



Financial markets survey

08 February 2016

Bears come back

WEEKLY ISSUE

GLOBAL MARKET

During the first week of February, global financial markets found themselves in the red again. The rebound of petroleum prices that took place in the second half of January did not result in stabilization of prices at a new level. Last week, petroleum prices started going down again, which was the main trigger for bearish moods to return to markets.

The economic statistical data that was published during the previous week also created a rather favorable background to speculate for the fall. The ISM Manufacturing Index in the US inched up a little in January 2016, to 48.2 points from 48 points a month earlier, which turned out to be 0.4 points below forecasts of analysts. The ISM Non-Manufacturing Index in the US registered even a worse result in January 2016, dropping to 53.5 points from 55.8 points in December 2015. This value of the indicator turned out to be record-low since February 2014.

Last week, the euro exchange rate against the US dollar appreciated record-high over the last three months. There is a growing confidence among players on the foreign exchange market that the US Federal Reserve System (FRS) will not raise the key interest rate in 2016.

At the same time, statements of European Central Bank (ECB) President Mario Draghi about the possibility of new incentives in the euro-area did not seem convincing enough to foreign exchange traders. Prices on commodity markets continue going down and weakening inflation and, thus, lowering the effectiveness of measures implemented by central banks and aimed at boosting economic growth. On Friday, 5 February, trading in the "euro/US dollar" pair closed at USD 1.1156/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,880.1	-3.1%	-5.5%	-8.0%
FTSE 100 (UK)	5,848.1	-3.9%	-3.7%	-6.3%
MXME (East. Eur.)	106.6	-1.1%	0.4%	-3.4%
UX (Ukraine)	627.0	-3.8%	-7.5%	-8.6%
RTS (Russia)	725.9	-2.6%	-1.5%	-4.1%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	170.5	-1.2%	-5.5%	-6.1%
Steel. USD/ton	248.0	0.0%	0.0%	-2.0%
Oil. USD/barrel	34.1	-2.0%	-0.5%	-8.6%
Gold. USD/ounce	1,173.3	5.0%	7.2%	10.6%

Source: Thomson Reuters

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MACROECONOMICS

Balance of payments

In 2015, deficit of Ukraine's current account balance shrank to USD 204 million against a deficit of USD 4.6 billion registered in 2014. Exports of goods and services shrank 30.5%, while imports dropped 33.5% in 2015.

In December 2015, exports declined at a more sluggish pace – 14.1%, whereas imports shrank at a more rapid pace – 34.0%. Surplus of the country's current account totaled USD 418 million in December 2015.

Net loans provided from abroad (the sum of the current account and the capital account) reached USD 361 million by the end of 2015.

Growing liabilities under the financial account landed at USD 488 million. Liabilities grew in connection with significant external borrowings made by the public sector.

The volume of foreign exchange cash outside the banking system shrank USD 2.2 billion in 2015 compared to growth by USD 3.5 billion registered in 2014.

Surplus of the consolidated balance of payments reached USD 849 million in 2015 against a deficit of USD 13.3 billion in 2014. As of the year end, Ukraine's international reserves totaled USD 13.3 billion.

BOND MARKET

Last week, the Ministry of Finance of Ukraine managed to raise UAH 371.0 million to the State Budget of Ukraine by way of placing bonds maturing in two years. The weighted average earning rate totaled 19.7% per annum. Eight bids were submitted for purchasing the above-mentioned bonds, and four of them were satisfied.

We expect that the internal borrowings market will become more active. Market participants will extend the periods for placing spare liquidity. However, the cost of borrowings will continue to stay high as a result of small market volumes and high risks.

NBU OPERATIONS

The NBU allocated overnight loans to one bank for the total of UAH 85 million on 1, 2 and 3 February and for the total of UAH 70 million on 5 February under a 24% interest rate. In the course of the previous week, the National Bank of Ukraine managed to raise UAH 89.3 billion against UAH 78.2 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 55.1 billion over the above-mentioned period. During the previous week, the weighted average rate for the longest-term deposit certificates (maturing in three months) inched down and landed at 20.59% per annum against 20.93% per annum a week earlier.

On 5 February, the National Bank announced that it would stop holding tenders to place deposit certificates maturing in three months starting from next week. This decision of the National Bank is connected with the return of the Ministry of Finance of Ukraine to the internal market of government debt.

