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Financial markets & investment strategy of OTP Capital

The first month of summer has brought certain calm on the world markets. The American share indexes were showing a contorvercial dynamics: at decrease of the DJIA industrial index 0.6% on monthly results, the index of hi-tech companies Nasdaq has grown 3.4%. In Europe investors were not so optimistic and the "Old World" leading share indicators lost averagely 3% in June. At the same time, index of Tokyo SE Nikkei has continued its growth the second straight month, having added 4.6% in June.

After rough growth in the last quarter, correction became very much in evidence on the Russian markets. So, RTS index has lost 9.3% on monthly results, and the Moscow Interbank Stock Exchange index has failed 13.5%. Thus, the traditional driver of the Russian market – cost of petroleum futures has continued the growth.

EUR/USD pair spent the month enough easy because of absence of unexpected news in the macroeconomic data publications in June. As of the 30th of June EUR/USD value was 1.4043.

An important for Ukraine event became a publication of data about economic situation in Ukraine in the first quarter by the State Statistic Committee, in spite of the fact that the information was published in the last day of the second quarter. According to the information from the State Statistic Committee real GDP fell 20.3% in the first quarter. Thus, among real branches of economy the greatest recession has been noted in building: -54%.

The publication of internal macroeconomic statistics did not influence on moods of the Ukrainian Stock Exchanges. Traders were ready to such figures and have won them back considerably earlier. However, unveil the official data about economic situation can have a positive effect in the sphere of

attracting foreign investments. There was some calm on a domestic market in June, the Ukrainian share market was smoothly decreasing during the month. This time was characterized by small daily average volume of trades: at PFTS exchange this indicator shown UAH 6.6 million in June, against UAH 8.5 million in May. Also the decrease by the National bank a base rate from 12% to 11% since 15th of June has not notably influenced on the markets.

OTP Classic

As of the 1st July, the OTP Classic open-end fund assets achieved UAH1.14 million. Shares of OJS Avdeevsky coke factory and Poltava GOK were sold from a fund portfolio in June. Thus, the conservative strategy of the fund was strengthened. Now in the OTP Classic portfolio there are only instruments with fixed income: bonds and deposits. For the first of July there were 41% from fund assets on short-term deposits and saving accounts. About 6% of NAV were invested in the municipal bonds. As the OTP Classic fund is an open-end, and investors can request on money withdrawal from the fund in any working day, managers have left 8% from the fund assets on the current accounts for liquidity maintenance.

The leading positions in the branch structure were occupied by securities of the retail business representatives.

In June came an option on prior redemption of OJS Lutsk motor-car factory bonds. Managers have accepted the offer of the enterprise on restructuring of debts and increase of coupon rate to 22%.

Unfavourable situation on equity market in June and presence of risk assets in the fund portfolio at first half of month have led to falling price of securities of fund 0.2% in June.

At the same time, yield of fund for the last three months has come to 15.3%.

OTP Balanced

Assets of interval fund achieved UAH2.32 million for the end of June. In spite of the fact that fund strategy provides investment of significant part of assets in the equities, managers did not fill a OTP Balanced portfolio with risk instruments in June, taking into account an expected correction. As of the 1st of July, the share fractions constituted 7.2% of NAV. 49% of assets were invested in the bonds (state, municipal and corporate) for minimisation of negative influence of the stock market correction.

In the branch structure the leading position are occupied by securities of issuers of the machine-building branch and representatives of retail business.

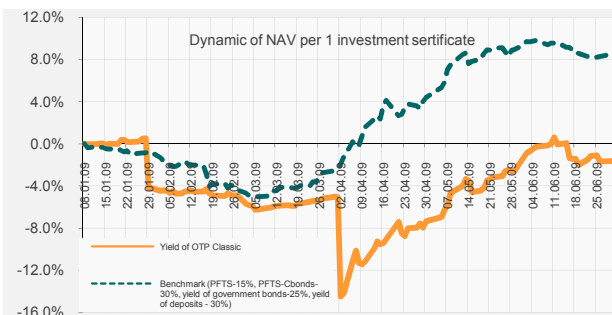
Quotations' decrease on the domestic SE, including shares which are in the OTP Balanced portfolio, has not allowed the interval fund to show yield above «-1.2%» for a month. However, viewing the longer period, for example, three months, it is clear that the price of investment certificates has increased for 16%.

