

# Financial markets survey

20 August 2012

## The rally goes on

### WEEKLY ISSUE

#### GLOBAL MARKETS

During the previous week, indices on the leading global platforms continued to grow, while the current rally has lasted for more than a month. At the closing of trading on Friday, 17 August, the S&P 500 (US) Index fell short of just one point to update the maximum value since year start, while quotations of Apple Inc. on that day reached a historical maximum, pushing capitalization of the most expensive company across the world to USD 602.3 billion. The main factor supporting optimistic expectations of stock market traders over the previous week was economic statistical data from the US.

On Tuesday, 14 August, it became known that retail sales in the US grew 0.8% in July after declining for the three previous months. On Wednesday, good news was data on industrial production and capacity utilization in the US, which showed a positive dynamic compared to the previous month and turned out to be higher than analysts expected. Several indicators of the real estate market published on Thursday showed mixed trends, but were taken positively by the market. The Index of US Leading Indicators and the Consumer Confidence Sentiment Index published on Friday were a pleasant surprise, as their values also went beyond expectations.

Statistical data coming from other regions across the world was not so inspiring, but also did not bring particular disappointment. In the second quarter of 2012, growth of Japan's GDP slowed down to 0.3% compared to a similar period in 2011. Economic growth in Germany also slowed down in the second quarter of 2012, landing at 0.5% year-on-year.

An important event of the current week will be meetings of Chancellor of Germany Angela Merkel with presidents of France and Greece regarding the crisis in the euro area. Markets may continue to grow, if data on the real estate market and durable goods orders from the US correspond with forecasts of analysts expecting growth of these indicators

#### STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1418,2	0,9%	4,0%	12,8%
FTSE 100 (UK)	5852,4	0,1%	4,0%	5,0%
MXME (East. Eur.)	191,9	-0,2%	4,2%	5,4%
UX (Ukraine)	1078,5	0,8%	-5,4%	-26,1%
RTS (Russia)	1416,8	-0,7%	2,5%	2,5%

#### COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	288,8	-0,5%	1,3%	26,9%
Steel, USD/ton	537,5	-0,5%	-2,3%	-8,5%
Oil, USD/barrel	116,9	3,5%	12,4%	11,4%
Gold, USD/ounce	1614,8	-0,2%	1,9%	5,5%

Source: Bloomberg

[www.pumb.ua](http://www.pumb.ua)

Securities Department  
Andriivska St., 4, Kiev, Ukraine 04070  
tel. +38 044 231 7380

## MACROECONOMICS

According to information of the State Statistics Committee, industrial output in Ukraine shrank 0.9% in July 2012 compared to July 2011. During January-July 2012, industrial output grew 0.2% year-on-year. As before, low indicators of industrial enterprises are connected mainly with weak demand for Ukrainian steel and machine-building products abroad, while domestic demand is not strong enough to cover losses in export-oriented industries.

In July, recession in steel industry deepened: output fell 8.6% compared to July 2011. Machine-building industry also continued to decline, while output in machine-building shrank 7.4% in July year-on-year.

A positive dynamic was registered in chemical industry, where output grew 12.5% in July year-on-year. In July, growth in food industry slowed down to 0.4% year-on-year.

According to our forecast, industrial output will grow 1.5% in 2012.

## BOND MARKET

Internal government bonds offered by the Ministry of Finance at a primary placement tender on Tuesday, 14 August, did not enjoy demand among investors. The government offered long-term hryvnia-denominated bonds maturing in 2017 and 2019.

We expect that activities on the primary internal government bond market will continue to be slow at least until the end of August, since the Ministry of Finance will not offer internal government bonds denominated in foreign currency that enjoy demand among a greater number of market participants.

During the previous week, corporate bond trading volumes at the PFTS Stock Exchange grew to UAH 1.7 billion thanks to the placement of bonds by Prominvestbank, Sberbank of Russia and an agricultural enterprise Burat-Agro. Over the previous week, no deals with corporate bonds were registered at the Ukrainian Stock Exchange.

## EQUITY MARKET

As a result of a very low market liquidity (see **INTERBANK LENDING MARKET**), stock trading volumes are extremely low at the Ukrainian Exchange (UX). During the previous week, volatility on the market was very low, and the UX Index fluctuated within a very narrow range.

According to the results of the previous week, the UX Index rose 0.8%, closing at 1,078.5 points on Friday. Despite the positive result, we cannot seriously talk about a positive trend on the Ukrainian stock market considering its overall weakness and a negative result both over the last 30 days and since the beginning of the year.

