

Financial markets survey

14 March 2016

ECB gives an additional impetus

WEEKLY ISSUE

GLOBAL MARKET

Last week, financial markets across the world demonstrated mainly positive moods again. The American S&P 500 Index inched up another 1.1% over the previous week, registering growth of more than 9% in monthly terms. The British FTSE 100 Index suspended its rapid growth and remained practically flat.

The main factor behind positive moods on markets is growing petroleum prices. In the opinion of the International Energy Agency (IEA), petroleum prices have already passed the bottom, and there are signals that the balance on the market is recovering.

An important event of the previous week was a decision of the European Central Bank (ECB) dated 10 March to expand the quantitative easing (QE) program and to lower rates for deposits. The ECB decision surpassed market expectations, since it was announced about lowering all three interest rates and increasing the volume of monthly asset re-purchase as part of quantitative easing (QE) program from EUR 60 billion to EUR 80 billion. The European Central Bank forecasts moderate price growth in the nearest three years, gradual decline of the unemployment rate in the euro-area and stabilization of the euro exchange rate.

The ECB decision was also the main factor determining the euro exchange rate against the US dollar during the previous week. Since the beginning of the previous week, the common European currency depreciated in anticipation of the ECB meeting. However, the euro appreciated 1.6% against the US dollar on Thursday after a statement made by European Central Bank President Mario Draghi saying that, from today's perspective, the ECB does not anticipate that it will be necessary to reduce rates in the euro-area further. On Friday, 11 March, trading in the "euro/US dollar" pair closed at USD 1.1150/EUR.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	2,022.2	1.1%	9.2%	-1.1%
FTSE 100 (UK)	6,139.8	-1.0%	8.2%	-1.6%
MXME (East. Eur.)	120.3	3.1%	17.4%	9.0%
UX (Ukraine)	674.35	10.9%	8.7%	-1.7%
RTS (Russia)	845.6	3.3%	21.4%	11.7%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat. USD/ton	168.5	0.0%	-1.5%	-7.2%
Steel. USD/ton	248.0	0.0%	0.0%	-2.0%
Oil. USD/barrel	40.4	4.3%	31.0%	8.3%
Gold. USD/ounce	1,248.1	-0.9%	4.3%	17.6%

Source: Thomson Reuters

www.pumb.ua

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MACROECONOMICS

Inflation

According to information of the State Statistics Service, consumer prices inched down 0.4% in February 2016 compared to the previous month. In annual terms, consumer inflation slowed down to 32.7%.

The main factor behind deflation was lower prices for food products, tobacco products, clothes, and footwear. At the same time, prices for housing and utility services inched up 0.3% in February 2016. Compared to February 2015, prices for housing and utility services doubled.

In February 2016, producer prices went up 1.5%. However, producer prices slowed down to 17.4% in annual terms. Prices in mining industry grew the most – 6.4%. In particular, prices in the production of black coal soared 17.2%.

BOND MARKET

Last week, the Ministry of Finance of Ukraine did not manage to raise resources to the State Budget of Ukraine by way of placing internal government bonds. On 9 March, one bid was submitted for purchasing internal government bonds denominated in hryvnia and maturing in two years. The Ministry of Finance did not satisfy this bid, perhaps, considering that the requested earning rate of 19.80% was too high.

NBU OPERATIONS

On 9 March, the NBU allocated loans totaling UAH 469 million to two banks to support liquidity. The loans were provided for 42 days. The weighted average interest rate for these loans stood at 22.55% per annum. Two weeks earlier, a refinancing loan was allocated for 89 days under 22% per annum. In addition, one bank received an overnight loan totaling UAH 1.5 billion on 9 March. The interest rate for this loan landed at 24% per annum.

In the course of the four working days of the previous week, the National Bank of Ukraine managed to raise UAH 38.8 billion by way of placing certificates of deposit. At that, the NBU placed overnight certificates of deposit for the total of UAH 21.9 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) reached 20.32% per annum.

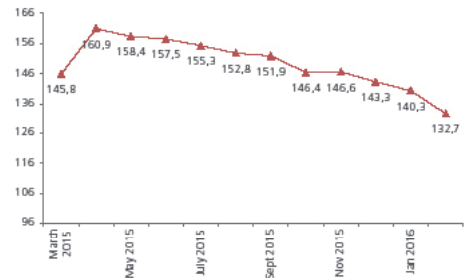
Last week, the overall level of the banking system liquidity went down mainly because of a drop in the volume of deposit certificates in circulation.

