ПУМБ First Ukrainian International Bank

Financial markets survey

13 August 2012

Statistics bring no joy, but markets grow

WEEKLY ISSUE

GLOBAL MARKETS

Top global trading platforms ended another trading week in "green zone." The American S&P index have been showing growth for four consecutive weeks, while the British FTSE index – for three consecutive weeks. As before, the reasons for such growth were mainly "verbal interventions" of politicians promising to strengthen measures for resolving the debt crisis and providing incentives for the economy in the near future.

On Tuesday, 7 August, the Government of Germany signaled the support for the European Central Bank (ECB) plans to redeem government securities of the euro area countries that are the most suffering from the debt crisis. As is well known, earlier, it was Germany that restrained the development of centralized efforts to save debtor-countries. It is expected that conditions for redeeming government securities of struggling countries will be discussed at an ECB meeting in September.

Macroeconomic statistical data that was coming from Europe over the previous week did not bring any joy again. Orders for industrial enterprises in Germany fell 1.7% in June, while analysts expected this indicator to drop 0.8%. In June, industrial output slipped 0.9% in this country, which was also worse than experts expected.

For the second week in a row, statistics for the US labor market has been confusing market players. The number of first applications for unemployment benefits was lower than experts predicted. A pleasant surprise was growth of labor productivity during the second quarter, as well as growth of unit labor costs over the same period. However, experts do not hurry to speak about the formation of a positive trend, since other indicators of the US economy do not offer particular causes for optimism.

At the end of the previous week, investors were disappointed with data related to China's foreign trade. The balance of trade fell from USD 31.72 billion in June to USD 25.15 billion in July. China's exports grew a mere 1% in July year-on-year, while analysts expected growth of 8%.

During the current week, investors will direct their attention to the results of corporate accounting of some top global corporations, as well as the statistics for retail trade in the US and GDP of Germany and the euro area.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1405.9	1.1%	4.8%	11.8%
FTSE 100 (UK)	5847.1	1.0%	3.2%	4.9%
MXME (East. Eur.)	192.3	2.2%	5.5%	5.6%
UX (Ukraine)	1069.6	-0.9%	-5.8%	-26.7%
RTS (Russia)	1427.3	2.1%	4.7%	3.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	290.0	0.0%	5.5%	27.5%
Steel, USD/ton	540.0	-1.8%	-2.7%	-8.1%
Oil, USD/barrel	113.0	3.7%	15.8%	7.7%
Gold, USD/ounce	1618.5	1.0%	1.5%	5.7%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Committee, consumer prices in Ukraine have been shrinking for three months in a row. In July 2012, consumer prices slipped 0.2%. Since the beginning of 2012, the Consumer Price Index dropped 0.1%, and consumer prices fell for the same 0.1% compared to July 2011. The main reason for a decrease in consumer prices is shrinking food prices.

In July, there was a sharp decline in producer prices. Compared to June, prices fell 2.9%, while producer price growth slowed to 1.4% year-on-year. Producer prices dropped in all industries. The main reason for shrinking prices is weak demand for raw materials, which is the result of a very slow growth in industrial output, as well as a poor situation on global commodity markets.

LATEST MACROECONOMIC DATA

Indicator	Value
Consumer price change in July, %	-0.2

Source: the State Statistics Committee

BOND MARKET

Last week, the Ministry of Finance managed to raise UAH 267.8 million to the State Budget of Ukraine by way of placing hryvnia-denominated internal government bonds maturing in May 2017 at a primary placement tender. Evidently, buyers of these securities were state-owned banks. The weighted average earning rate was 14.18%.

We expect that activities at the primary market of internal government bonds will continue to be slow, as the Ministry of Finance will not offer internal government bonds denominated in foreign currency, which enjoy demand among a greater number of market participants.

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weighted agerage rate, %	Subm./ satisf. bids	Funds raised, UAH mln.
7 July	393 days	14.18%	3/3	267.8

Source: the Ministry of Finance of Ukraine

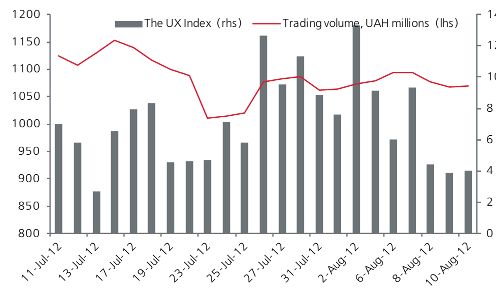
EQUITY MARKET

For the second time in a row, the Ukrainian stock market has ended the week in discordance with the leading global platforms. During the previous week, the Ukrainian Exchange (UX) Index lost 0.9%, finishing the trading week at the 1,069.6 mark on Friday, 10 August.

The Ukrainian stock market began the previous week with a confident growth, adding 1.4% over the first two days of the week. The market did not manage to consolidate at these new values because a sharp drop of market liquidity (see **INTERBANK LENDING MARKET**). On Wednesday, trading volumes shrank rapidly, and the lack of resources did not make it possible to support stock quotations at a higher level.

We expect that market liquidity problems will continue to be an obstacle to growth of the Ukrainian stock market. During the current week, the side trend is most likely to continue.

THE UX INDEX AND TRADING VOLUME



Source: the Ukrainian Exchange

FOREIGN EXCHANGE MARKET

Over the previous week, the highest quotations on the USD/UAH market were registered on Monday, 6 August, at UAH 8.1050-8.11/USD. On the same day, the market registered the highest trading volumes – USD 1.2 billion (all currencies), including sales of the American currency alone for the total of more than USD 900 million.

During subsequent days, quotations declined. Trading was carried out at UAH 8.10/USD on Tuesday and at UAH 8.09/USD on Wednesday. However, the market began to turn on Wednesday evening and quotations reached UAH 8.0925-8.0975/USD on Thursday. On Friday, 10 August, the market returned to quotations registered at the beginning of the week, at UAH 8.0975-8.10/USD.

On the whole, volatility of the market decreased to less than UAH 0.01. Activities on the market were average, which was the result of an expensive US dollar. As soon as quotations approached the UAH 8.10/USD mark, trading subsided, which is the evidence that this mark is viewed as a psychological barrier by the majority of market participants.

INTERBANK LENDING MARKET

During the previous week, the market fluctuated, and the cost of overnight resources rose, reaching, on the average, 15-25% over the week. The high cost of hryvnia resources was the result of a hryvnia shortage at correspondent accounts of banks: the balance shrank to UAH 15 billion on Wednesday and Thursday, 8 and 9 August, and then grew to UAH 18 billion on Friday, 10 August. The cost of monthly resources continued to be high, totaling 21-26% by the end of the week.

GOLD MARKET

The daily London gold fixing reached USD 1,618.5 per ounce on Friday, 10 August, rising USD 16.5 per ounce (1.0%) over the previous week. Since the beginning of the year, gold prices grew 5.7%. As a result of the 10 August session of Commodity Exchange (COMEX) in New York, December futures for gold stopped at USD 1,622.8 per ounce.

The price for one gram of gold in a 100-gram gold bar in Ukrainian banks grew from UAH 425.6 on Monday to UAH 425.8 on Friday.

During the previous week, the main factor behind growing gold prices was poor macroeconomic data from European countries (a decline in Italy's GDP and shrinking industrial orders in Germany), which strengthened hopes of investors for additional measures on the part of the European Central Bank to support the euro area economy. Gold was also supported by weak economic data published in China related to a shrinking positive balance of foreign trade, which are likely to force the central bank to provide further incentives for the economy in an effort to boost economic growth. Similar measures to extenuate monetary policy can raise demand for gold.

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