

FINANCIAL MARKET IN APRIL 2013

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The stock market's behavior was influenced in the main by the declining oil futures prices. The negative dynamics of stock indexes resulted in a drop of the stock market's capitalization over the month by 3.71%; however, Blue Chips demonstrated growth to 9.07% per month and to 13.81% per annum. The situation on Russia's domestic corporate bond market remained stable. On the whole, in April both the market volume and market index were on the rise; investor activity on the primary and secondary market segments continued to be high. The emitters were punctually fulfilling their obligations to their bond holders.

The Movement of the Russian Stock Market's Main Structural Indices

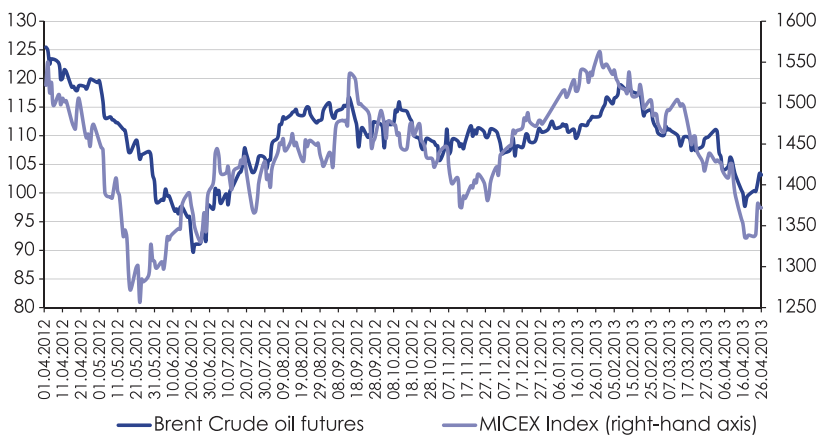
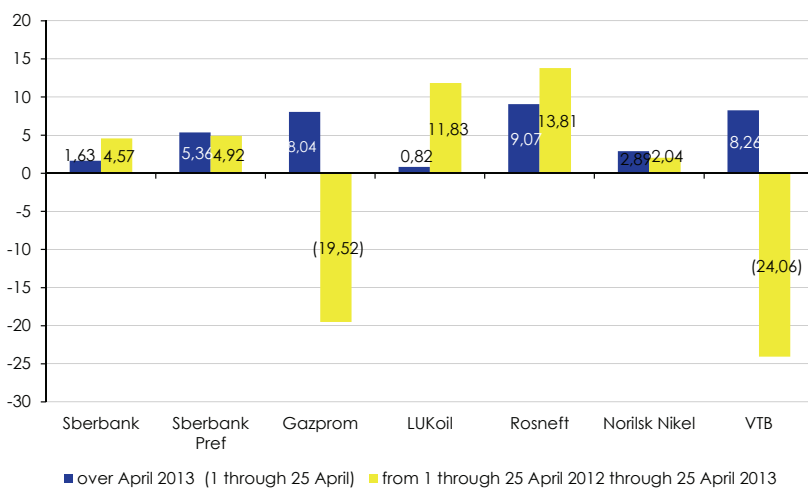


Fig. 1. The Dynamics of the MICEX Index and Brent Crude Oil Futures Prices in the Period from 1 April 2012 through 26 April 2013



Source: Quote.rbc.ru; the author's calculations.

Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange

The average futures prices of Brent crude by 17 April dropped to \$ 97.69 per barrel, which is 6.58% below its price as of the month's beginning. In these conditions, the MICEX Index continued its downward movement from its January peak value, thus amounting, over the period from 1 through 25 April, to 1,385 points on the average (Fig. 1). The Index's record low was observed on 18 April at the level of 1,335.21 points, which amounts to 93.47% of its value as of the month's beginning. However, the increasing oil prices over April's last work-week pushed the MICEX Index upwards to 1,372.2 points (96.0% of its value as of the month's beginning).

