draghi's statement regarding the possibility of expanding incentive programs as soon as possible made the euro less attractive for foreign exchange market players. On Friday, 20 November, trading in the "euro/US dollar" pair closed at USD 1.0643/EUR.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,089.2	3.3%	3.5%	1.5%
FTSE 100 (UK)	6,334.6	3.5%	-0.2%	-3.5%
MXME (East. Eur.)	125.8	7.2%	-0.1%	4.7%
UX (Ukraine)	702.4	-5.0%	-13.3%	-32.0%
RTS (Russia)	888.4	9.0%	3.7%	12.3%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	187.0	-1.3%	1.6%	-20.4%
Steel. USD/ton	270.0	1.9%	-1.1%	-33.0%
Oil. USD/barrel	44.7	2.4%	-6.7%	-22.1%
Gold. USD/ounce	1,077.7	-0.5%	-7.6%	-8.9%

Source: Thomson Reuters

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

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## MACROECONOMICS

### Industrial output

In October 2015, industrial output in Ukraine continued to shrink practically at the same pace as in September. According to information of the State Statistics Service, industrial output declined 5.0% in October 2015 compared to October 2014. Over January-October 2015, industrial output dropped 15.4% year-on-year.

Output in mining industry continues to increase: compared to October 2014, output went up 1.9%. In particular, coal production jumped 18.1%, whereas the production of iron ores inched up 1.2%. Growth in mining industry is, in the first place, connected with a relatively low baseline of the previous year.

Output in processing industry shrank 7.6% year-on-year in October 2015. The most serious decline was registered in food and machine-building industries. Output in steel industry started to decline again: compared to October 2014, output shrank 4.9% year-on-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.

Over the previous week, the National Bank of Ukraine managed to raise UAH 62.1 billion against UAH 55.5 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 35.7 billion over the previous week. During the previous week, the weighted average rate for the longest-term deposit certificates (maturing in three months) inched up from 21.37% to 21.40% per annum.

On Tuesday, 17 November, the overall level of the banking system liquidity set a new record-high since the beginning of the current year thanks to a swift increase in the balance on correspondent accounts. The volume of deposit certificates in circulation did not register any serious changes.

### STOCK MARKET

The Ukrainian stock market continues to fall headlong. By the end of the previous week, the Ukrainian Exchange (UX) Index declined 5.0% and closed at 702.35 points on Friday, 20 November.

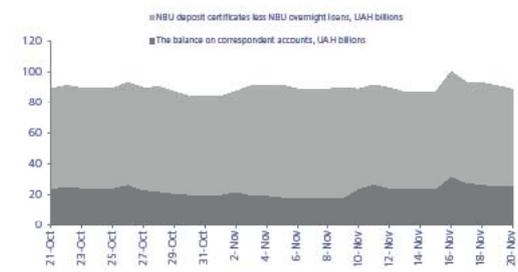
On 16 November, the Moscow Exchange (MOEX, Russian Federation) signed an agreement on selling a stake in the Ukrainian Exchange (UX), a public joint stock company, to a specially established foreign company controlled by Univer Kapital, a Ukrainian investment company. Earlier, Dragon Capital, an investment company, also made statements regarding its interest in purchasing a stake in the Ukrainian Exchange. However, Dragon Capital suspended its participation in this purchase, since, according to representatives of the company, "mass media is providing somewhat distorted information regarding Dragon Capital Group's participation in

### LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output change in October 2015, % year-on-year	-5.0

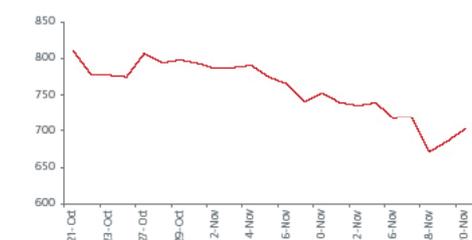
Source: the State Statistics Service

### BANKING SYSTEM LIQUIDITY



Source: NBU

### THE UX INDEX



Source: Thomson Reuters

purchasing a stake in the UX”.

On 17 November, at its Tuesday meeting, the National Securities and Stock Market Commission (NSSMC) made a decision to withdraw the license of the Ukrainian Exchange (UX, Kyiv), a public joint stock company, to carry out activities in organizing trade on the stock exchange market. The decision will come into force in thirty calendar days. It can be appealed against in the expert and appellate council for licensing issues under the State Regulatory Service of Ukraine and/or in a judicial body. Notwithstanding this decision, trading on the Ukrainian Exchange continued.

### FOREIGN EXCHANGE MARKET

Last week, the Ukrainian national currency continued to depreciate. In the course of the previous week, trading on the interbank foreign exchange market ranged within the following limits: UAH 23.40-23.60/USD on Monday, 16 November, UAH 23.80-23.90/USD on Tuesday, 17 November, UAH 23.85-23.90/USD on Wednesday, 18 November, UAH 23.75-23.85/USD on Thursday, 19 November, and UAH 24.00-24.05/USD on Friday, 20 November. Foreign exchange sales on the interbank foreign exchange market dropped to USD 1.23 billion (equivalent) from USD 1.43 billion (equivalent) a week earlier. The maximum foreign exchange sales volumes were registered on Thursday, 19 November: USD 0.363 billion (all currencies), including sales of the American currency alone for the total of USD 0.191 billion.

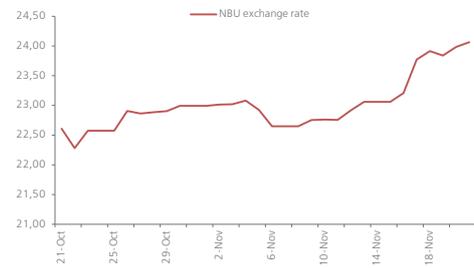
Over 17-20 November, the National Bank carried out daily tenders to sell foreign exchange. Within the above-mentioned period, the weighted average exchange rate for selling foreign exchange to market participants depreciated from UAH 23.67/USD to UAH 23.96/USD. Total foreign exchange sales reached USD 54.8 million.

### INTERBANK LENDING MARKET

During the previous week, rates for overnight loans at the interbank lending market reached 19-20% per annum. The cost of weekly resources stood at 20-21% per annum, while monthly resources cost 20-22% per annum.

In the course of the previous week, the balance on correspondent accounts went up. On Monday, 16 November, the balance on correspondent accounts reached UAH 32.4 billion, which is a record-high value since March of the current year. As of Friday morning, 20 November, the balance on correspondent accounts totaled UAH 26.1 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	-5.0 (October)
Consumer price growth, % year-on-year	24.9	46.4 (October)
Producer price growth, % year-on-year	31.8	30.2 (October)
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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