

FINANCIAL MARKETS IN MAY 2013

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The growth of the MICEX Index over the course of May, briefly interrupted by its small incursion into negative territory in mid-May, was caused by the rise in oil futures prices and the inflow of foreign portfolio investments. However, it was not sufficient to reverse the downward trend in the stock market's capitalization. The most noteworthy events in Russia's stock market were Sberbank's shares climbing to their historic high of Rb 110.74 per share and VTB's secondary public offering, which pushed down the prices of its shares. On the whole, the key indices of the Russian domestic corporate bond market, including the market volume and the market index, the weighted average effective yield on corporate bonds, and the activity of the market's biggest bond emitters in registering their new issues, showed a positive trend. The emitters were punctually fulfilling their obligations to their bond holders.

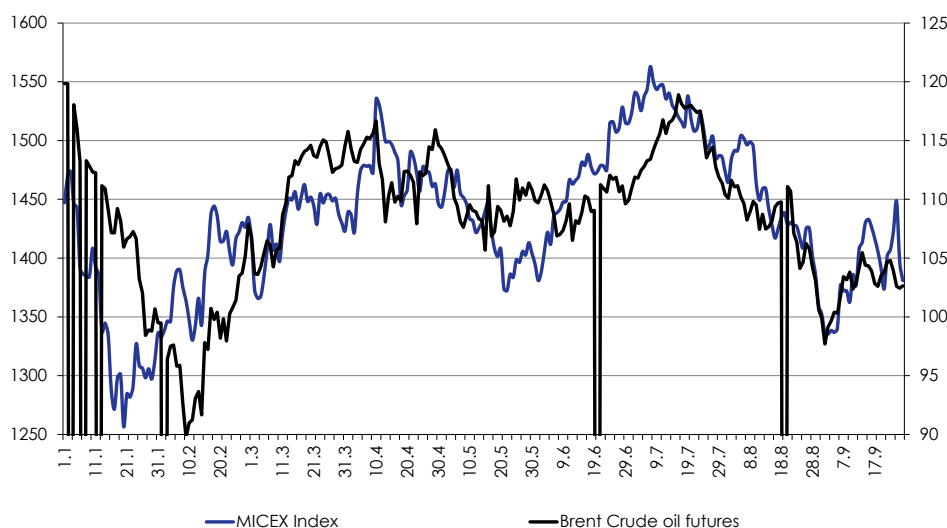
The Movement of the Russian Stock Market's Main Structural Indices

The rise in the futures prices of Brent crude oil had a positive effect on the behavior of the MICEX Index. Over the course of May, oil futures prices, although fluctuating slightly from time to time, were generally on the rise. As of 25 May, they had climbed by 3.8% on the month's beginning. As a result, over the course of May (as of 25 May), the MICEX Index grew by 2.5%. The highest average¹ oil price of 105.5 USD per barrel was recorded on 6 May. On 8 May, the MICEX Index rose to 1,432.9 points (which represented a 4.1% rise on the month's beginning). Then oil prices dropped, and the MICEX Index followed suit. It should also be noted that for two weeks in a row – from 13 through 24 May – foreign portfolio investors pumped huge amounts of money into funds investing in Russian securities. As that money was invested mainly in Blue Chips, the MICEX Index resumed its upward trend. On 22 May it rose to 1,450 points.

For investors, the movement of the main Blue Chip stocks during the period of 'May holidays' generated positive returns. The leaders in growth were shares in *Gazprom*, which demonstrated the highest yield since the month's beginning thorough 10 May – 8.07%. On average, over the course

of that period, Blue Chips grew by 4.2% (Fig. 2). However, the mid-May VTB's secondary public offering of its shares at Rb 0.041 per share resulted in the quotation of VTB shares dropping to Rb 0.044 as of 16 May (an 8.7% drop on the month's beginning). By contrast with the price of VTB shares, in the period from 16 through 22 May, the price of shares in *Sberbank* showed growth and climbed to its historic high of Rb 110.74 per share on 22 May.