OTP Dynamic

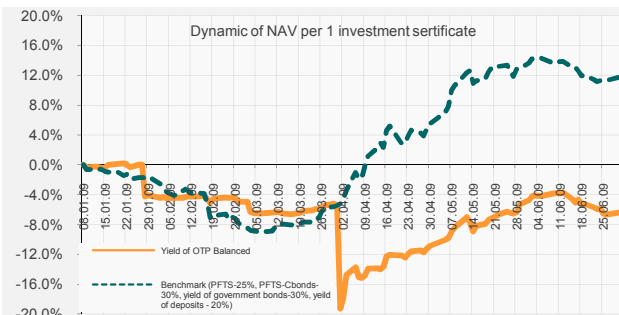
As of the 1st of July, assets of the OTP Dynamic close-end fund achieved UAH 996,000. Using correction on the equity market, managers have increased part of equities in the fund portfolio to 21% in June. Approximately the quarter of assets is on the current accounts which allow buying beneficial stocks at the enough low levels.

Leading positions in the branch structure are occupied by securities of the representatives of the machine-building branch, on the second and third position are securities of ironwork complex and power sector. We remind that price of closed-ended fund shares is UAH1000.

OTP Classic



OTP Balanced



Stocks

June has brought an expected correction, which was partly caused, by too strong growth during the last two months, on the other hand, because of seasonal business recession on the market share.

In the beginning of July quarterly reports of the companies became an additional confirmation that the optimism which has been moving shares on the global markets upwards was too big. Also the results of trades published by the State Statistic Committee have not pleased traders concerning decrease of GDP in the first quarter of 2009. According to the report, Ukrainian GDP has decreased 20.3% in January-March of this year in relation to the similar period of the last year.

As consequence, the first days of July were marked by continuation of the correction on the Ukrainian stock market.

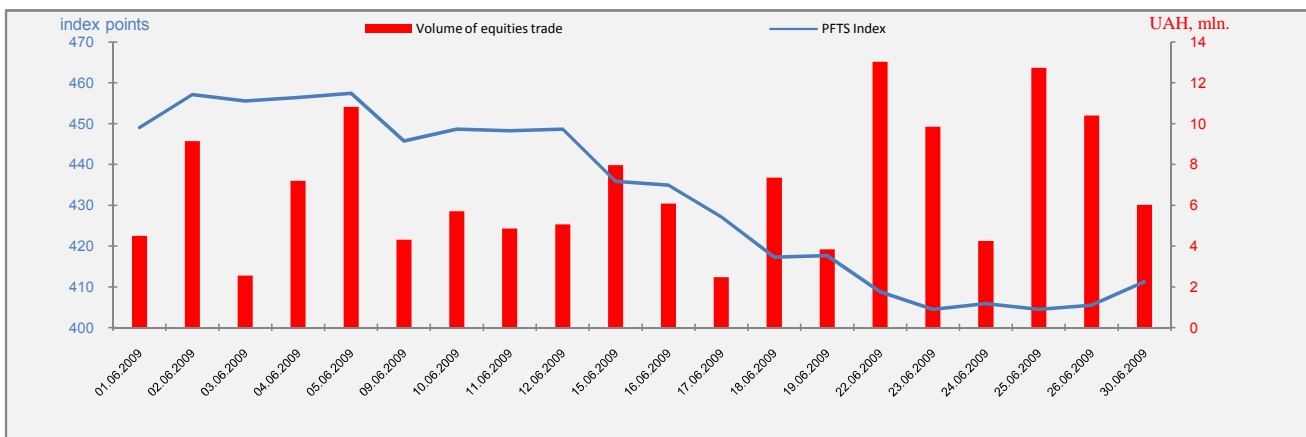
More than one and a half thousand contracts with total sum of UAH138.3 million were signed on PFTS in June, in May this indicator was higher: UAH152 million. Thus, PFTS-index decreased 10.3% in June. According to information of PFTS shares of OJS Enakievsky ironwork, OJS Ukrnafta and OJS Azovstal were the most traded.

