

Financial markets survey

26 November 2012

Markets win back after the fall

WEEKLY ISSUE

GLOBAL MARKETS

Last week, markets made a turn and showed confident growth. Indices of the leading trading platforms rose progressively during all trading days of the previous week. By the end of the week, indices gained more than 3%.

Growth drivers were statistical data that, for the most part, turned out to be better than expected. Existing home sales in the US grew 2.1% in October compared to September contrary to expectations of analysts who forecast a 0.2% slip. Data on new housing starts and building permits also turned out to be better than analysts' forecasts. The Index of Leading Economic Indicators that makes it possible to predict the development of the US economy for the next three-six months also revealed better prospects than experts expected.

Statistical data from the EU countries that has been bringing only disappointment over the recent months finally began to register some positive changes. The Composite Purchasing Managers Index (PMI) for 17 euro-area countries in services and industrial sector inched up to 45.8 points in November 2012 compared to 45.7 points in October.

Reassuring statistical data was such an inspiration for investors that they preferred to ignore the Eurogroup's refusal to release a new IMF loan tranche to Greece, new warnings of the danger of a "fiscal cliff" in the US, a difficult commencement of negotiations on the EU budget for the next seven years, as well as rather weak financial performance indicators of the US leading corporations for Q3 2012.

During the last weeks of 2012, investors will be eager to track down positive news that could justify the traditional rally on markets witnessed on New Year's eve. On Monday, 26 November, ministers of the euro-area countries will meet again to have another discussion as to the release of financial assistance to Greece. Analysts expect publication of statistical data on durable goods orders, new home sales and GDP in the US.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1409.2	3.6%	-0.3%	12.1%
FTSE 100 (UK)	5819.1	3.8%	0.4%	4.4%
MXME (East. Eur.)	193.6	4.2%	-1.9%	6.3%
UX (Ukraine)	865.8	2.2%	4.7%	-40.7%
RTS (Russia)	1432.2	4.1%	-1.7%	3.6%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	317.5	0.0%	0.0%	39.6%
Steel, USD/ton	532.5	3.9%	6.0%	-9.4%
Oil, USD/barrel	111.4	2.2%	3.7%	7.6%
Gold, USD/ounce	1734.5	1.2%	1.4%	13.3%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Committee of Ukraine, freight services in Ukraine shrank 3.9% over January-October 2012 compared to the same period in 2011. In particular, freight services by rail, water and pipeline transport declined, while freight services by motor and air transport grew 1.8% and 26.3% respectively. Freight turnover (t/km) fell 6.4% over January-October year-on-year. Only motor transport registered an increase in freight turnover – 1.2%.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in freight services over January-October 2012, year-on-year	-3.9

Source: the State Statistics Committee of Ukraine

BOND MARKET

The main intrigue of the previous week on Ukraine's bond market was resumed placement of internal government bonds denominated in US dollars. 15 bids for purchasing internal government bonds denominated in US dollars and maturing in two years were submitted to the Ministry of Finance of Ukraine for the total of USD 120.1 million. The yielding rate requested by participants in this placement tender fluctuated from 8.0% to 9.3%. The Ministry of Finance satisfied bids of participants requesting a yielding rate 8.5% and lower.

Compared to the previous placement tender, where internal government bonds with similar parameters were offered (28 August 2012), yielding rates slipped 0.5 pp. Apparently, such a drop in rates was promoted by high demand for securities, as well as the placement of Ukrainian Eurobonds for the total of USD 1.25 billion with a yielding rate of 7.8% that was carried out the day before.

On 20 November, the Ministry of Finance also raised UAH 506.7 million by way of placing internal government bonds denominated in hryvnia, maturing in 5 years and yielding 14.3%.

The Ministry of Finance has not planned any placement tenders for the current week.

During the previous week, corporate bond trading volumes at the PFTS stock exchange totaled UAH 71.1 million. Corporate bond trading volumes at the Ukrainian Exchange dropped to UAH 1.1 million, which is 11.3% of the indicator for the previous period.