As a result, for those institutional inves-



Source: Quote.rbc.ru

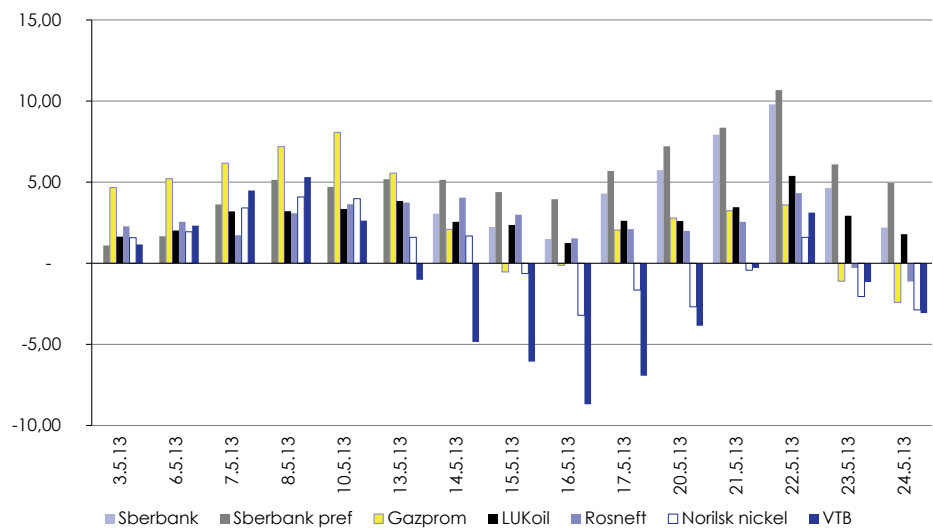
Fig. 1. The Dynamics of the MICEX Index (Left-hand Scale) and Brent Crude Oil Futures Prices in the Period from 26 April 2012 through 25 May 2013

1 With regard to the dates of implementation of oil futures contracts.

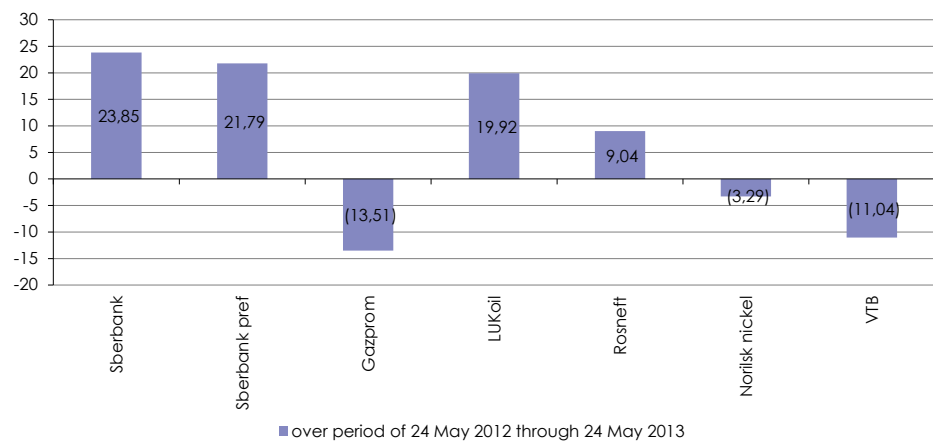
tors who had invested in Blue Chips one year ago, May 2013 was a highly profitable month. Thus, investments in common shares in *Sberbank*, made on 24 May 2012, generated an annual yield of 23.85%; investments in preference shares in *Sberbank* – an annual yield of 21.8%; while shares in *LUKoil* came third with an annual yield of 19.9%. At the same time, over the period from 24 May 2012 through 24 May 2013, shares in *Gazprom* and *VTB* had become cheaper by 13.5% and 11% respectively.

The dynamics of the quotations of sectoral indices was determined by the continuation of an upward trend in share prices in the consumer sector, the banking and finance sector, and the oil and gas sector (*Fig. 4*). While early in the month the quotations were on the rise in all sectors (from 2nd through 7th May, the prices of shares grew, on the average, by 1.4%), the post-holiday period saw a decline in the prices of shares in the energy sector (by 16 May it dropped by 6.2% on the month's beginning). As a result, by 24 May, all sectoral indices had dropped, on the average, by 1.8% on the month's beginning, with the exception of three indices¹ that had grown, on the average, by 2.7%.

