

# Financial markets survey

22 February 2016

## FRS and petroleum change the situation on the market

WEEKLY ISSUE

### GLOBAL MARKET

Last week, the downward trend that has reigned on stock markets across the world for several weeks was finally broken. In terms of monthly change, indices were in the green. However, to recover the losses sustained since the beginning of the current year, indices will need sustainable growth in the course of a longer period of time.

Petroleum prices stopped falling. Commodity traders are trying to understand how the agreement between Russia, Saudi Arabia, Qatar, and Venezuela to freeze the level of petroleum production will influence the market. Meanwhile, Iran is not prepared to participate in this agreement and plans to return to the pre-sanction level of crude petroleum deliveries to the global market, and also intends to double its petroleum exports.

The main impetus to market growth was given by the minutes of the Federal Open Market Committee (FOMC) meeting dated 26-27 January, which was published on Wednesday, 17 February. Top officials of the US Federal Reserve System (FRS) were concerned about the lack of stability on global markets: weaker growth in China, low petroleum prices and appreciation of the US dollar. With these concerns in the background, the majority of the above-mentioned FOMC meeting participants agreed to the idea that the best decision would be to wait for additional information about the US economy standing before raising interest rates further in 2016.

A positive impact of the FRS rejecting a hard monetary policy can last for some time. Further growth of markets is possible, provided petroleum prices get stable.

The common European currency depreciated a little against the US dollar at the beginning of the previous week. However, later on, the exchange rate remained stable. Analysts from the Bank of America Merrill Lynch (BofAML) upgraded their forecast for the euro exchange rate for the end of the current year to USD 1.00/EUR from the earlier expected USD 0.95/EUR. On Friday, 19 February, trading in the "euro/US dollar" pair closed at USD 1.1132/EUR.

### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1,917.8	2.8%	3.1%	-6.2%
FTSE 100 (UK)	5,950.2	4.3%	4.9%	-4.7%
MXME (East. Eur.)	106.5	4.4%	15.0%	-3.5%
UX (Ukraine)	633.5	1.8%	-2.6%	-7.6%
RTS (Russia)	726.0	5.2%	15.5%	-4.1%

### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	170.5	-0.3%	-1.2%	-6.1%
Steel. USD/ton	248.0	0.0%	0.0%	-2.0%
Oil. USD/barrel	33.0	-1.0%	18.4%	-11.5%
Gold. USD/ounce	1,227.8	-0.8%	11.6%	15.7%

Source: Thomson Reuters

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## MACROECONOMICS

### GDP

According to operational estimate of the State Statistics Service, Ukraine's GDP shrank 1.2% in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Compared to the third quarter of 2015, the country's GDP went up 1.5% in Q4'2015 (seasonally adjusted data). Thus, for the first time over the last two years, GDP registered growth compared to the previous quarter for two consecutive quarters.

### RETAIL TRADE

Retail trade turnover shrank at a more sluggish pace. In January 2016, retail trade turnover declined 1.4% in real terms compared to January 2015

By the end of 2015, retail trade turnover shrank 20.7% in real terms. The main reasons for retail trade to shrink were lower household incomes and high inflation.

### BOND MARKET

Last week, the Ministry of Finance of Ukraine managed to raise UAH 598.5 million to the State Budget of Ukraine by way of placing internal government bonds on 16 February. One bid was submitted for purchasing bonds maturing in eighteen months, and it was satisfied. Compared to the previous week, the interest rate for bonds maturing in eighteen months did not change.

On 17 February, two bidders submitted bids for purchasing bonds maturing in two years. The minimum requested earning rate was 19.8% per annum. However, the Ministry of Finance did not satisfy these bids for purchasing the above-mentioned bonds.

### NBU OPERATIONS

During the previous week, the NBU allocated an overnight loan on a daily basis to one bank to support liquidity. The total amount of loans allocated over the previous week reached UAH 965 million. The interest rate for overnight loans did not change and stood at 24% per annum.

In the course of the previous week, the National Bank of Ukraine managed to raise UAH 66.6 billion against UAH 69.8 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 29.5 billion over the above-mentioned period.

During the previous week, the weighted average interest rate for the longest-term deposit certificates (maturing in 30 days) inched down and landed at 20.10% per annum against 20.47% per annum a week earlier.

