

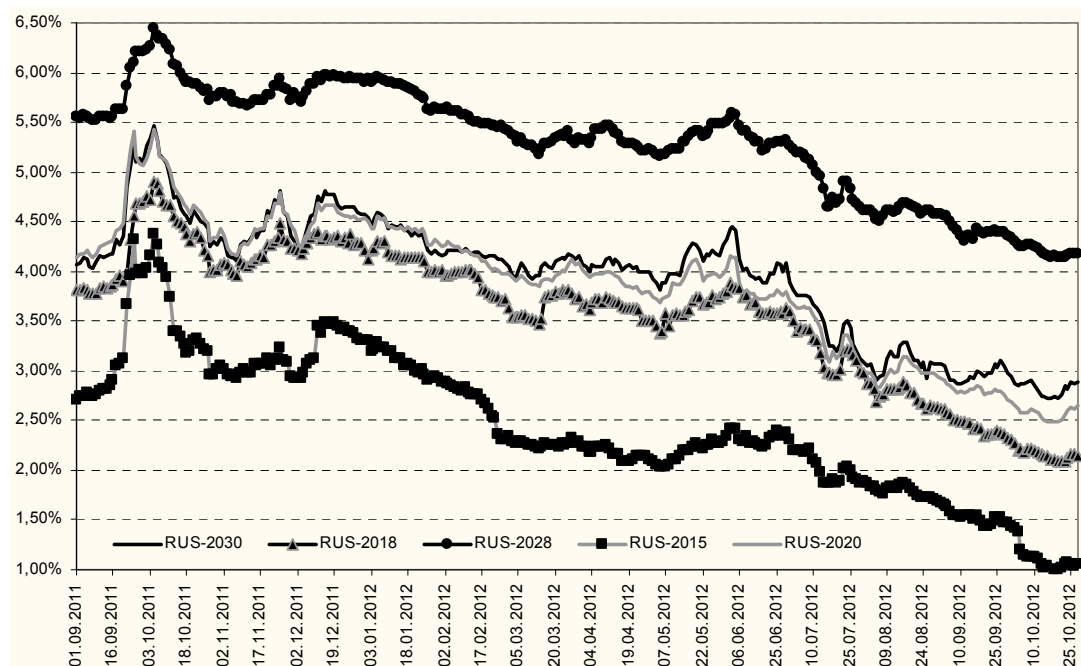
By Natalia Burkova, Elizaveta Khudko

Financial Markets

In October 2012, continuing instability of the global economy has resulted in the sustained high volatility of the Russian financial market. The average daily turnover of the government securities market has increased by 51% over the month, while the turnover in the RF securities market has decreased by 23%, and by 3.8% in futures market. In the domestic corporate bond market the key monetary indicators: market volume and index, the activity of issuers and investors in the primary and secondary market were growing. At the same time, a decline was observed in the average daily market yield.

Government securities market

In October, a decrease in the yield to maturity of all government securities was observed (Fig. 1).



Source: "Finmarket" Information Agency data.

Fig. 1. Yields to maturity of the Russian Eurobonds with maturity in 2015, 2018, 2020, 2028 and 2030

Within the period from September 25 to October 29, 2012, the total turnover in the secondary market of government bonds amounted to Rb 127bn with an average daily turnover at the level of Rb 5.1bn, which means the increase of the average monthly turnover by 51% as compared with the preceding period.

From September 25 to October 29 of the current year, like a month earlier, there were held five auctions in federal loan bonds (OFZ) placement in the primary market (See Table 1). The total actual amount of placement made 92% of the planned volume (against 55% in the

preceding month). There were no auctions on additional OFZ issues placement in the secondary market.

Table 1

OFZ placements in the primary market

Auction date	Emission	Emission volume, RB m	Emission volume at face value, RB m	Average weighted yield
29.08.2012	ОФЗ-25080-ПД	20 000.00	19 160.00	7,53
05.09.2012	ОФЗ-26209-ПД	25 000.00	18 563.79	8,22
12.09.2012	ОФЗ-26207-ПД	35 000.00	34 230.00	7,79
12.09.2012	ОФЗ-26208-ПД	20 000.00	19 635.00	7,90
19.09.2012	ОФЗ-26209-ПД	20 000.00	19 099.50	6,98
Total:		120 000.00	110 688.29	

Source: Russian Ministry of Finance.