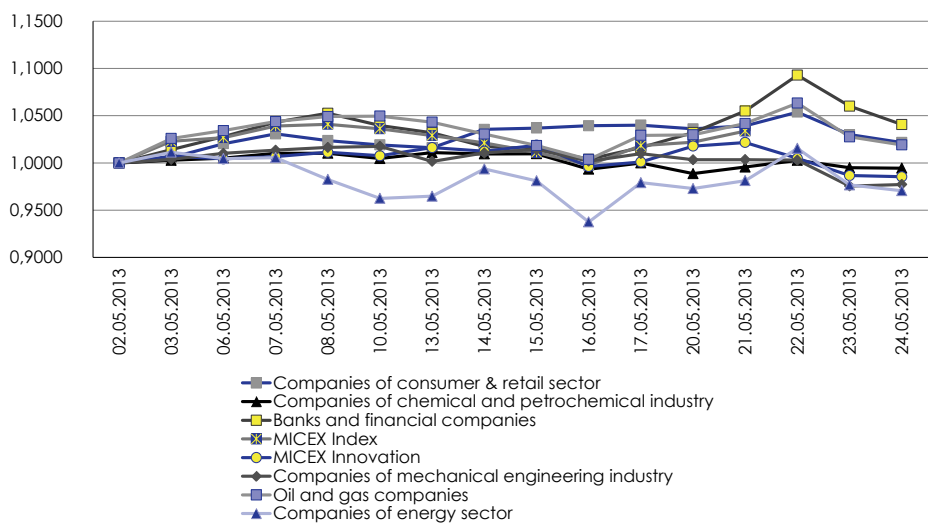
According to the official website of the MICEX, since 20 May 2013, the



Source: Quote.rbc.ru, the author's calculations.
 Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange

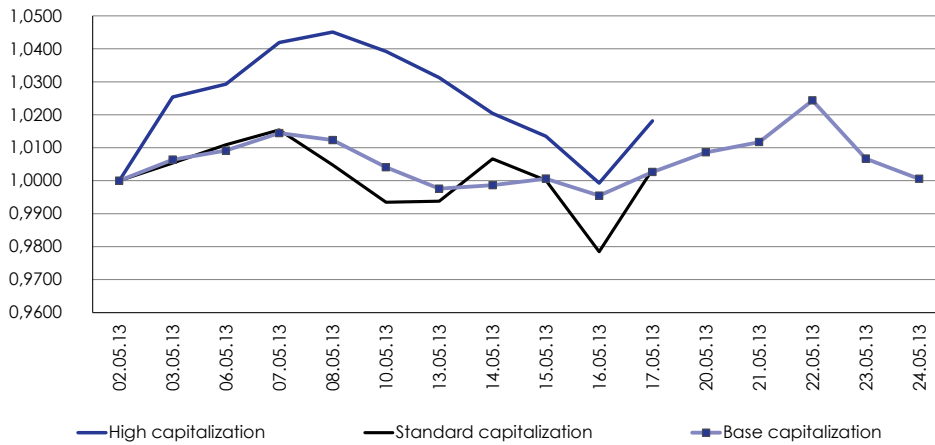


Source: Quote.rbc.ru; the author's calculations.
 Fig. 3. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange from 24 May 2012 through 24 May 2013



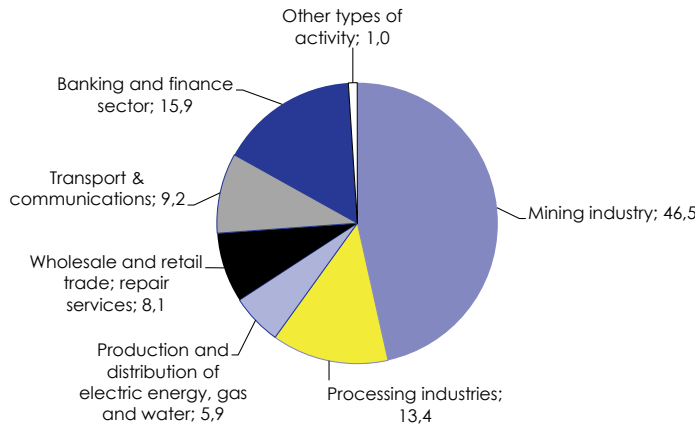
Source: Quote.rbc.ru; the author's calculations.
 Fig. 4. Growth Rates of Different Stock Indices on the Moscow Exchange

1 The banking and finance index, the oil and gas index, and the consumer sector index.



Source: Quote.rbc.ru; the authors' calculations.

Fig. 5. Changes in the Growth Rates of Capitalization Indices 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

MICEX LC Index (high capitalization) and the MICEX MC Index (standard capitalization) have been abolished, while the MICEX SC Index (base capitalization)¹ has been calculated in accordance with the calculation methodology for the second-tier indices². However, available statistics point to a rise in the price of shares in companies with high capitalization in early May. It should be noted that the growth rate of the MICEX LC Index was 3.65% higher than the growth rates of the other indices.

VTB's additional share placement in mid-May did not change the stock market's capitalization structure by type of economic activity. The capitalization share of the companies belonging to the banking and finance sector dropped by 0.26%, while that of the companies operating in the wholesale and retail trade sector dwindled by

0.63%. The share of the extractive industry companies increased by 0.55%, and that of the processing industry companies grew by 0.26%. Russia's stock market total capitalization as of 24 May 2013 amounted to Rb 23.40 trillion, or 37.47% of GDP, which was by Rb 60bn less than on 2 May.

