

Financial markets survey

14 December 2015

Waiting and falling

WEEKLY ISSUE

GLOBAL MARKET

Last week finished with a serious fall both on stock and commodity markets. Over the previous week, petroleum price dropped more than 10% after the decision of the Organization of the Petroleum Exporting Countries (OPEC) to retain the actual petroleum extraction volumes, which constitute approximately 31.5 million barrels per day. At the same time, member countries of the cartel reached an agreement not to establish quotas until the next meeting in June 2016.

The collapse of petroleum prices dragged downwards quotations of petroleum companies and formed bearish moods on stock platforms. A new important date for markets will be 16 December – the scheduled date for the final meeting of the US Federal Reserve System (FRS), which should make a decision on the size of the federal funds rate. Until the decision is made, the market will continue to be volatile, and investors will refrain from opening any large positions.

Last week, statistical data on the US economy did not turn out to be too good. During the first week of December 2015, the number of initial applications for unemployment benefit grew to 282,000, which is a record-high value since the beginning of July, whereas analysts expected this indicator to increase to 270,000. Retail sales inched up 0.2% in November 2015 compared to the previous month. However, this indicator turned out to be lower than expected.

The exchange rate of the common European currency against the US dollar was volatile during the previous week. However, the trend towards revaluation persisted. Traders did not have any incentives to sell the euro, since the European Central Bank has already taken its step, stating that measures to provide incentives for the euro-area economy would be expanded. On Friday, 11 December, trading in the “euro/US dollar” pair closed at USD 1.0987/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,012.4	-3.8%	-3.0%	-2.3%
FTSE 100 (UK)	5,952.8	-4.6%	-5.5%	-9.3%
MXME (East. Eur.)	109.5	-5.5%	-9.9%	-8.8%
UX (Ukraine)	694.9	-0.3%	-6.0%	-32.8%
RTS (Russia)	777.2	-4.3%	-8.1%	-1.7%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	185.5	-0.8%	-2.1%	-21.1%
Steel. USD/ton	270.0	0.0%	1.9%	-33.0%
Oil. USD/barrel	37.9	-11.8%	-17.2%	-33.8%
Gold. USD/ounce	1,074.5	-1.1%	-0.9%	-9.2%

Source: Thomson Reuters

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices went up 2.0% in November 2015 compared to the previous month. In annual terms, consumer inflation accelerated to 46.6%.

The main factor behind inflation in November was growing prices for food products, housing and utility services. Prices for food products went up 2.5% in November 2015. As a result of seasonal factors, prices for vegetables, dairy products and sugar increased. Prices for housing and utility services grew 3.3% mainly as a result of an increase in heating rates.

In November 2015, producer prices inched up 0.1%. In annual terms, producer prices slowed down to 25.1% in November. Prices in mining industry went down 1.8% in November as a result of lower prices in coal production and iron ore extraction.

BOND MARKET

Last week, the National Bank of Ukraine started holding tenders to sell Ukrainian government bonds.

The first tender took place on 8 December. VAT internal government bonds maturing in July 2019 were offered at trading platforms of Perspektiva and PFTS stock exchanges.

Participants in this tender submitted bids for the total of UAH 207.4 million. The requested earning rate ranged within the limits of 19.0-23.8% per annum. The organizer of this tender cut off bids requesting rates higher than 19.25% per annum. The weighted average earning rate reached 19.12% per annum.

We gave a positive assessment to the NBU initiative to sell internal government bonds. Tenders will contribute to a more flexible regulation of the money market and liquidity of Ukrainian banks, as well as enhancement of the government debt securities market.

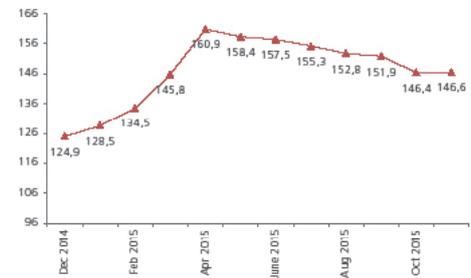
NBU OPERATIONS

On Wednesday, 9 December, the National Bank provided an overnight loan totaling UAH 200.1 million under 24% per annum to one bank and also a loan totaling UAH 200.0 million under 22.21% per annum to one more bank for the period of 86 days.