Stock market

Factors of the Russian stock market dynamics

Russian stock market volatility remained high in October. On the one hand, a negative impact on the stock market was made by the IMF reduced forecast of global growth in 2012-2013, and by the World Bank estimates for economic growth in the East Asian region, as well as downgraded growth of German economy. On the other hand, the sustained key interest rates of the U.S. Federal Reserve, the European Central Bank and the Bank of England and positive statistics in the decline of the unemployment rate in the U.S. in September of this year supported the Russian financial markets.

In general, over the month, the markets of developed countries have downgraded by 1-5%, while since the beginning of the year they have grown by 5-25% on average. Emerging markets over the last month have shown volatile trends: from the growth of 1-5% to a similar reduction. The basic Russian indices decreased by 5% (see Table 2 and Fig. 2).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES

Index	Value (as of 24.10.2012)	Dynamics within the month (%)*	Dynamics from the year beginning (%)
MICEX (Russia)	1 431.90	-3.89	6.25
RTS (Russia)	1 435.05	-4.94	9.24
Dow Jones Industrial Average (USA)	13 107.21	-3.33	10.98
NASDAQ Composite (USA)	2 987.95	-5.47	21.33
S&P 500 (USA)	1 411.94	-3.09	15.85
FTSE 100 (UK)	5 795.10	-0.75	4.78
DAX-30 (Germany)	7 203.16	-2.83	25.68
CAC-40 (France)	3 408.89	-2.53	10.68
Swiss Market (Switzerland)	6 601.42	0.06	11.13
Nikkei-225 (Japan)	8 929.34	-1.54	7.26
Bovespa (Brazil)	57 176.58	-7.65	9.08
IPC (Mexico)	41 817.11	3.10	9.40
IPSA (Chile)	4 257.51	1.10	0.80
Straits Times (Singapore)	3 029.61	-1.25	15.93

Seoul Composite (South Korea)	1 891.52	-5.59	9.73
ISE National-100 (Turkey)	70 708.41	5.21	31.09
BSE 30 (India)	18 635.82	-0.20	20.82
Shanghai Composite (China)	2 058.94	1.27	-7.56
Morgan Stanley Emerging&Frontier Markets Index	782.16	-1.37	9.37

* – versus index values as of September 24, 2012.

