



 **otp** *Capital*  
member of otp group

### Financial markets & investment strategy of OTP Capital

May was very difficult month for all the world's stock markets. Dow Jones fell to 7.98%, NASDAQ to 8.29%, S & P to 8.19%. European markets also declined: FTSE -6.57%, CAC 40 -8.1%, lower than the other decreased DAX -2.79%. Japanese NIKKEI 225 dropped to 11.65%.

The reasons for this decline were many factors, among them: speculations about situation in Greece and other troubled countries in Europe - Spain, Portugal and Italy, which, as experts predict, will continue in a long-term horizon. European Union jointly with the IMF approved a loan to Greece in the amount of 110 billion euro for 3 years at 5% per annum. To solve budget deficit problem, the Greek Government announced its intention to reduce the salaries of public employees and raise taxes, which led to mass protests in the country.

Situation in troubled countries largely depends on the development of the global economy and demand for European goods. Possible scenario to overcome present difficulties is to include new countries into the European Union in order to create new markets for distressed countries. Negative signal to markets were also information on China, which increased the rate of redundancy for the third time since the beginning of the year, as well as a ban in Germany on short-operations with the European government

bonds. However, complete collapse of the market was not accrued due to positive macroeconomic data from the U.S., such as the activation of job seekers in the labor market and creation of new jobs, reducing the consumer price index by 0.1%, growth of index of consumer optimism up to 63.3 (vs. 58.5 forecast) and strong oversold by technical indicators.

#### "OTP Classic"

On June 1, "OTP Classic" unit price was 1088.92 UAH, yield for May was 0.55%. Money Market Fund strategy seeks to maximize the protection of capital with a steady income, despite the volatility and corrections in the stock market. The structure of the portfolio remains unchanged - about 50% is in bonds and 50% - in bank deposits and current accounts.

#### "OTP Balanced"

"OTP Balanced" unit price on June 1 was 1168.34 UAH. Change in May, followed stock indexes, but to a lesser extent due to a balanced portfolio structure. Yield for reporting month was -14.44% (index of UX dropped to -26.57%). During May, the proportion of shares in the portfolio was increased to 48%, which corresponds to the investment strategy. Bonds accounted for 15%, deposits - 25%. The share of cash at the end of the month was 11%.

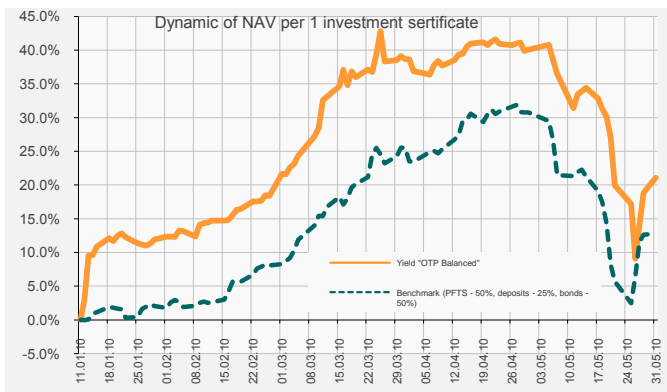
#### "OTP Dynamic"

In May, yield was -18.48% (index of UX showed -26.57%). Proportion of shares in the portfolio declined to 52% in order to reduce the impact of market drop on investors' income. During the year the yield of "OTP Dynamic" was 72.12% (June 1). Despite the short-term decline in yield, the fund still remains a good investment in the long term. Share price as of June 1 was 1190.31 UAH

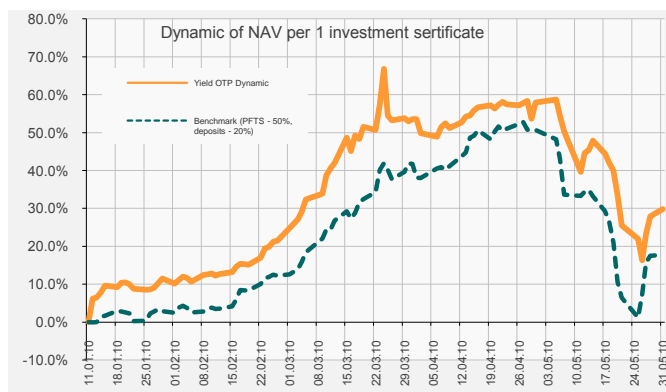
#### "OTP Equity Fund"

From April 1, units of open-diversified investment fund "OTP Equity Fund" are placed. Face value of unit - 1 UAH. The minimum investment is 500 units. Fund's investment strategy involves investment up to 70% of assets in equities of Ukrainian companies. The money is gradually invested in equities at the most favorable moment in the market.