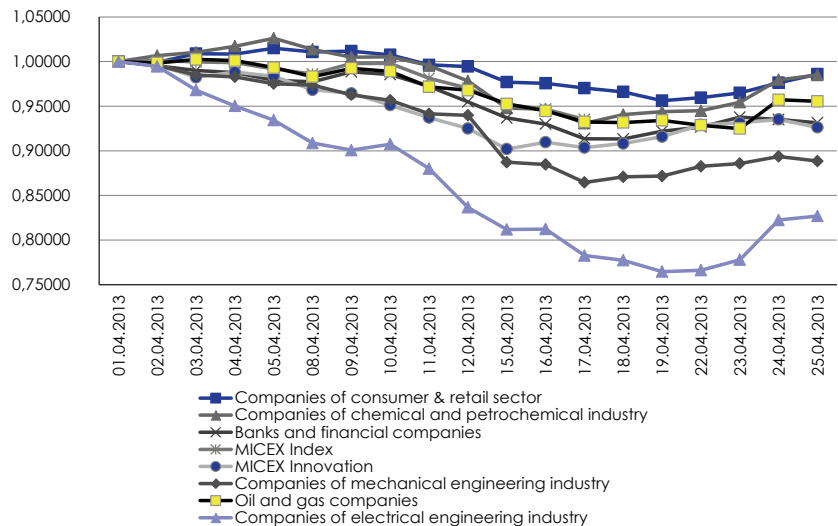
For investors, the movement of the main Blue Chip stocks in April generated positive returns. The leaders in growth were the shares in Rosneft (Fig. 2), which as of 25 April demonstrated the highest yield since the month's beginning – 9.07%. LUKoil shares displayed the slowest price growth rate in the period from 1 through 25 April (0.82%). For those who had invested in Blue Chips one year ago, the highest yield was generated by the shares in Rosneft – 13.81% by 25 April 2012. Positive per annum yields were

demonstrated by all shares, with the exception of shares in *Gazprom* and *VTB*, the loss on which amounted to 19.52% and 14.06% respectively.

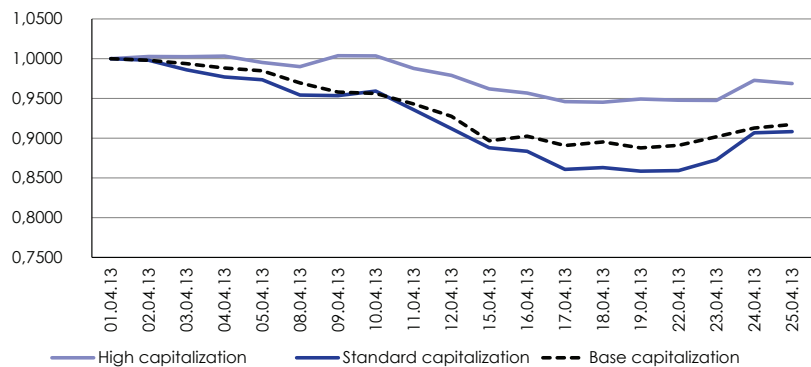
The dynamics of the quotations of sectoral indices corresponds to that of oil prices over April (Fig. 3). While early in the month the quotations were on the rise, towards mid-month all the sectoral indices dropped on the average by 7.8% (with the exception of the electrical engineering index), and their drop by the month's end amounted to 4.5%. Besides, throughout the course of April, the electrical engineering index continued its downward movement with a negative yield – to 23.53% as of 19 April.

Sectoral indices also declined (Fig. 4). MICEX MC (the MICEX Start Cap Index that includes shares of companies with base capitalization)¹ in the month's second half dropped by 10%. MICEX MC (the MICEX Mid Cap Index that includes shares of companies with standard capitalization) dropped by 11.8%, whilst MICEX MC (MICEX Large Cap Index) 'lost' 4.5% of its value.