The Ukrainian exchange continues to expand. in June on this platform traders have concluded contracts on total sum of UAH133.2 million. That is more than shown indicators of the last month (UAH 111 million).

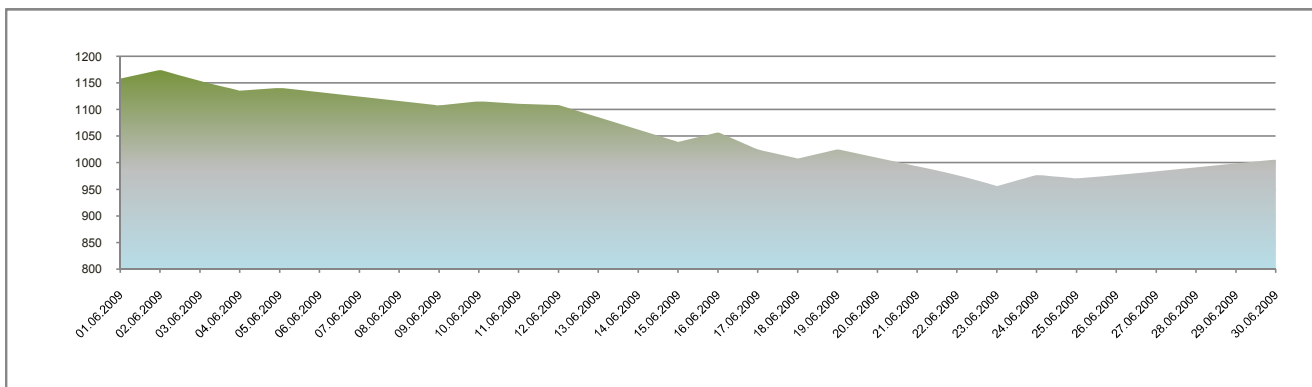
Nevertheless, UX-index decreased 10.3% in June.

We consider that the current market situation in Ukraine is fair: correction after so sharp growth is inevitable. At the same time, we do not share a position of those who consider that decrease will have a continuing character. In our opinion, the domestic stock market still has high potential of growth which can be realised in the midterm. However, positive news background and corresponding dynamics on the world markets are necessary for this purpose. The nearest chance to growth is the period of the publication of corporate reports for the second quarter in the USA which starts on Wednesday, 8th of July.

Dynamic of PFTS Index*



Dynamic of UX Index*



* - chart based on data from www.pfts.com

* - chart based on data from www.ux.com.ua

Bonds and Deposits

After granting \$2.8 billion in May IMF commissioners have arrived to Ukraine again to control the fulfilment of the terms and conditions of an agreement and discussing of the next credit tranche. Despite of the fulfilment of the requests on NBU reserves, a fiscal deficit and monetary base, unstable politic situation and regular elections force the commissioners to doubt concerning the next granting.