Over the previous week, the National Bank of Ukraine managed to raise UAH 56.6 billion against UAH 61.8 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 35.2 billion over the previous week. During the previous week, the weighted average rate for the longest-term deposit certificates (maturing in three months) stood at 21.39% per annum.

The overall level of the banking system liquidity went up over the previous week.

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



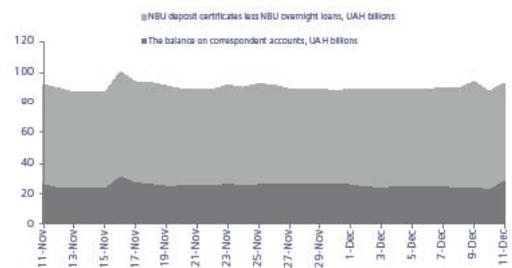
Source: the State Statistics Service

THE RESULTS OF SELLING INTERNAL GOVERNMENT BONDS AT NBU TENDERS

Date of placement	Type of internal government bonds, maturity date	Weighted average rate	Total bids, UAH millions	Funds raised, UAH millions
8 Dec.	VAT, 22 July 2019	19.12%	207.4	52.3

Source: the National Bank of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

For the most part of the previous week, the Ukrainian stock market remained practically flat. By the end of the previous week, the Ukrainian Exchange (UX) Index lost 0.3% and closed at 694.89 points on Friday, 11 December. Since the beginning of the current year, the UX Index lost almost 33%.

FOREIGN EXCHANGE MARKET

Last week, the Ukrainian national currency exchange rate was volatile. Same as a week earlier, attempt to hold the exchange rate below UAH 23.00/USD failed to be successful.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 23.10-23.33/USD on Monday, 7 December, UAH 22.95-23.00/USD on Tuesday, 8 December, UAH 22.92-22.99/USD on Wednesday, 9 December, UAH 23.45-23.55/USD on Thursday, 10 December, and UAH 23.75-23.85/USD on Friday, 11 December. Foreign exchange sales on the interbank foreign exchange market dropped to USD 1.35 billion (equivalent) from USD 1.54 billion (equivalent) a week earlier. The maximum foreign exchange sales volumes were registered on Thursday, 10 December: above USD 0.314 billion (all currencies), including sales of the American currency alone for the total of USD 0.267 billion.

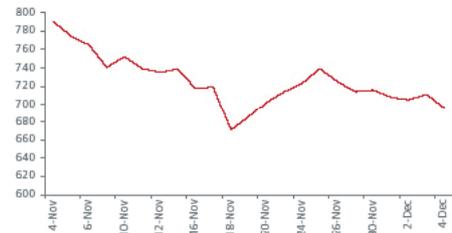
On 7, 8 and 9 December, the National Bank held foreign exchange tenders to purchase foreign exchange. The NBU purchased the total of USD 52.7 million from market participants. The weighted average exchange rate reached UAH 23.31/USD on 7 December, UAH 22.93/USD on 8 December and UAH 22.98/USD on 9 December.

INTERBANK LENDING MARKET

Last week, the cost of lending resources on the interbank lending market remained unchanged. Rates for overnight loans equaled 18.5-19.5% per annum. The cost of weekly resources stood at 19-20% per annum, while monthly resources cost 20-22% per annum.

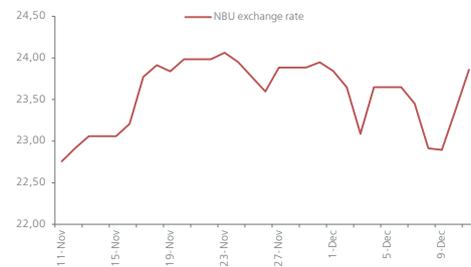
In the course of the previous week, the balance on correspondent accounts ranged within the limits of UAH 23.8-29.7 billion. As of Friday morning, 11 December, the balance on correspondent accounts totaled UAH 29.7 billion.

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	-5.0 (October)
Consumer price growth, % year-on-year	24.9	46.6 (November)
Producer price growth, % year-on-year	31.8	25.1 (November)
Balance of trade, USD billions	-5.4	-0.9 (January-October)
Official exchange rate, annual average, UAH/ USD	11.89	
Weighted average interbank exchange rate, annual average, UAH/USD	11.97	21.82 (January-November)
Weighted average interbank exchange rate, by year end, UAH/USD	15.79	23.95 (end of November)
Banking system assets, % of gr owth	3.0	-5.4 (January-October)

Source: the State Statistics Service, NBU



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