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
20 Nov.	728 days, USD	8.32%	15/9	74.1*
20 Nov.	1785 days, UAH	14.30%	2/2	506.7

Source: the Ministry of Finance of Ukraine

EQUITY MARKET

Over the previous week, the Ukrainian stock market continued to grow. In addition to positive moods on global financial markets, growth was spurred by stabilization on Ukraine's foreign exchange market. On Friday, 23 November, the Ukrainian Exchange (UX) Index closed at 865.8 points, displaying weekly growth of 2.2%, whereas monthly growth of this index was registered at 4.7%. Due to a serious shortage of liquidity, trading volumes remained low in the course of the previous week.

We expect that the situation on the Ukrainian stock market during the current week is likely to be determined by an external news stream. Trading volumes will continue to stay low.

FOREIGN EXCHANGE MARKET

Last week, a trend towards slipping USD/UAH exchange rate persisted. The exchange rate fell from UAH 8.20/USD at the beginning of the week to UAH 8.15/USD. Situationally, quotations were as low as UAH 8.1450/USD. During the last two days of the week, trading ranged within UAH 8.15-8.16/USD. It has to be noted that the exchange rate finds a serious support on the market around the UAH 8.15/USD mark.

The NBU made no interventions, and there was actually no need for them. State-owned banks participated in trading, but acted mostly as buyers.

There are several reasons to explain this decline in the exchange rate. First, the cost of resources on the depo market was very high (25-50% for overnight loans) during the first days of the previous week. Overnight loan rates went down only by the end of the week – to 10-30% on Thursday and 5-20% on Friday. Second, foreign exchange supply approximately doubled, which we connect with the institution of the requirement for exporters to mandatory sell 50% of foreign exchange proceeds on the next day after they came in. This sale is carried out by an exporter's bank even without instructions of the client. During the current week, the exchange rate is likely to grow a little bit because of lower cost of hryvnia resources on the depo market.

INTERBANK LENDING MARKET

By the end of the previous week, the interbank lending market finally felt some relief. On Friday morning, 23 November, the balance on correspondent accounts grew to UAH 22 billion. The cost of resources went down on Thursday and Friday.

By the end of the week, the cost of overnight resources dropped to 5-15%, whereas the cost of resources peaked at 55% on Wednesday.

During the current week, there is a likelihood of further stabilization on the market.

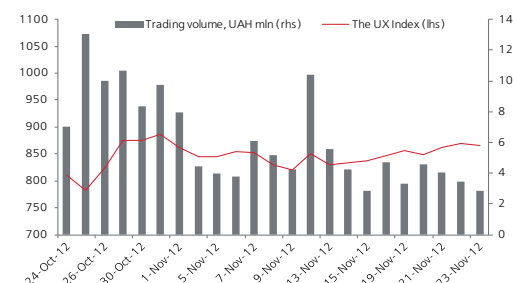
GOLD MARKET

The daily London gold fixing was registered at USD 1,734.5 per ounce on Friday, 23 November, growing USD 21.0 per ounce (1.2%) over the previous week. Since the beginning of the year, gold prices grew 13.3%. As a result of the 23 November session of Commodity Exchange (COMEX) in New York, December futures for gold stopped at USD 1,751.4 per ounce.

The price for one gram of gold in a 100-gram gold bar in Ukrainian banks dropped from UAH 465.00 on Monday to UAH 462.20 on Friday due to a drop in the US dollar exchange rate on the interbank foreign exchange market.

The main factors for rising gold prices during the previous week were a worsening of the conflict in the Gaza Strip and devaluation of the US dollar exchange rate against the euro. Growth of the November Business Climate Index and GDP in Germany along with the confirmation of France's credit rating by Standard & Poor's rating agency served as the reason for the euro to grow against the American currency.

THE UX INDEX AND TRADING VOLUME



Source: the Ukrainian Exchange



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