

# Financial markets survey

21 December 2015

## An unfortunate rally

WEEKLY ISSUE

### GLOBAL MARKET

The main event of the previous week for the global investment community was the decision of the US Federal Reserve System (FRS) to raise the federal funds rate. The decision to raise the rate 25 basis points to a target rate of 0.25-0.50% per annum was made as a result of a meeting held on 15-16 December. The decision was unanimous and coincided with expectations of economists and market participants. The schedule of forecasts made by FRS top officials indicates that the federal funds rate will be increased four times in 2016 and monetary policy will get tougher at a moderate pace over 2017-2018.

Notwithstanding the fact that this federal funds rate increase means the end of the cheap money period, which has lasted since 2006, investors took this decision positively, since it demonstrates that the US economy is strong enough to switch to higher lending rates painlessly.

At the beginning of the previous week, American trading platforms entered a swift rally. However, on Thursday, 17 December, markets made a U-turn in connection with the continuing decline of petroleum prices.

European markets turned out to be less sensitive to shrinking petroleum prices. The British FTSE 100 Index grew 1.7% over the previous week. Inflation data had a positive impact on the market. In November, consumer prices in the euro-area inched up 0.2% compared to the same month a year earlier, which is a record-high value since July

In the course of the previous week, the common European currency depreciated against the US dollar. The US FRS decision to raise the federal funds rate contributed to appreciation of the US dollar. On Friday, 18 December, trading in the "euro/US dollar" pair closed at USD 1.0865/EUR.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,005.6	-0.3%	-3.7%	-2.6%
FTSE 100 (UK)	6,052.4	1.7%	-3.6%	-7.8%
MXME (East. Eur.)	110.7	1.0%	-11.2%	-7.9%
UX (Ukraine)	670.67	-3.5%	0.0%	-35.1%
RTS (Russia)	765.7	-1.5%	-12.6%	-3.2%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	182.5	-1.6%	-2.4%	-22.3%
Steel. USD/ton	267.0	-1.1%	-1.1%	-33.7%
Oil. USD/barrel	36.9	-2.8%	-16.4%	-35.7%
Gold. USD/ounce	1,065.8	-0.8%	-0.5%	-9.9%

Source: Thomson Reuters

### MACROECONOMICS

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**Inflation**

**GDP**

According to preliminary data of the State Statistics Service, Ukraine's GDP shrank 7.2% in the third quarter of 2015 compared to the third quarter of the previous year. Compared to the second quarter of 2015, the country's GDP inched up 0.5% (seasonally adjusted data).

The main factor behind shrinking economy in the third quarter is a drop in consumption. In particular, household consumption declined 17.8% year-on-year in the third quarter of 2015. Investment stopped shrinking: gross accumulation of fixed capital went up 1.3% year-on-year.

GDP deflator reached 37.8% in the third quarter of 2015.

**Agricultural output**

According to information of the State Statistics Service, agricultural output in Ukraine dropped 4.7% over January-November 2015 compared to the same period in 2014.

Over the above-mentioned period, output in plant-growing shrank 4.7% year-on-year, while output in livestock-breeding declined 4.8% year-on-year. As of 1 December 2015, the overall cattle headcounts shrank 5.3% compared to 1 December 2014.

Over January-November 2015, the average selling prices of agricultural enterprises for agricultural products soared 54% compared to the same period in 2014, including prices for plant-growing products jumped 69% and prices for livestock-breeding products rose 41%. The average selling prices for agricultural products grew 16% in November compared to October 2015

**BOND MARKET**

On 16 December, the National Bank of Ukraine held the second tender to sell internal government bonds. VAT internal government bonds maturing in August 2019 were offered at trading platforms of Perspektiva and PFTS stock exchanges.

Participants in this tender submitted bids for the total of UAH 139.4 million. The requested earning rate ranged within the limits of 19.0-23.8% per annum. The weighted average earning rate for purchased bonds remained unchanged compared to the previous tender and stood at 19.12% per annum.

**NBU OPERATIONS**

On Wednesday, 16 December, the National Bank provided a loan totaling UAH 0.1 million under 24% per annum to one bank and also a loan totaling UAH 200.0 million under 22.01% per annum to one more bank for the period of 13 days.