The Corporate Bond Market

In May 2013, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) continued to grow at a slow pace. By the end of the month, this indicator had climbed to the level of Rb 4,497.5bn, which represented a 1.0% rise on the end of April 2013 (in Q1, its average growth rate had amounted to 1.5–2.0% per month)³. The stabilization of the volume of the market was caused by the fact that both the number of issued bond loans (969 ruble-denominated corporate bond issues vs. 962 issues as of the end of April) and the number of emitters represented in the debt segment (348 in May vs. 346 in April) had remained almost unchanged since the end of April. As before, eight U.S.

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.

2 The second-tier indices of the Moscow Stock Exchange comprise the securities, which form the basis of the Broad Market Index's basket, but are not included in the main indices of the Moscow Exchange (the MICEX Index and the RTS Index).

3 According to data released by the Rusbonds information agency.

dollar-denominated bond issues and one yen-denominated bond issue placed by Russian emitters remained in circulation.

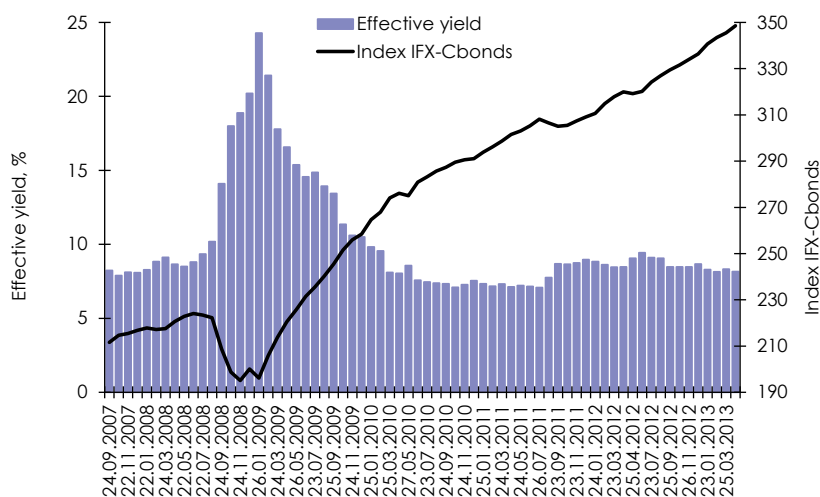
May 2013 saw the traditional seasonal decline in the investment activity on the secondary corporate bond market, although, formally, the MIXEX stock exchange was open for trading even during the May holidays. Thus, in the period from 23 April through 24 May, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 110.2bn (for reference: in the period from 26 March through 22 April the trade turnover was Rb 172.0bn), while the number of transactions carried out over the period under consideration dropped to 22.9 thousand (from 27.6 thousand in the previous period)¹.

The IFX-Cbonds index of the Russian corporate bond market continued to rise at a stable pace. By the end of May 2013, it had climbed up by 2.8 points (or 0.8%) from the end of the previous month. The weighted average effective yield on corporate bonds dropped to an almost two-year low, dwindling from 8.16% as of the end of April to 8.11% as of the end of May (Fig. 6)².

The upward trend displayed by the corporate bond market in May 2013 was determined by the relative stabilization of the financial sector. First of all, it should be noted that the international rating agencies confirmed most of the ratings of Russia's biggest issuers, and assigned them a positive outlook. The rating outlooks for the production companies *Norilsk Nickel*, *Bashneft* [Bashkir Oil] and *Polyus Gold Int* (which comprises the assets of JSC *Polyus Gold*) were upgraded, while in late March and early April, the ratings and rating outlooks of many production companies had been downgraded. The optimistic mood displayed by the participants of the debt market emerged against the background of unprecedentedly hectic activity in the foreign exchange market. Thus, in the last few days of April, the trading indicators of the Moscow Exchange's foreign exchange market rose to their historic highs. The decline in the effective yield on corporate bonds was also to some extent facilitated by the fact that, having left the refinancing rate unchanged, the RF Central Bank had reduced (by 0.25%) rates on long-term liquidity operations for the second time in one and a half months. However, the macroeconomic background remained moderately negative. Thus, in early May, the European Bank for Reconstruction and Development almost halved its forecast for Russia's GDP growth in 2013 (to 1.8%).