STOCK MARKET

Last week, the Ukrainian stock market grew steeply. Over the three working day of the previous week, the Ukrainian Exchange (UX) Index jumped 10.9% and closed at 674.35 points on Friday, 11 March.

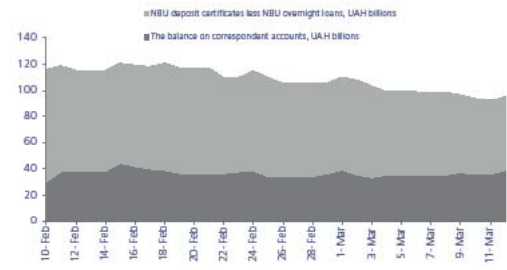
On 9 March, UNIVER Capital Investment Group, a limited liability company, completed the process of buying out a 23% stake in the Ukrainian Exchange (UX), a public joint stock company, from the Moscow Exchange (MOEX, Russian Federation). In late December 2015, the National Securities and Stock Market Commission of Ukraine (NSSMC) granted permission to Teta Partners Ltd, a British company affiliated with the UNIVER Capital Group, to purchase significant mediated participation in the Ukrainian Exchange. In

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



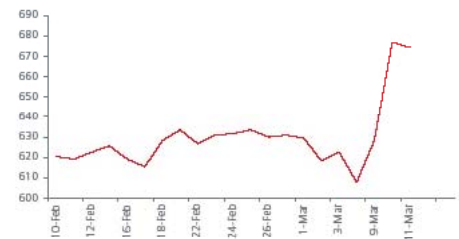
Source: the State Statistics Service

**BANKING SYSTEM
LIQUIDITY**



Source: NBU

THE UX INDEX



Source: Thomson Reuters

addition, in early January 2016, the National Securities and Stock Market Commission of Ukraine granted permission to Dragon Capital, a limited liability company, to purchase 4,997 shares of the Ukrainian Exchange (a 19.988% stake). The relevant bargain was completed in early February 2016.

Thus, the Moscow Exchange withdrew from the Ukrainian Exchange capital completely.

FOREIGN EXCHANGE MARKET

During the previous week, the exchange rate of the Ukrainian national currency against the US dollar appreciated. Last week, trading on the interbank foreign exchange market ranged within the following limits: UAH 26.10-26.40/USD on Wednesday, 9 March, UAH 25.40-25.80/USD on Thursday, 10 March, UAH 25.50-25.95/USD on Friday, 11 March, and UAH 25.90-26.30/USD on Saturday, 12 March. The maximum foreign exchange sales volumes were registered on Friday, 11 March: above USD 0.45 billion (all currencies), including sales of the American currency alone for the total of more than USD 0.32 billion.

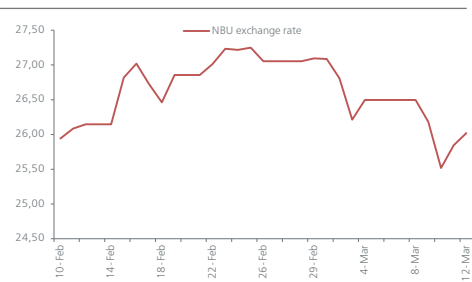
Last week, the overall foreign exchange sales volumes on the interbank foreign exchange market totaled USD 1.3 billion. On 10 March, the National Bank held a tender to buy foreign exchange. As a result of this tender, market participants sold USD 55.1 million to the National Bank at the weighted average exchange rate of UAH 25.23/USD. On 12 March, the National Bank acted as a seller of foreign exchange and satisfied bids of market participants for purchasing USD 11.4 million at the weighted average exchange rate of UAH 26.04/USD.

INTERBANK LENDING MARKET

During the previous week, the cost of overnight loans and weekly resources reached 20.00-21.00% per annum, while monthly resources cost 20.00-22.00% per annum.

During the previous week, the balance on correspondent accounts fluctuated within the limits of UAH 35-39 billion. As of Saturday morning, 12 March, the balance on correspondent accounts totaled UAH 39.2 billion.

EXCHANGE RATE (UAH/USD)



Source: NBU, kurs.com.ua

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2014	2015	2016
GDP, %	-6.8	-1.2 (4th quarter)	
Industrial output, %	-10.1	-13.4	-1.7 (January)
Consumer price growth, % year-on-year	24.9	43.3	32.7 (February)
Producer price growth, % year-on-year	31.8	25.4	17.4 (February)
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	25.50 (January-February)
Weighted average interbank exchange rate, by year end, UAH/USD	15.77	24.00	27.09 (January-February)
Banking system assets, % of gr owth	3.0	-4.7	3.1 (January)

Source: the State Statistics Service, NBU



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