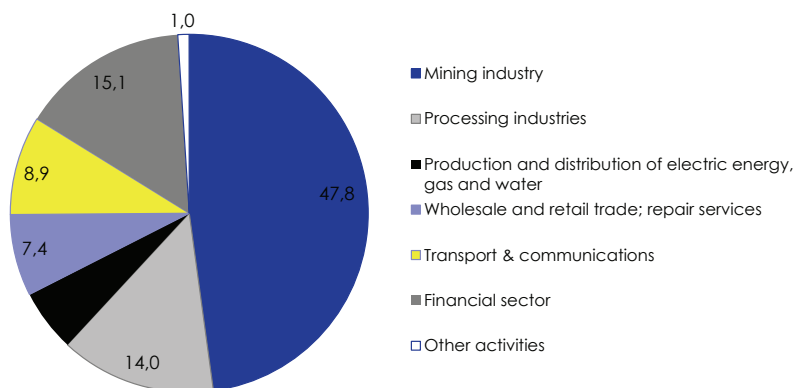
The situation in April was similar to March in that no companies placed any shares, while the stock exchange's capitalization in the period from 1 through 25 April dropped by 3.71%, or by Rb 911m. Russia's stock market total capitalization as of 25 April 2013 amounted to Rb 23.45 trillion, of 37.47% of GDP. Due to the similar movements of the stock quotes in nearly all sectors of the national economy, the stock market's capitalization structure by type of economic activity remained practically unchanged since the month's beginning (Fig. 5). The capitalization share of the companies of belonging to the consumer



Source: Quote.rbc.ru; the author's calculations.
Fig. 3. Growth Rates of Different Stock Indices on the Moscow Exchange



Source: Quote.rbc.ru; the authors' calculations.
Fig. 4. Changes in the Growth Rates of Capitalization on the Moscow Exchange



Source: the MICEX's official website; the authors' calculations.
Fig. 5. Structure of Capitalization of the MICEX Stock Market, by Type of Economic Activity

1 The Cap Indices are price indices with constituents weighed according to their market capitalization. The Indices consist of the most liquid stocks of Russian issuers admitted to trading in MICEX Stock Exchange. See <http://rts.micex.ru/s77>

& retail sector was 7.4%; that of transport and communications companies – 8.9%. The capitalization share of the companies operating in the extracting sector remained high – at the level of 47.8%. The capitalization share of the electrical engineering companies shrank by 0.75%, thus pushing up the extracting sector's capitalization share to 14%.