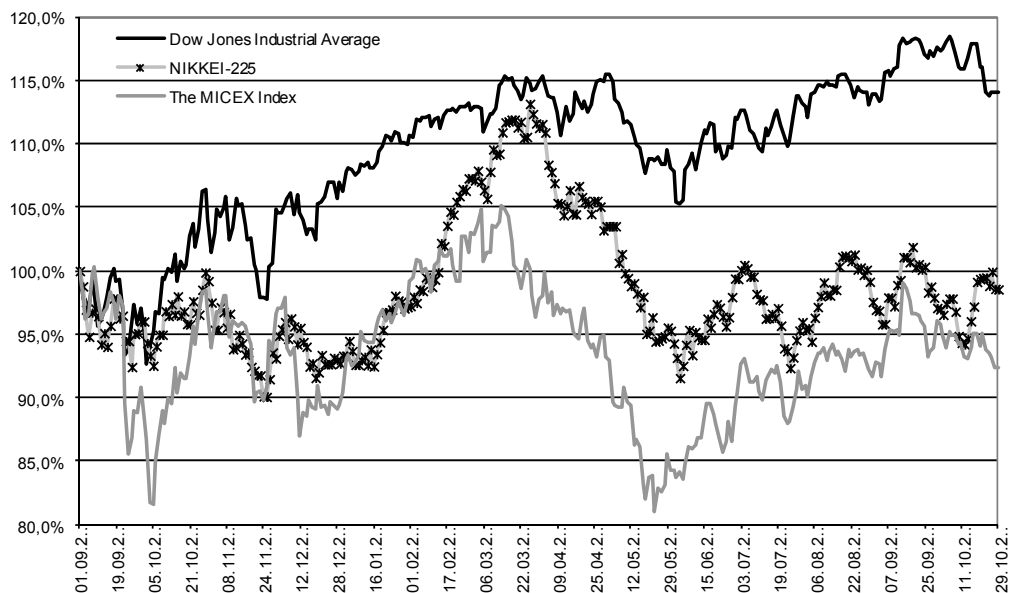
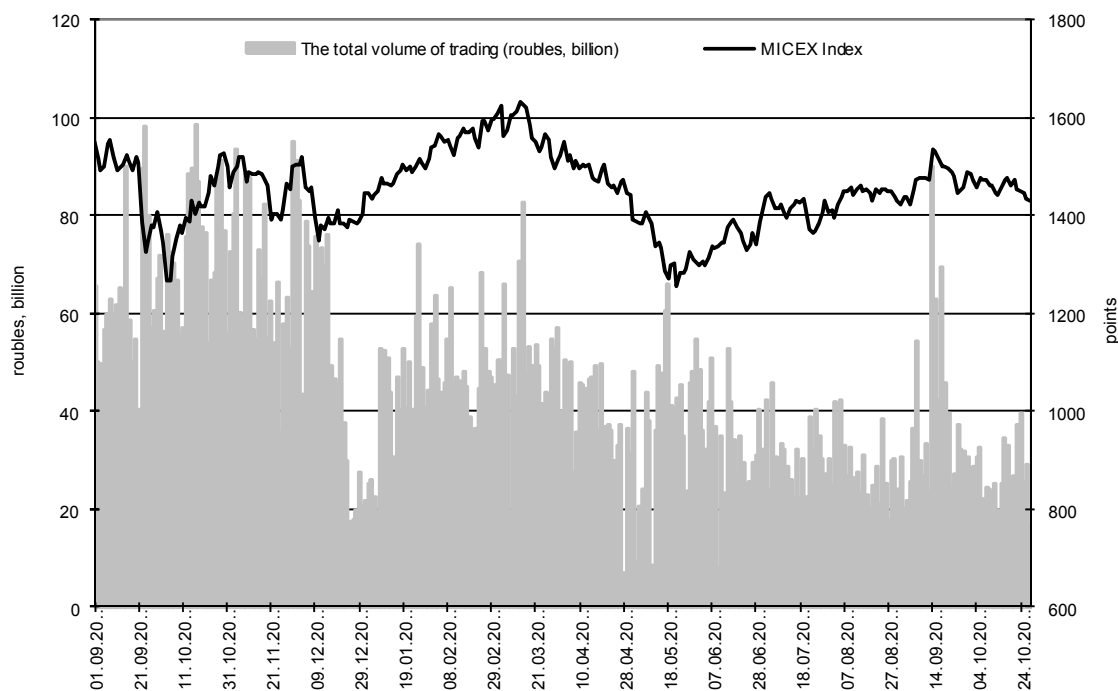


Fig. 2. Dynamics of the main USA, Japanese and Russian stock indexes (in % to the date 01.09.2011)

Stock market situation development

Within the month, the maximum value of the MICEX index was demonstrated on October 1, having reached 1,490.2 p. (versus 1,535.4 p. in the preceding month). The minimum value of the MICEX index at 1,431.9 p. has been reached on October 29 (against 1,4217.6 p. in the preceding month) (See Fig. 3).