Over the previous week, the National Bank of Ukraine managed to raise UAH 65.9 billion against UAH 56.6 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 36.3 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 21.40% per annum.

**LATEST MACROECONOMIC DATA**

Indicator	Value
GDP change in Q3'2015, % year-on-year	-7.2
Change in agricultural output over January-November 2015, % year-on-year	-4.7

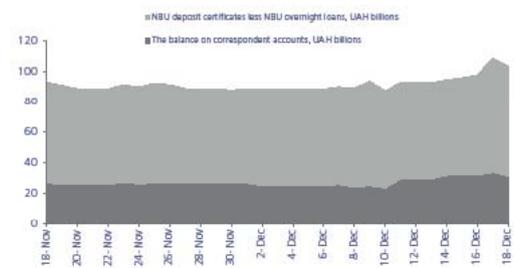
Source: the State Statistics Service

**THE RESULTS OF SELLING INTERNAL GOVERNMENT BONDS AT NBU TENDERS**

Date of placement	Type bonds, maturity date	Weighted average rate	Total bids, UAH millions	Funds raised, UAH millions
16 Dec	VAT bonds, 14 August 2019	19.12%	139.4	34.5

Source: the National Bank of Ukraine

**BANKING SYSTEM LIQUIDITY**



Source: NBU

During the previous week, the overall level of the banking system liquidity went up and peaked on Thursday, 17 December, at a new record-high since the beginning of the current year. This growth of liquidity was fostered by both an increase in the volume of deposit certificates in circulation, as well as by growth of the balance on correspondent accounts.

### STOCK MARKET

Over the previous week, the Ukrainian stock market returned to the downward trend again. By the end of the previous week, the Ukrainian Exchange (UX) Index lost 3.5% and closed at 670.67 points on Friday, 18 December. Since the beginning of the current year, the UX Index shrank more than 35%.

### FOREIGN EXCHANGE MARKET

Last week, the Ukrainian national currency exchange rate against the US dollar became less volatile. For the entire previous week, the exchange rate was above UAH 23.00/USD.

Trading on the interbank foreign exchange market ranged within the following limits: UAH 23.65-23.85/USD on Monday, 14 December, UAH 23.50-23.60/USD on Tuesday, 15 December, UAH 23.55-23.70/USD on Wednesday, 16 December, UAH 23.40-23.45/USD on Thursday, 17 December, and UAH 23.75-23.85/USD on Friday, 18 December. Foreign exchange sales on the interbank foreign exchange market dropped to USD 1.10 billion (equivalent) from USD 1.35 billion (equivalent) a week earlier. The maximum foreign exchange sales volumes were registered on Wednesday, 16 December: USD 0.369 billion (all currencies), including sales of the American currency alone for the total of USD 0.212 billion.

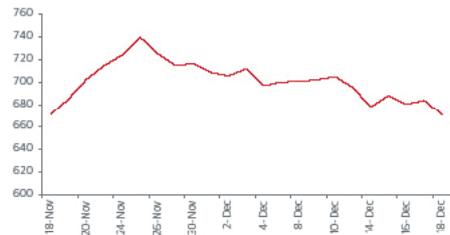
Last week, the National Bank did not manage to hold foreign exchange tenders to purchase foreign exchange. Apparently, the NBU decided that the exchange rate at which market participants were prepared to sell foreign exchange was too high

### 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.

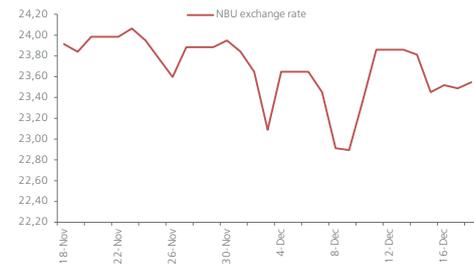
In the course of the previous week, the balance on correspondent accounts went up and stood above UAH 31 billion for the entire previous week. As of Friday morning, 18 December, the balance on correspondent accounts totaled UAH 31.7 billion.

### 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	-7.2 (3rd 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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