OTP Balanced



OTP Dynamic



## Stocks

Traditionally, the Ukrainian stock market reacts to the movement of world stock exchanges, with the same multiplied attitude. Index Ukrainian Stock Exchange on May collapsed to - 26.57%, the PFTS index to - 26.98%. Negative external informational background, as well as the long-awaited by market participants' sales position, led to collapse of virtually all liquid issuers.

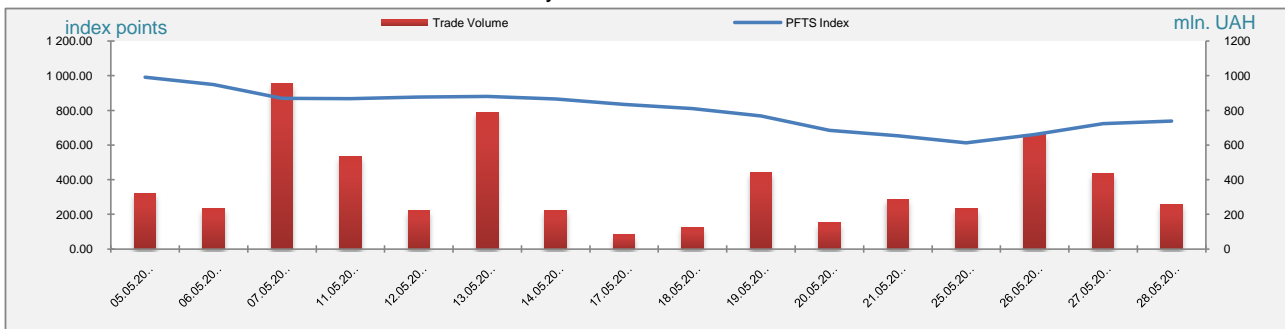
The long-awaited correction occurred, but no one expected the drop of such scale. The main reason for the negative moods of investors is concerns about the debt problems

in some European countries (such as Greece, Spain, Portugal and Italy), negative trends in all the world's stock exchanges, as well as the overheated domestic Ukrainian market as a whole.

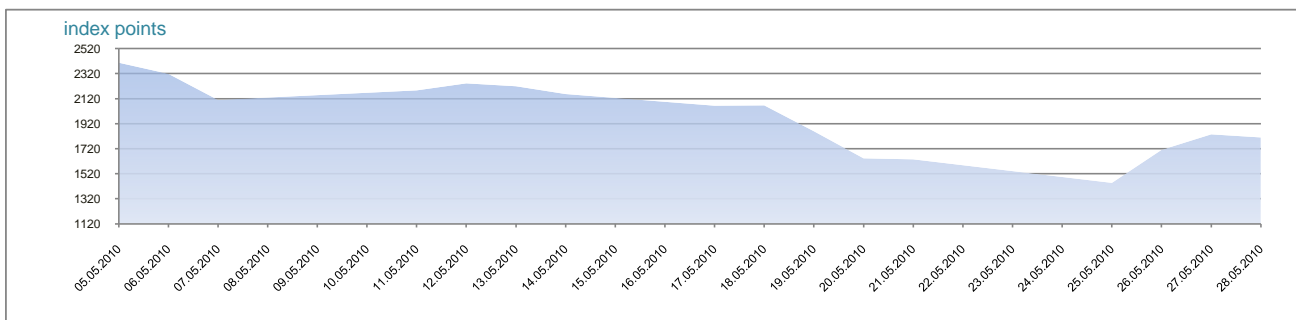
In the medium term, the situation on Ukrainian stock market will greatly depend primarily on external factors. The depreciation of the euro will help to increase exports from the euro zone countries and, consequently, economic growth, which will have a positive effect on stock markets. Among the internal factors which will influence the

market are: questions of privatization and financing from the IMF. Probable positive trends could have companies in the electricity sector in the frame of overall market volatility.