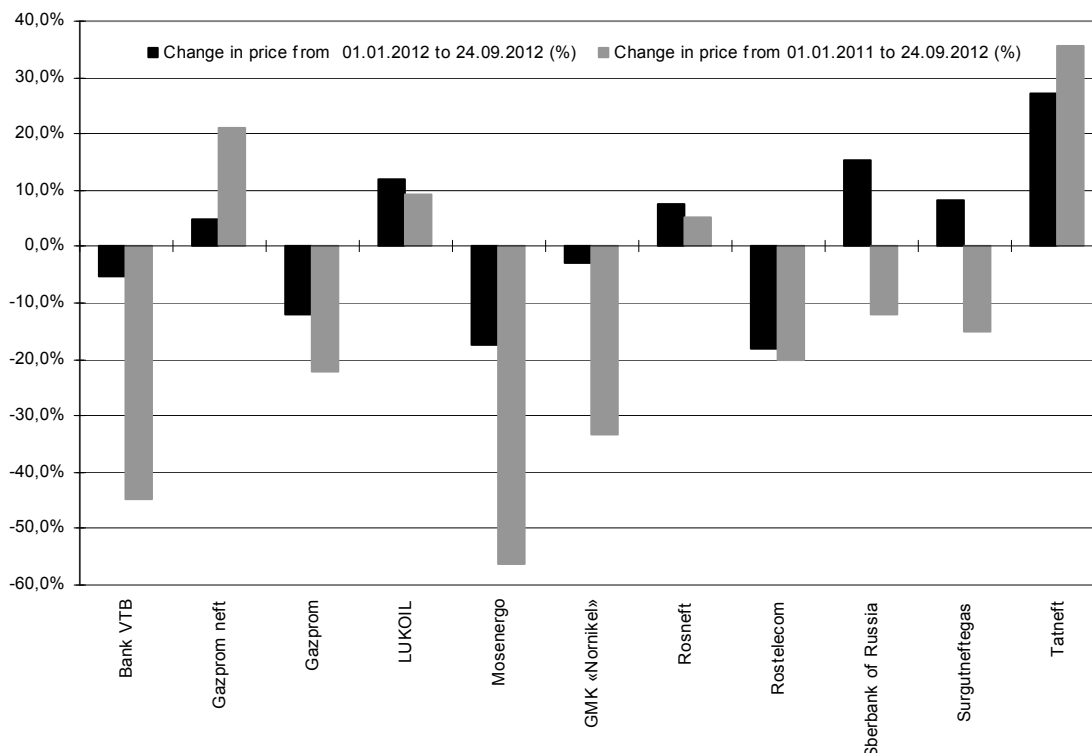


Source: OAO MICEX

Fig. 3. Dynamics of MICEX Index and trading volume

Overall, in the period from September 25 to October 29, 2012, the MICEX index has declined by 3.9% (from October 30, 2011 to October 29, 2012, the MICEX index fell down by 6.2%), and the turnover of auctions included in the MICEX index reached Rb 736.8bn. Average daily activity of investors in the stock market in October has decreased by 23.1% as compared with the previous month.

Since the beginning of the year through October 29, 2012 the leaders in the value growth among the “blue chips”, like a month earlier were securities of Tatneft and Sberbank, which value has increased by 27.3 and 15.5%, accordingly, while the leaders of decline were Rostelecom and Mosenergo securities, downgraded by 18.2% and 17.4%, accordingly (See Fig. 4).



Source: OAO MICEX

Fig. 4. Dynamics of the Russian Blue Chips

According to the OAO MICEX, on October 29 of this year, five leaders of the domestic market in terms of capitalization were as follows: Gazprom – Rb 3,569bn (against Rb 3,828bn on September 24, 2012), Rosneft – Rb 2,439bn (against Rb 2,203bn), Sberbank of Russia – Rb 1,976bn (against Rb 2,025bn), LUKOIL – Rb 1,604bn (against Rb 1,644bn) and Sugrutneftegas – Rb 978bn (against Rb 1,018bn).

Futures and Options Market

From October 1, 2012, in view of the completion of the FORTS and MICEX futures market sectors integration, which took place on September 17, admission to trading in futures contracts to the MICEX futures market sector was stopped. The contracts turnover has been fully transferred to FORTS futures market.

In FORTS market, the average daily activity of investors from September 25 to October 29, 2012 has decreased by 3.8% as compared with the previous month. Herewith, the leaders in terms of trading in futures were contracts for the RTS index, followed with a significant lag by the contracts for Rb/\$ rate, for Euro/\$ rate, for the securities of Sberbank of Russia and Gazprom.