Last week, the overall level of the banking system liquidity was record-high since the beginning of the current year. The country registered an increase in the balance on correspondent accounts and an increase in the volume of deposit certificates in circulation.

## LATEST MACROECONOMIC DATA

Indicator	Value
GDP change in Q4'2015 (operational estimate), % year-on-year	-1.2
Change in real retail turnover in January 2016, % year-on-year	-1.4

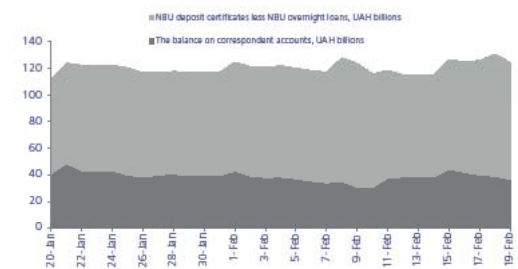
Source: the State Statistics Service

## 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
16 Feb	528 days	19.50%	1/1	598.5

Source: the Ministry of Finance of Ukraine

## BANKING SYSTEM LIQUIDITY



Source: NBU

## STOCK MARKET

Last week, the downward trend on the Ukrainian stock market was broken. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 1.8% and closed at 633.53 points on Friday, 19 February.

Growth on the market was fostered mainly by the positive external background. As before, the political situation in Ukraine is far from being stabilized. However, during the previous week, the Ukrainian Parliament adopted a package of the so called "visa-free laws", which Ukraine needs to get a visa-free regime with the European Union.

## FOREIGN EXCHANGE MARKET

During the previous week, the Ukrainian national currency continued depreciating. The exchange rate went up above UAH 27.00/USD on the interbank foreign exchange market. Last week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.75-27.05/USD on Monday, 15 February, UAH 26.70-27.30/USD on Tuesday, 16 February, UAH 26.70-27.10/USD on Wednesday, 17 February, UAH 26.10-26.80/USD on Thursday, 18 February, UAH 26.80-27.10/USD on Friday, 19 February. The maximum foreign exchange sales volumes were registered on Thursday, 18 February: above USD 0.3 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.232 billion.

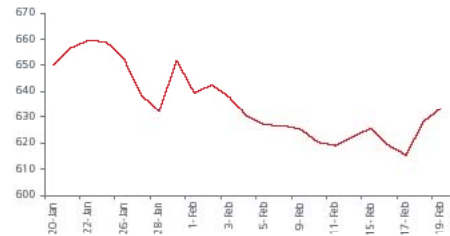
Last week, the overall foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.2 billion, which repeated the result registered a week earlier. On 15, 16 and 19 February, the National Bank held tenders to sell foreign exchange. The overall foreign exchange sales volumes by NBU totaled USD 83.3 million. The weighted average exchange rate reached UAH 26.84/USD on 15 February, UAH 27.05/USD on 16 February and UAH 26.46/USD on 19 February.

## INTERBANK LENDING MARKET

By the end of the previous week, the cost of overnight loans on the interbank lending market grew to 19.00-19.75% per annum. The cost of weekly resources was 19.00-20.00% per annum, while monthly resources cost 20.00-22.00% per annum.

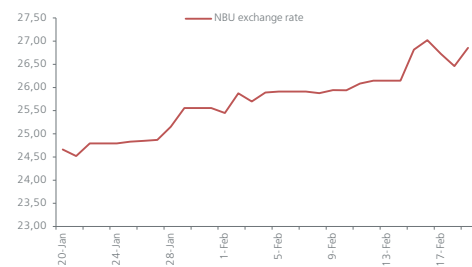
During the previous week, average indicators of the balance on correspondent accounts went up and were above UAH 40 billion Monday through Wednesday. As of Friday morning, 19 February, the balance on correspondent accounts totaled UAH 36.9 billion.

## 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	-1.2 (IV quarter)	
Industrial output, %	-10.1	-13.4	
Consumer price growth, % year-on-year	24.9	43.3	40.3 (January)
Producer price growth, % year-on-year	31.8	25.4	21.2 (January)
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	24.26 (January)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	25.56 (end of January)
Banking system assets, % of gr owth	3.0	-3.2 (January-November)	

Source: the State Statistics Service, NBU



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