The corporate bond portfolio duration index continued on a downward trend. As of the end of April, this index amounted to 677 days, which represented a 22-day drop on the end of the previous month. Taking into account the aforesaid interest rate cuts in the market, that drop in the corporate bond portfolio duration index reflected a reduction in bond loans' periods of circulation in the corporate segment.

As the drop in the average effective yield on corporate bonds was insignificant, the volatility of rates on the most liquid bond issues was also low. The downward trend was most clearly visible in the production and energy segments of the market (where rates dropped, on the average, by 0.2 p.p.). The movement of effective yield rates in the financial and Hi-Tech segments was multi-vectored even with regard to different issues of one and the same emitter. Significant yield gains (by 0.6 to 0.7 p.p.) were demonstrated only by the securities issued by OJSC *Bank ZENIT* and OJSC *Bashneft*³.

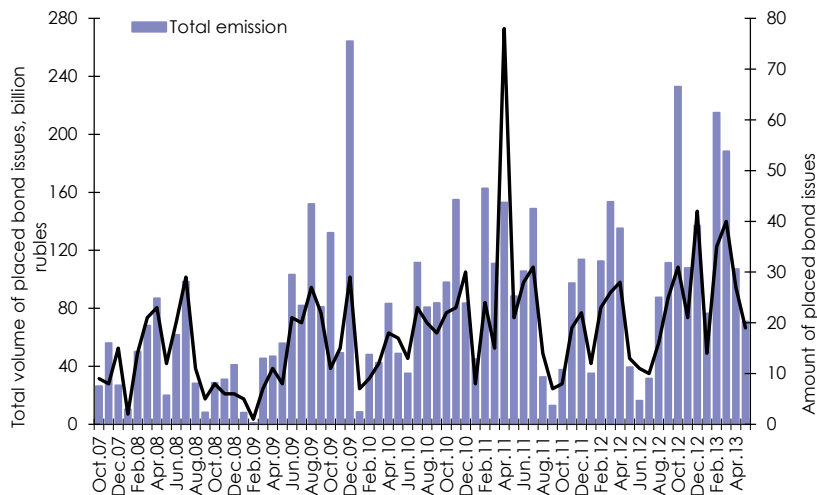


Source: According to data released by the Cbonds information agency.
Fig. 6. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of Its Weighted Average Effective Yield

1 According to data released by the Finam investment company.

2 According to data released by Cbonds information agency.

3 According to data released by the Finmarket information agency.



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

In May, the number of new securities issues registered by Russian emitters at the Moscow Stock Exchange climbed to its highest level seen so far in 2013. Thus, in the period from 23 April through 24 May, 16 emitters registered 64 bond issues with a total face value of Rb 531.0bn (for reference: in the period from 26 March through 22 April, a total of 61 bond issues were registered, with a total face value of Rb 226.9bn). More than two-thirds of the registered bond issues were exchange-traded bonds. Besides, among the newly registered bonds there were several large inaugural issues.

However, the activity on the primary market continued to be subdued by comparison with the scale on which the registration of new issues was carried on. Moreover, its indices dropped to a several-month low, having been pulled down by the seasonality factor. Thus, in the period from 23 April through 24 May, 16 emitters placed 19 bond loans with a total nominal value of Rb 70.9bn (for reference: in the period from 26 March through 22 April, a total of 27 bond loans with a total nominal value of Rb 107.1bn were placed) (Fig. 7). Exchange-traded bonds constituted almost half of the placed issues. In spite of the declining placement indices in the primary market, two emitters (*Bank VTB-24* and *AIZhK*) managed to attract finance in the form of a 31-year loan and 13-year loan respectively.

Unlike previous months, when the Federal Financial Markets Service (FFMS) had monthly annulled from ten to fifteen, sometimes even up to twenty bond issues due to failure to place even a single security, the period from 23 April through 24 May saw only one bond issue being annulled; its State registration was also annulled¹.

In the period from 23 April through 24 May, 14 emitters were expected to redeem their bond issues with a total face value of Rb 29.5bn. However, two emitters failed to fulfill their obligations to bondholders in due time. This came as a shock, since for several months in a row the debt market had been witnessing no technical defaults. In June 2013, the redemption of 16 issues of corporate bonds with a total face value of Rb 60.4bn is expected².

Nevertheless, 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 (when an emitter is unable to fulfill current obligations against a bond loan even in the next few days after the planned redemption date) were observed. As in the previous period, no emitters defaulted on the payment of the coupons to the holders of their securities, 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 default³.

1 According to data released by the FFMS of Russia.

2 According to data released by the Rusbonds company.

3 According to data released by the Rusbonds company.