According to the NBU, forward estimates of the payment balance show the dynamics turn in a positive side in May. Proficiency of balance has achieved \$230 million. Major factor, which promoted the situation normalisation, was called the termination of cash currency outflow

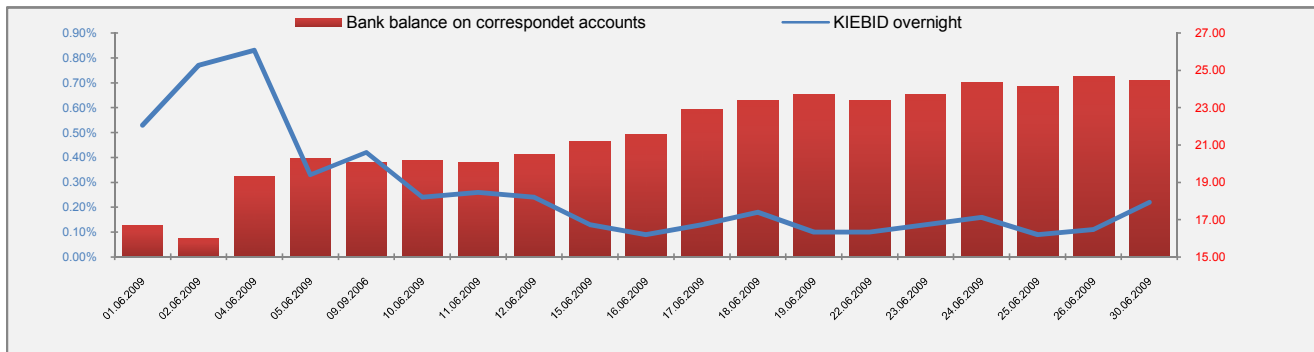
from a banking system. Also it is necessary to note the tendency of return finances of population in the banking system, positive dynamics of inflow of facilities is saving and increasing, however, from the beginning of the year this indicator is negative: outflow has come to 11%.

Positive dynamics of daily balances on the corresponded accounts also shows normalisation of the situation in a banking sector. As of the 30th of June, the rests have constituted UAH27.47 bn., which is higher than figures at the beginning of month for 38%. At the same time, results of the domestic bond issues placing by the Ministry of Finance are not very good.

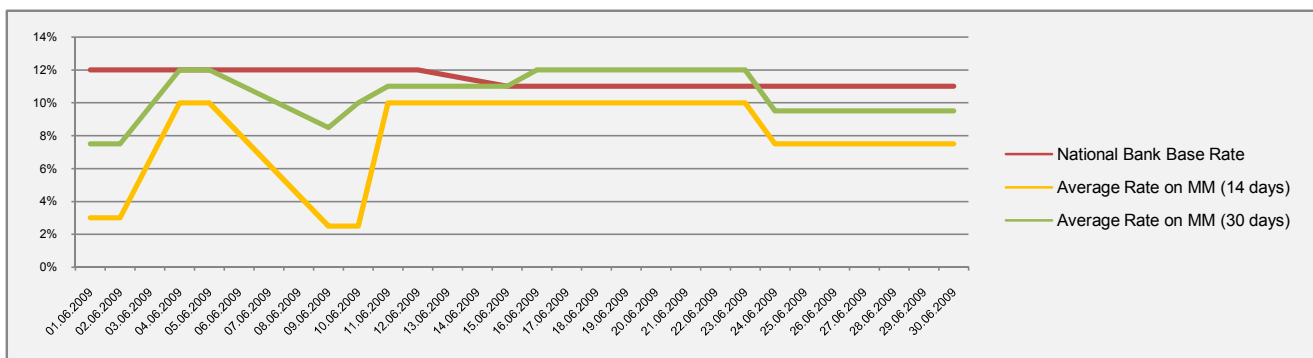
So, four-month bonds with a maturity date in October of this year have been placed with coupon yield 19.62%. Such rate of the coupon is considerably above rates of the short bonds placed earlier.

The secondary market of bonds is been restoring. At PFTS exchange with corporate bonds has been concluded contracts by a total sum UAH54.4 million for a month. Thus the maximum trade volume has been noted with bonds of LLC PTK Agromat (UAH12.4 million). Almost UAH30 million has constituted trade volume of the domestic governmental bonds. Operations with municipal bonds also were noticed, but their volume was insignificant.

Dynamic of PFTS-Cbonds Index*



Dynamic of Rates on Money Market**



* - chart based on data from www.pfts.com

** - chart based on data from www.finance.ua