Prices of the recent transactions, concluded for futures contracts for Rb/ \$ rate with the date of execution on December 15, 2012 were mostly within the range of Rb/\$ 31.1.-31.7, i.e., ruble strengthening (by 0-1.2%) is expected by some market participants; whereas others, on the contrary, expect ruble depreciation (by 0-0.7%) as compared with the indicator of September 29, 2012 (to Rb/\$ 31.48), and with the date of execution on March 15, 2013 - within the range of

Rb/\$ 31.5–32.2. Prices of recent transactions concluded on futures contracts for Rb/Euro rate with the execution date on December 15, 2012 were mostly in the range of Rb/Euro 40.5–41.2, i.e., a depreciation of the ruble by 0-1.2% is expected as compared with the indicator of October 29, 2012 –Rb/ Euro 40.7, and with the date of execution on March 15, 2013 - within Rb/ Euro 41.2–41.8.

The value of the futures contract for RTS index (based on prices of recent transactions) with the execution date on December 15 was within 1420–1510 points, i.e., market participants expect a 0-5.2% growth against the indicator of October 29, 2012. By March 15, 2012 market participants expect the RTS index value to be in the range of 1,430-1,500 points. Prices of recent transactions in futures contracts for the MICEX index with the date of execution on December 15, 2012 were in the range of 1,440-1,500 points, i.e., market participants in general expect an increase of MICEX index in the range of 0.6–4.8%, as compared with October 29, 2012. By March 15, 2013 market participants expect the RTS index value to be in the range of 1,480-1,510 points. Options enjoyed a far less demand, from September 25 to October 29, 2012 their trading turnover made about Rb 345.9bn (versus Rb 4,999.7bn in futures). The leaders in terms of trading turnover were the marginal options for futures contracts on the RTS index.

Corporate bonds market

In October the volume of domestic corporate bonds market in Russia (at par value of circulating securities denominated in local currency) has significantly grown and at the end of the month made Rb 3,924.3bn, which is by 3.9% more than its value at the end of September¹. Therefore, the indicator has overcome its historical maximum peak once again. The significant growth of the market capacity is associated primarily with an increased number of bond issues (850 issues of corporate bonds were offered in the national currency against 828 emissions at the end of the previous month), though the number of emitters recorded in the debt sector has also increased (342 against 336 companies in September). In circulation there remains a number of bonds emissions issued in US dollars and one bonds issue in Japanese yen.

Investment activity in the secondary market of corporate bonds in October has also significantly increased, having reached its historical maximum over the last few months. Thus, from September 25 to October 29, the total volume of transactions in the MICEX amounted to Rb 144.0bn (for comparison, from August 27 to September 24, the trading turnover was equal to Rb 110.3bn), and the number of transactions within the period under review made 29.3 thousand (against 23.4 thousand in the previous period)².