Last week, the overall level of the banking system liquidity did not change much: a drop in the balance on correspondent accounts was compensated by an increase in the volume of deposit certificate in circulation.

LATEST MACROECONOMIC DATA

Indicator	Value
Current account balance in December 2015, USD millions	418

Source: the National Bank of Ukraine

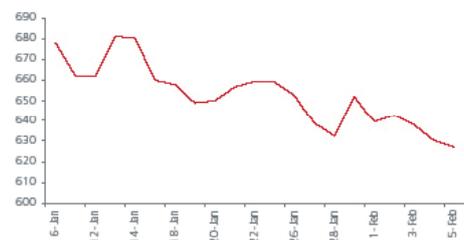
THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of internal government bonds	Weighted average rate	Submit./satisfied bids	Funds raised, UAH millions
02 Feb	532 days	19,50%	5/3	100,7
02 Feb	728 days	7,90%	5/3	431,3*
03 Feb	706 days	19,70%	8/4	371,0

* bln USD

Source: the Ministry of Finance of Ukraine

BANKING SYSTEM LIQUIDITY



Source: NBU

STOCK MARKET

Last week, the Ukrainian stock market continued falling. Over the previous week, the Ukrainian Exchange (UX) Index lost 3.8% and closed at 626.97 points on Friday, 5 February.

In addition the negative external background, moods of investors were affected by a scandal fired up in the Ukrainian politics. On 3 February, Minister of Economic Development and Trade Aivaras Abromavius resigned and accused the country's top officials of corruption and resistance to reforms.

FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued depreciating. In the course of the entire previous week, the exchange rate for trading was above UAH 25/USD on the interbank foreign exchange market. Last week, trading on the interbank foreign exchange market ranged within the following limits: UAH 25.40-25.70/USD on Monday, 1 February, UAH 25.80-26.00/USD on Tuesday, 2 February, UAH 25.60-25.80 /USD on Wednesday, 3 February, UAH 25.85-26.00/USD on Thursday, 4 February, UAH 25.87-26.00/USD on Friday, 5 February. The maximum foreign exchange sales volumes were registered on Thursday, 4 February: above USD 0.317 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.204 billion.

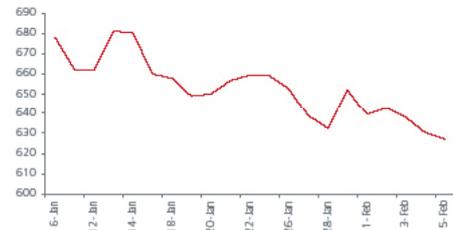
The overall foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.2 billion over the previous week against USD 1.1 billion a week earlier. On 5 February, the National Bank held a tender to sell foreign exchange. Market participants purchased USD 22.0 million. The weighted average exchange rate for this purchase reached UAH 24.89/USD.

INTERBANK LENDING MARKET

Last week, the cost of resources on the interbank lending market did not change seriously and remained high. Rates for overnight loans stood at 18.5-19.5% per annum. The cost of weekly resources was 19.0-20.0% per annum, while monthly resources cost 20.0-22.0% per annum.

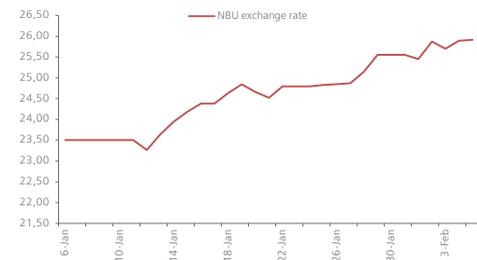
During the previous week, the balance on correspondent accounts continued going down and did not exceed UAH 40 billion. As of Friday morning, 5 February, the balance on correspondent accounts totaled UAH 37.2 billion.

THE UX INDEX



Source: Thomson Reuters

EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-6.8	-7.2 (3rd quarter)	
Industrial output, %	-10.1	-13.4	
Consumer price growth, % year-on-year	24.9	43.3	
Producer price growth, % year-on-year	31.8	25.4	
Balance of trade, USD billions	-4.6	-1.2	
Official exchange rate, annual average, UAH/ USD	11.89		
Weighted average interbank exchange rate, annual average, UAH/USD	11.89	21.85	25.56 (end of January)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	24.26 (January)
Banking system assets, % of gr owth	3.0	-3.2 (January-November)	

Source: the State Statistics Service, NBU



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