

Financial markets survey

29 October 2012

Mixed data, negative results

WEEKLY ISSUE

GLOBAL MARKETS

Statistical data coming in the course of the previous week were rather varied. Investors paid more attention to negative information and put on "bear" moods. As a result, global stock platforms fell during the previous week.

Despite the fact that the American stock market registered a downturn both during the previous week and over the last 30 days, its earning yields since the beginning of 2012 have been ahead of European and developing markets. According to information of Bloomberg agency, return on investment in stocks of American companies rose above return on investment in all other main asset types (US Treasuries, corporate bonds of American companies, commodity indices) for the first time since 1995. Analysts expect the S&P 500 Index to grow to a historical maximum in 2013, which will surpass the previous record set in October 2007.

During the previous week, negative statistical data were coming mainly from Europe. Investors began to talk about Spain again, when Moody's rating agency lowered debt ratings of five Spanish regions 1-2 grades down. Also, it became known that the state budget deficit of this country will reach 7.3% of GDP as a result of 2012 instead of the expected 6.3%. Finally, it became known on Friday, 26 September, that the rate of unemployment in this country reached a sad record-high in the third quarter of 2012, totaling 25.0%.

Macroeconomic data from the US were mostly positive. New home sales and durable goods orders grew in September, exceeding the expectations of analysts. The US GDP grew 2.0% over the third quarter of 2012, which is also above the consensus forecast.

During the current week, investors will keep an eye on industrial output and unemployment data in the euro area. On Friday, 3 November, there will be publication of the main indicators of the US labor market for October.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1411.9	-1.5%	-1.5%	12.3%
FTSE 100 (UK)	5806.7	-1.5%	0.7%	4.2%
MXME (East. Eur.)	194.6	-3.5%	-1.1%	6.9%
UX (Ukraine)	824.1	-1.0%	-18.1%	-43.5%
RTS (Russia)	1441.4	-3.6%	-1.1%	4.3%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	317.5	0.0%	6.7%	39.6%
Steel, USD/ton	502.5	-0.5%	-4.3%	-14.5%
Oil, USD/barrel	109.6	-0.5%	0.3%	5.4%
Gold, USD/ounce	1716.0	-1.2%	-1.7%	12.1%

Source: Bloomberg

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MACROECONOMICS

According to information of the State Statistics Committee, the growth of real wages in Ukraine slowed down in September 2012. Compared to September 2011, real wages grew 11.8% while they rose 13.9% year-on-year in August 2012. Over January-September 2012, real wages in Ukraine jumped 14.9% year-on-year. The average wages of staff-list employees reached UAH 3,064.

In our opinion, real wages slowed down as a result of curtailing the country's economy that has been witnessed since the beginning of the second half of 2012, in particular as a result of significantly shrinking industrial output. Hours worked per one employee in September 2012 shrank 7.4% compared to September 2011.

BOND MARKET

According to the schedule for the previous week, the Ministry of Finance held a primary placement tender for internal government bonds on Tuesday, 23 October. The Government offered internal government bonds denominated in hryvnia that will mature in 2017 and 2019. The weighted average rate for bonds of both series was 14.3%. Thanks to this sale of internal government bonds, UAH 1.06 billion was raised to the State Budget of Ukraine.

On Tuesday, October 31 an unscheduled primary placement of government bonds will take place. Five-year indexed bonds are likely to attract the greatest interest of investors. Last time the Ministry of Finance offered indexed bonds on September 25, 2012. The hryvnia bonds maturing in 2015 and 2019 will be placed.

EQUITY MARKET

On Thursday, 25 October, the Ukrainian Exchange Index dropped record-low since the beginning of the year, falling down to 781.79 points. Being far oversold, the UX Index grew more than 5% in the course of the week and closed the week at 824.05 points, having lost 1.0% over the previous week and 43.5% since the beginning of the year.

In the course of the week, anxiety of the Ukrainian stock market participants grew stronger in connection with an important political event in the country, namely the Verkhovna Rada elections that took place on Sunday, October 28.

Most likely, political situation in the country will be the determining factor for traders on the Ukrainian stock market during the current week.

FOREIGN EXCHANGE MARKET

During the week on the eve of the Verkhovna Rada elections, the interbank foreign exchange market was volatile, while trading ranged within the limits of UAH 0.02, namely UAH 8.1650-8.1850/USD. On Friday, the exchange rate fell to UAH 8.12/USD by the end of the day.

Foreign exchange supply was formed thanks to active participation of state-owned banks and two interventions of the NBU that offered foreign exchange at the rate of UAH 8.05/USD. On Thursday, the overall foreign exchange sale volumes were record-high since the beginning of the year –

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in September, % year-on-year	11,8

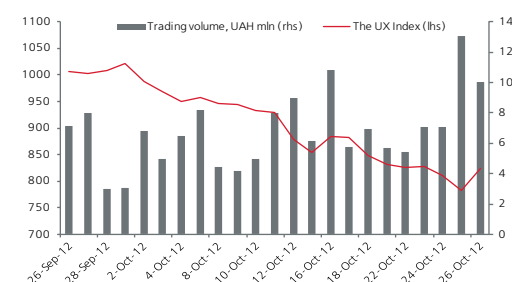
Source: the State Statistics Committee of Ukraine

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised, UAH mln
23 October	1,813 days, hryvnia	14,30%	3/3	501,3
23 October	2,520 days, hryvnia	14,30%	4/4	505,3

Source: the Ministry of Finance of Ukraine

THE UX INDEX AND TRADING VOLUME



Source: Bloomberg



USD 2.4 billion, including sales of the American currency alone for the total of more than USD 2.0 billion.

INTERBANK LENDING MARKET

The balance on correspondent accounts grew from UAH 17 billion on Monday to UAH 20 billion on Wednesday and then began to shrink. On Friday morning, 26 October, this indicator fell to UAH 16 billion, while the market began to feel an extremely acute shortage of resources. Rates for overnight loans reached 65% on the last working day of the previous week. During the first three days of the previous week, overnight rates were 22-29%.

GOLD MARKET

The daily London gold fixing was registered at USD 1,716.0 per ounce on Friday, 26 October, dropping USD 21.0 per ounce (-1.2%) over the previous week. Since the beginning of the year, gold prices grew 12.1%. As a result of the 26 October session of Commodity Exchange (COMEX) in New York, December futures for gold stopped at USD 1711.9 per ounce.

The price for one gram of gold in a 100-gram gold bar in Ukrainian banks slipped from UAH 460.30 on Monday to UAH 455.00 on Friday.

Last week, the main factor behind shrinking gold prices was the US dollar appreciating against the euro spurred by weak statistical data from the euro area regarding business climate and business activity. Another factor was the decision of Standard & Poor's agency to downgrade ratings of the largest French banks (BNP Paribas, Credit Agricole, Credit Mutuel Societe Generale, and others), given the growing economic risks for the banking sector in France, as well as the decision of Moody's agency to downgrade ratings of five regions in Spain.



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