Dynamic of PFTS Index\*



Dynamic of UX Index\*\*



\* - chart based on data from [www.pfts.com](http://www.pfts.com)

\*\* - chart based on data from [www.ux.com.ua](http://www.ux.com.ua)

## Bonds & Deposits

In May 2010 the spread of index EMBI + Ukraine grew up in a month, with levels from 460 to 691, closing the month at around 561 n. Thus, the index fell back to the level of mid-March 2010.

In May, 3 auctions on placement of internal state loan bonds were held. As a result of these auctions bonds have been posted in the amount of 2,03 bln. UAH. Interest rates were at 11% - 14%.

The index of five-year credit default swaps Ukraine (CDS 5Y) in May was

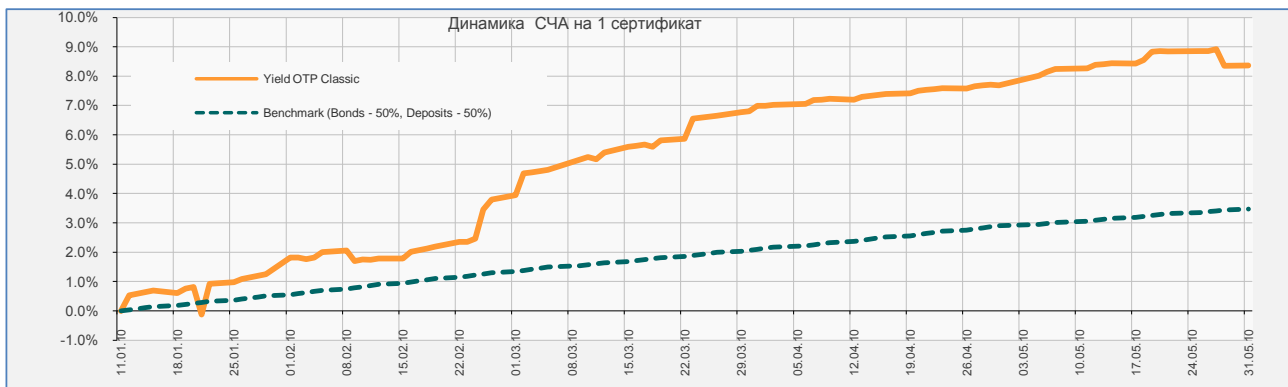
very volatile, the maximum point was at 700 points, and then closed the month at around 600 points. The index shows the creditworthiness of the country – as lower the index value, the lower the probability of default.

Balances on correspondent accounts in April changed slightly and remained at the level of 17-20 bln.UAH, declining at the end of the month. The KIEBID overnight rate was in a corridor of 0.17% -0.65%.

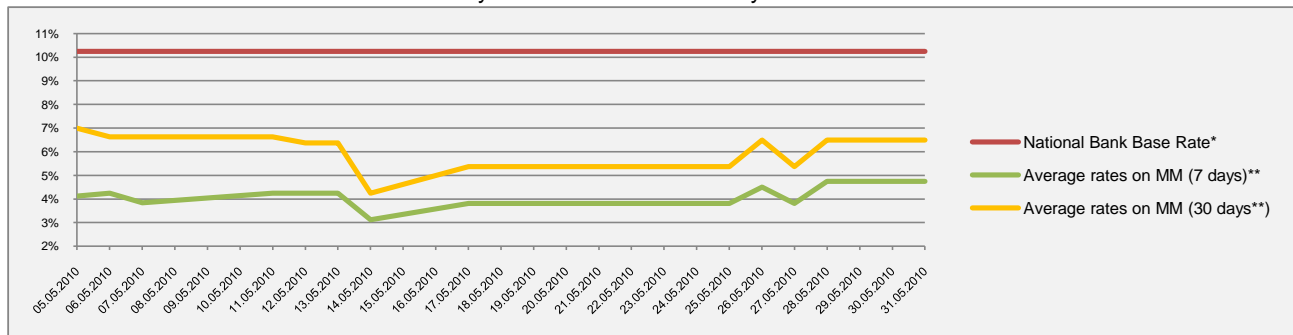
According to the National Bank of Ukraine, the average rate on deposits in national currency in April was at 11.83%.

The rates in the interbank loan market declined during the first two weeks of May. After this 7-day rates increased from 4.13% to 4.75% and 30-day declined from 7% to 6.5%.

### OTP Classic



### Dynamic of Rates on Money Market



\* - chart based on data from [www.bank.gov.ua](http://www.bank.gov.ua)

\*\* - chart based on data from [www.finance.ua](http://www.finance.ua)