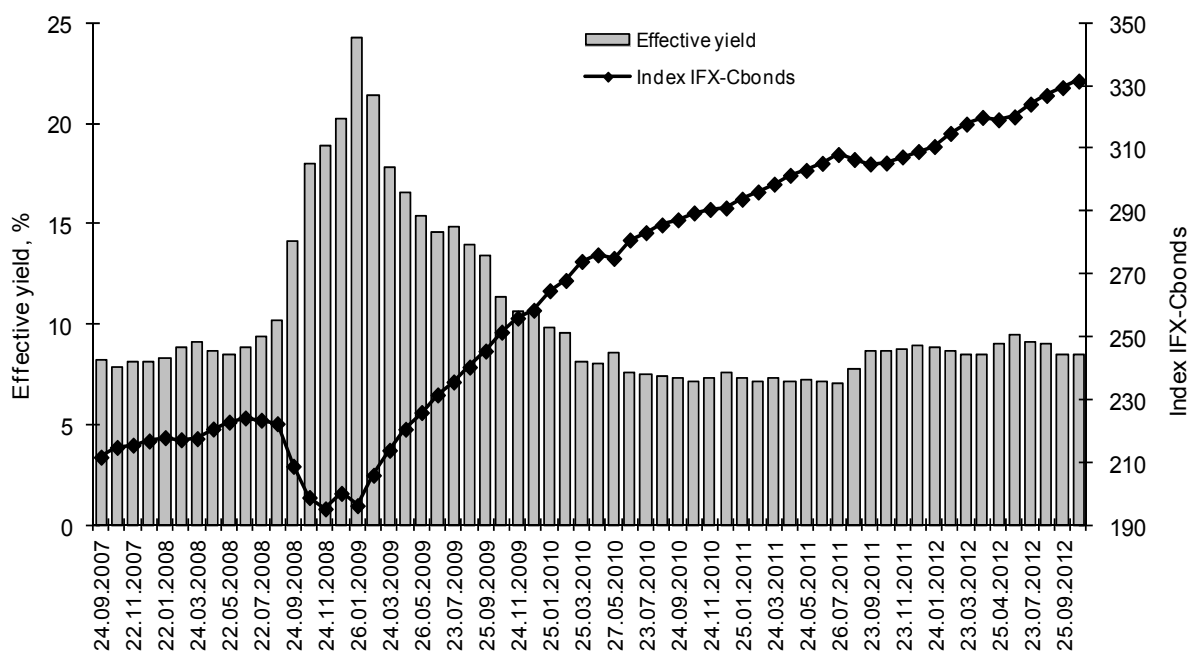
Index of the Russian corporate bond market IFX-Cbonds continued its growth trend. By the end of October its value increased by 2.1 points (or 0.6%) as compared with the value of late September. The average weighted yield, after its intense decline in the last month, in October remained unchanged at the level of 8.47% (See *Fig. 5*). Further development of positive trend was hindered by adverse events in the Russian financial market, which include the lowering of ratings and forecasts by international rating agencies in regard to fairly large Russian emitters of

¹ Rusbonds Information Agency data.

² Finmarket Information Agency data.

the bond market³. In addition, an unfavorable situation was sustained at the global financial markets during the month, which is associated with the pessimistic macroeconomic statistics in the Eurozone, as well as with growing yields on sovereign bonds of Spain and Italy.

The portfolio duration indicator of corporate bonds continued to decrease, though not so expressed as in September, and in late October made 575 days, which is by 25 days less than at the end of previous month. In this case, the downgrading trend in portfolio duration reflects the reduction in the term of maturity of bonds in the corporate sector.



Source: Cbonds data

Fig. 5. Dynamics of the Russian corporate bonds market index and average weighted yield

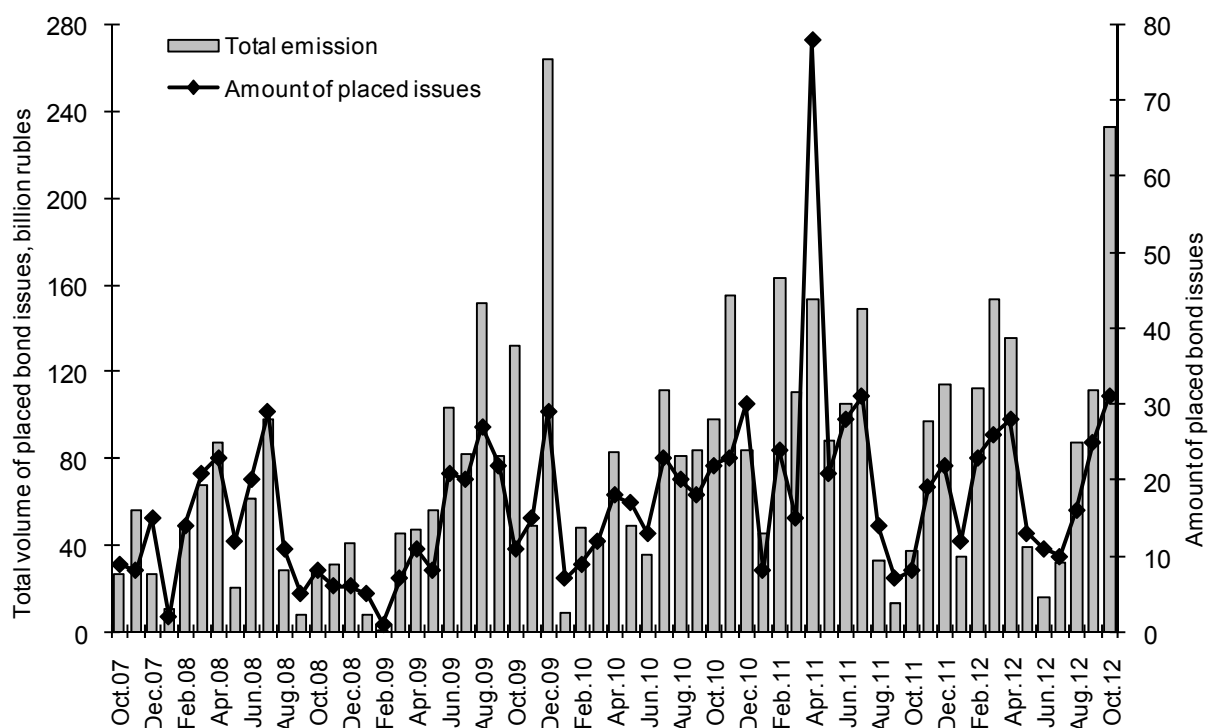
Though the average weighted yield in the bonds market in the expired period has not changed, the most liquid bond issues has grown. Maximum increase in the rates (more than 1 p.p.) was recorded in respect of securities of OAO "AFK System "(issue 03 series) and OAO "Mechel" (series 02, 14 and BO-02). The utmost volatility in the yield on various bond issues in both, downward and upward trends, like in September, was demonstrated by the issuers of the financial sector: "Bank Zenit", "MDM Bank", "Credit Bank of Moscow".