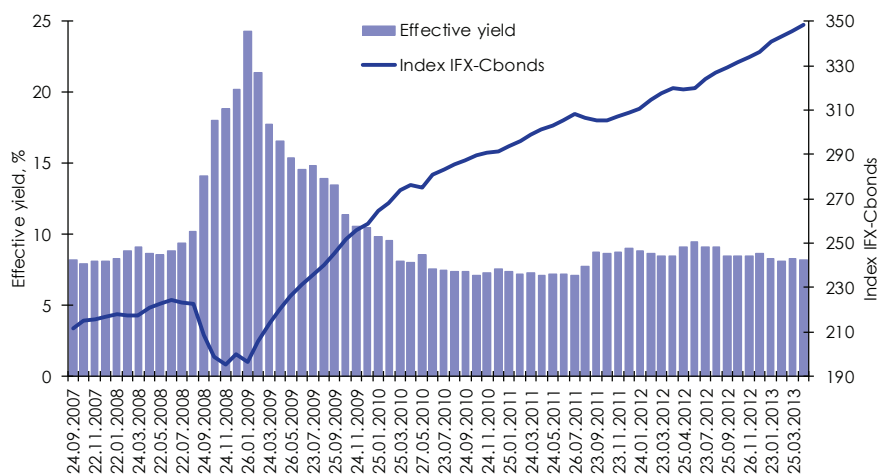
The Corporate Bond Market

In April 2013, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) continued to grow, although at a somewhat slower rate. So, this indicator rose to the level of Rb 4,455.0bn, which represents a 1.1% rise on the end of March 2013 (over the previous months its average growth rate had amounted to 1.5–2.0% per month)¹. The increase in the volume of the market was once again caused by growth in the number of issued bond loans (962 ruble-denominated corporate bond issues vs. 952 issues as of the end of the previous month). At the same time, the number of emitters represented in the debt segment had remained almost unchanged for several months in a row (346 in April vs. 343 in March). Thus, the sustainable growth displayed since the year's beginning growth by the corporate bond market volume has occurred in the main due to the activity of big market participants placing big bond issues. As before, several U.S. dollar-denominated bond issues and one yen-denominated bond issue placed by Russian emitters remained in circulation. The ruble-denominated bond issues in circulation were represented by two eurobond issues placed by the European Bank for Reconstruction and Development.

March 2013 saw a rise in the investment activity on the secondary corporate bond market. Thus, in the period from 26 March through 22 April, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 172.0bn (for reference: in the period from 25 February through 25 March the trade turnover was Rb 160,5bn), while the number of transactions carried out over the period under consideration amounted to 27.6 thousand (vs. 26.1 thousand in the previous period)².

The IFX-Cbonds index of the Russian corporate bond market continued to rise at a stable rate. By the end of April 2013, it had climbed up by 3.1 points (or 0.9%) from the end of the previous month. After having unexpectedly increased in late March, the weighted average effective yield on corporate bonds once again fell – to its record low of the last year-and-a-half, from 8.32% to 8.16% (Fig. 6)³.

Although in late March – early April the international rating agencies downgraded their ratings of some of the emitters (for example, OJSC *AK Bars* and some other companies), while there were also



Source: According to data released by the Cbonds company.

Fig. 6. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of its Weighted Average Effective Yield

some fears that the ratings of *Sberbank of Russia*, *VTB Bank*, *VTB 24* and *Rossiiskii sel'skokhoziaistvennyi bank* [Russian Agricultural Bank] might also decline, Russia's long-term rating was, nevertheless, confirmed with a stable forecast, which boosted optimism on the financial market. In early April, the RF Central Bank announced that the rate of refinancing would remain unchanged; however, at the same time, it lowered by 0.25 pp. the rates for some of its more long-term refinancing operations.

- 1 According to data released by the Rusbonds information agency.
- 2 According to data released by the Finam company.
- 3 According to data released by the Cbonds company.

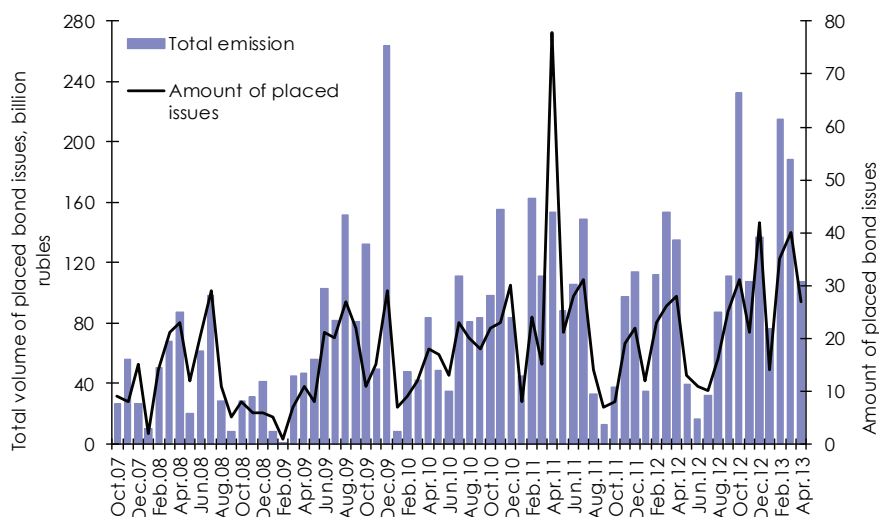
The corporate bond portfolio duration index resumed its downward trend. As of the end of April, this index amounted to 699 days, which represented a 21-day drop on the end of the previous month.