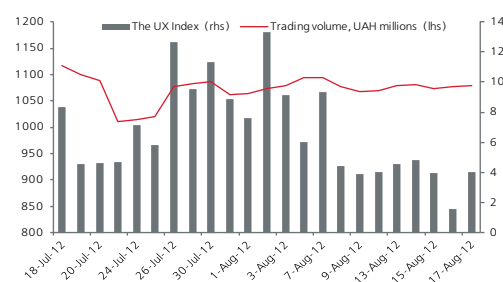
We expect Ukrainian stock trading volumes to remain very low during the current week. The index is likely to grow a little.

## LATEST MACROECONOMIC DATA

Indicator	Value
Industrial output in July, % year-on-year	-0,9

Source: the State Statistics Committee

## THE UX INDEX AND TRADING VOLUME



Source: the Ukrainian Exchange

## FOREIGN EXCHANGE MARKET

Over the previous week, the UAH/USD market was quiet, with trading around the UAH 8.10/USD mark. The highest price for foreign currency was registered on Monday, at UAH 8.1050/USD. On Tuesday, quotations slipped to UAH 8.1020/USD. From Wednesday to Friday, trading ranged within UAH 8.0980-8.1020/USD.

Activity of market participants remained average. Daily trading volumes did not rise to USD 1 billion, totaling USD 800-960 million (all currencies), including sales of the American currency at USD 500-600 million. Practically for two weeks in a row, the UAH/USD quotations have been at a rather high UAH 8.10/USD mark. The exchange rate is not going down because there is a significant demand for foreign currency on the market. At the same time, deficit of hryvnia resources is an obstacle to an increase in the exchange rate. As a result, the cost of overnight resources continues to stay at 20% and higher.

During the current week, there are pre-conditions for the exchange rate to drop in connection with the high costs of hryvnia and forthcoming tax payments by businesses.

## INTERBANK LENDING MARKET

During the previous week, the balance on correspondent accounts of banks was very low, totaling UAH 16-17 billion. From Monday to Wednesday, the cost of overnight resources was very high, reaching 20-25%. Thanks to an insignificant market liquidity growth over Thursday-Friday, the cost of overnight loans dropped to 18-22%. The cost of weekly and monthly resources was 21-26%.

We expect that the situation on the interbank lending market will continue to be strained during the current week. The balance on correspondent accounts will continue to be low, while the cost of loans will remain high.

## GOLD MARKET

The daily London gold fixing landed at USD 1,614.75 per ounce on Friday, 17 August, falling USD 3.75 per ounce (-0.2%) over the previous week. Since the beginning of the year, gold prices grew 5.5%. As a result of the 17 August session of Commodity Exchange (COMEX) in New York, December futures for gold stopped at USD 1,615.95 per ounce.

The price for one gram of gold in a 100-gram gold bar in Ukrainian banks dropped from UAH 428.8 on Monday to UAH 425.90 on Friday.

The previous week was marked by a significant decline in gold prices in the middle of the week spurred by the assumptions of market players that strong statistical data on the standing of the US economy will make it possible for the Federal Reserve System not to provide additional monetary incentives. On Wednesday, gold price quotations went below USD 1,595 per ounce. However, on Thursday, gold prices recovered their positions, rising to USD 1,618 per ounce urged by the weakening of the US dollar against the main global currencies.



## **SECURITIES DEPARTMENT**

Marina Tregubenko  
Head of department  
+38 044 231 7598  
marina.tregubenko@fuib.com

Marina Timbay  
Trading and brokerage  
+38 044 231 7053  
marina.timbay@fuib.com

Sergey Vedrinskiy  
Fiduciary management  
+38 044 231 7152  
sergey.vedrinsky@fuib.com

Elena Trubitsina  
Investment banking  
+38 044 231 7352  
elena.trubicina@fuib.com

Yevhenia Akhtyrko  
Research  
+38 044 231 7380  
evgeniya.ahtirko@fuib.com

## **INTERNATIONAL FINANCING AND TRANSACTION STRUCTURING**

Serhiy Zubro  
+38 044 231 7055  
serhiy.zubro@fuib.com

## **CASH AND PRECIOUS METALS**

Maxim Salutin  
+38 062 332 4908  
maxim.salutin@fuib.com

## **TREASURY**

Anton Stadnik  
+38 044 231 7046  
anton.stadnik@fuib.com

## **PUBLIC RELATIONS**

Yuliya Sobko  
+38 044 231 7139  
yuliya.sobko@fuib.com