

Financial markets survey

17 September 2012

Governments hurry up to help

WEEKLY ISSUE

GLOBAL MARKETS

The main event of the previous week was the decision of the US Federal Reserve System (FRS) to start a new third round of quantitative easing (QE3). After the decision was announced on 14 September, markets registered a new growth stage. For the absolute majority of market participants, the beginning of QE3 implementation was only a matter of time. The main factor that influenced the adoption of this decision at this particular moment was data on the situation of the US labor market. Specifically, the number of applications for unemployment benefit was higher than expected over the last weeks.

On Friday, 15 September, a special agency was set up to redeem mortgage-backed securities. By the end of September, redemption will reach approximately USD 23 billion. Starting from October, monthly redemption volumes will amount to approximately USD 40 billion. The QE3 program is not limited either by volume or by time. According to government plans, this program will be implemented until there is a perceptible improvement on the labor market.

In connection with the launch of the QE3 program, the FRS upgraded its economic forecasts for 2013-2014. Forecasts were improved, as it is expected that the launch of this program will accelerate economic recovery. Estimates of economic growth were upgraded from 2.2-2.8% to 2.5-3% for 2013 and from 3-3.5% to 3-3.8% for 2014. It is expected that the rate of unemployment will drop from 8.1% at the moment to 7% in 2014.

Europe also was not left without news about projected government actions to support the economy. As would be expected, on Wednesday, 12 September, the Federal Constitutional Court of Germany sanctioned ratification of the agreement on setting up the European Stability Mechanism (ESM) with a number of reservations, thus removing the last obstacle to setting up a standing stabilization fund of the euro area.

In view of the launch of active Government stabilization actions both in the US and in Europe, it is possible to expect a more confident growth of markets. During the current week, investors will determine the standing of the US economy on the basis of statistical data on industrial output and the real estate market, as well as data on the start of iPhone 5 retail sales.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1465.8	1.9%	4.4%	16.6%
FTSE 100 (UK)	5915.6	2.1%	0.9%	6.2%
MXME (East. Eur.)	214.3	7.4%	10.2%	17.7%
UX (Ukraine)	1099.7	12.3%	1.7%	-24.6%
RTS (Russia)	1589.4	8.0%	10.0%	15.0%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	297.5	0.0%	1.7%	30.8%
Steel, USD/ton	542.5	-1.8%	0.9%	-7.7%
Oil, USD/barrel	116.9	2.3%	4.2%	11.8%
Gold, USD/ounce	1775.5	2.8%	11.1%	16.0%

Source: Bloomberg

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, agricultural output shrank 4.5% over January-September 2012 compared to the same period in 2011. The reason for this drop in output was lower yields of the main grain crops. It was expected that grain output would decline in 2012, as the previous year saw record-high yields of the main grain crops in Ukraine.

Output of livestock products grew 2.2% over January-September 2012 year-on-year. During the last months, there was a trend towards stabilization of cattle headcounts. According to data of the State Statistics Committee, cattle headcounts in Ukraine had been shrinking non-stop since 1990.

BOND MARKET

Last week, the Ministry of Finance raised UAH 160.0 million to the State Budget of Ukraine by way of placing internal government bonds at a placement tender on Tuesday, 11 September. The Government placed a new issue of indexed bonds maturing in three years and yielding 9.30%. Only one bid was submitted for participation in this tender. Apparently, the buyer was a state-owned bank.

During the previous week, there was some movement in corporate bond trading. Placement of Sberbank of Russia's bonds on the PFTS stock exchange for the total of UAH 500 million increased weekly corporate bond trading volumes 57.6 times to UAH 505.94 million.

Corporate bond trading volumes on the Ukrainian Exchange grew 7.5 times to UAH 7.86 million.

EQUITY MARKET

Over the previous week, the Ukrainian stock market compensated its losses sustained during the previous month. On Friday, 15 September, the Ukrainian Exchange (UX) Index closed at 1,099.7 points, showing weekly growth of 12.3%. Nevertheless, unlike the majority of global trading platforms registering growth since the beginning of 2012, capitalization of the Ukrainian stock market shrank 25% since year start.

During the previous week, the UX Index rose every day, except for Thursday, 14 September. The UX Index grew the most on Wednesday and Friday after the announcement of decisions made by the Federal Constitutional Court of Germany and the US Federal Reserve System (see **GLOBAL MARKET**).

If the situation on the foreign exchange and interbank lending markets remains more or less quiet during the current week, most likely, the Ukrainian stock market will continue to grow.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in agricultural output over January-September 2012, %	-4.5

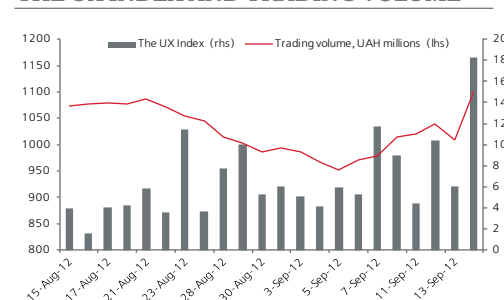
Source: the State Statistics Committee

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
11 Sept.	1092 days, index	9.30%	1/1	160.0

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg

FOREIGN EXCHANGE MARKET

Last week was much more placid than the first week of September. At the beginning of the week, the UAH/USD quotations were around the UAH 8.10/USD mark and grew to UAH 8.12-8.13/USD by the end of the week. We evaluate that fluctuations within the range of UAH 0.03 are acceptable for this market.

On the whole, market participants grew more active, transaction volumes and numbers rose smoothly, which is typical of the beginning of fall. The maximum foreign exchange sale volumes were registered on Monday, at USD 1.6 billion, including sales of the American currency alone for the total of USD 1.2 billion. State-owned banks showed average activity on the market, while the National Bank of Ukraine did not do any interventions.

INTERBANK LENDING MARKET

The balance on correspondent accounts was very low at the beginning of the week, fell to UAH 15.6 billion on Tuesday, 11 September, and then began to grow gradually, rising to UAH 18.8 billion on Friday. Respectively, the cost of overnight resources sank from 28-39% on Tuesday to 5-10% on Friday. The cost of monthly resources was 20-25% by the end of the week.

GOLD MARKET

The daily London gold fixing was registered at USD 1,775.5 per ounce on Friday, 14 September, rising USD 47.5 per ounce (2.7%) over the previous week. Since the beginning of the year, gold prices grew 16%. As a result of the 14 September session of Commodity Exchange (COMEX) in New York, December futures for gold stopped at USD 1,772.7 per ounce.

The price for one gram of gold in a 100-gram gold bar in Ukrainian banks grew from UAH 461.00 on Monday to UAH 471.80 on Friday.

The US FRS decision to implement measures aimed at softening monetary policy spurred prices for precious metals to grow further. Investors expect that growing liquidity may result in weakening of the US dollar, and gold denominated in the US dollars will be more affordable for buyers that use other currencies. In addition, expanding money supply enhances inflationary expectations, which may urge investors to invest resources into precious metals.



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