The most liquid bond issues experienced significant drops in their yields – similarly to the average market yield. The only exception were the following emitters: *Mechel*, the Moscow Credit Bank, and *AK Bars*. The most significant yield losses (by more than 1 pp.) were demonstrated by the securities issued in the financial sector – on the average by more than 0.5 pp. The rates on the most liquid securities issues of manufacturing, hi-tech and energy companies fell, on the average, by no more by 0.1–0.2 p.p.¹

Since the start of 2013, emitters displayed record-high activity whilst registering their new securities issues. Thus, in the period from 26 March through 22 April, 18 emitters registered 61 bond issues with a total face value of Rb 226.9bn (for reference: in the period from 23 February through 25 March, a total of 25 bond series were registered, with a total face value of Rb 118.8bn). Big issues were registered by OJSC *Gazprom Neft* (7 bond series with a total face value of Rb 55bn); *Rusfinance Bank LLC* (10 exchange-traded bond series with a total face value of Rb 40bn); *VTB Capital Finance LLC* (11 bond series with a total face value of Rb 22bn); and *X5 Finance LLC* (4 exchange-traded bond series with a total face value of 20bn)². More than half of the registered bond issues were exchange-traded bonds. Besides, among the newly registered bonds were four small inaugural issues.

However, the activity on the primary market was rather subdued by comparison with the scale on which the registration of new issues was carried on, although its indices were, nevertheless, higher than the average placement volume in the second half of last year. Thus, in the period from 26 March through 22 April, 23 emitters placed 27 bond loans with a total nominal value of Rb 107.1bn (for reference: in the period from 23 February through 25 March, a total of 40 bond loans with a total nominal value of Rb 188.3bn were placed) (*Fig. 7*). Exchange-traded bonds constituted half of all the placed issues. The largest bond loans were placed by OJSC *Russian Railways* (a bond series with a total face value of Rb 20bn); CJSC *Mortgage Agent Absolut 1* (two mortgage bond series with a total face value of Rb 12.3bn), OJSC *Magnit* (two bond series with a total face value of Rb 10bn), OJSC *Mobile TeleSystems* (one bond series with a total face value of Rb 10bn).³ In spite of the declining placement indices, two mortgage agents managed to attract finance in the form of 28-to-32-year loans; OJSC *Russian Railways* – a 15-year loan; and another four issuers – 10-year loans.

The indices of primary placements observed over the period under consideration could have been even higher, but in the interval between 26 March and 22 April the Federal Financial Markets Service annulled 10 bond issues due to failure to place even a single security; their State registration was also annulled. (Over several previous months, 10–15 issues on the average had also been annulled every month, but in March this indicator hit its record high of 21 issues)⁴. Such a huge number of an-



Source: According to data released by the Rusbonds company.
 Fig. 7. Dynamics of the Primary Placements of Issues of Ruble-Denominated Corporate Bonds

1 According to data released by the Finmarket information agency.

2 According to data released by the Rusbonds information agency.

3 According to data released by the Rusbonds information agency.

4 According to data released by the Federal Financial Markets Service of Russia.

nulled issues can be explained by changes in the plans of emitters concerning borrowing on the debt market, because here we speak of biggest market participants – for example, *Vneshekonombank*.

In the period from 26 March through 22 April, 13 emitters redeemed their 16 bond issues with a total face value of Rb 75bn in due time. Thus, for several months in a row, the debt market has witnessed no technical defaults. In May 2013, the redemption of 11 issues of corporate bonds with a total face value of Rb 30.1bn is expected¹.

The situation with regard to the fulfillment, by emitters, of their obligations to bond holders remains positive. Over the period under consideration, no real defaults were observed, and no emitters defaulted on the payment of the coupons, the redemption of the face value of their bond loans, or the buyback offers to the current holders of securities before their maturity in due time – or at least within the framework of a technical default (in the previous period, only one issuer declared a real default – that is, failed to pay the yield on securities to their holders in the next few days after the planned date for the payment of the coupons)². ●

1 According to data released by the Rusbonds information agency.

2 According to data released by the Rusbonds information agency.