In October, despite the market rates stabilization, rather high investors' activity remained in the debt market sector. Thus, from September 26 to October 24 of the current year, fourteen emitters have placed 48 stock bonds series with the total nominal value of Rb 192.0bn (for comparison, from August 28 to September 25 there were registered 37 bond issues at the nominal value of Rb 172.0bn). It is possible that the activity of issuers will remain high in the coming months, as Q4 is usually characterized by high market indicators. Exchange bonds again made more than a half of registered issues.

³ Cbonds Information Agency data.

Investor activity in the primary market has grown, though in view of the market situation volatility, investors showed interest mainly in the large emitters.

From September 26 to October 24 of the current year, twenty two emitters have placed 31 bonds with a total face value of Rb 233bn, which is the maximum indicator since late 2009 (from August 28 to September 25, there were placed 25 bonds with a total face value of Rb 111.4bn (See Fig. 6). In October, several long-term loans were placed: three issuers have raised funds for 10 years, two of issuers - for 15 years, and the SC Vnesheconombank has placed bonds with maturity term up to 20 years.



Source: Rusbonds data

Fig. 6. Dynamics of primary placement of corporate bonds, denominated in national currency

In October this year, FFMS of Russia has recognized as invalid eight bond issues due to the non-placement of any securities security (in the previous two months the Regulator did cancel any state registration of issues due to non-placement of securities)⁴. However, this indicates not the lack of investment demand at the bond market, but rather the changes of borrowing programs of issuers themselves, given that in October there were cancelled securities of such companies as "RUSAL Bratsk aluminum plant", "VEB-Leasing", etc.

From September 26 to October 24 of the current year, seven emitters have paid off their issues for the total amount of Rb 10.6bn in due time. Herewith, it should be noted, that one emitter failed to fulfill its liabilities to the bondholders in due time, and earlier two emitters have

⁴ FFMS of Russia data.

announced a technical default. In November 2012, twelve corporate bond issues totaling to Rb 71.7bn are expected to be paid off⁵.

The situation with the announcement of actual default (when the issuer is unable to pay return to securities holders even in a few days after the due date of liabilities) has not been significantly changed against the previous month. Thus, in the period from September 26 to October 24, all issuers have fulfilled their current liabilities on time, or at least within the framework of a technical default (from August 28 to September 25, two issuers have announced a real default on coupon yield). However, one issuer announced a real default on redemption of the par value of the bond issue (there were no defaults in the previous period under review). Early redemption of the securities on offer, as well as in the previous period, were accomplished by all issuers in due time⁶.

⁵ Rusbonds data.

⁶ Cbonds data.