

## RUSSIAN FINANCIAL MARKETS IN JUNE 2013

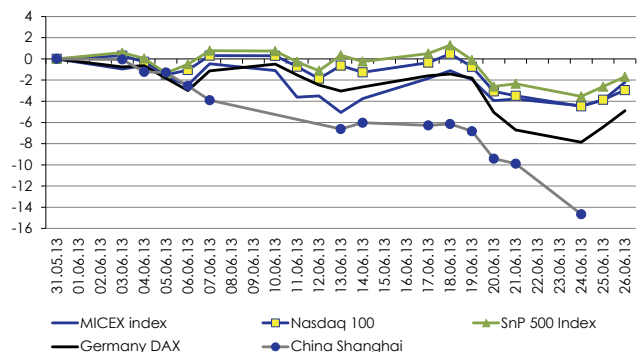
N.Andrievsky, E.Khudko

The Russian stock market in June was under the negative influence of the dynamics in international stock markets. Reduction in dividends on shares of “Gazprom” to Rb 8.97 per share for the 2011, to 5.99 rubles per share as of a result of 2012) led to a decrease in stock quotations of the company by 13.1% in June, which, in the aggregate, provided the loss of 28.5% of the value of the company for the year since June 2012. In addition, stocks of metallurgical and electric power companies continued to fall down in price and the capitalization of the stock market has reduced by Rb 575bn and as of June, 26 was Rb 22.3 trillion (35.8% of GDP). In the domestic corporate bond market in June the activity of issuers and investors has grown, but the index of corporate bonds decreased and the average yield (especially in the manufacturing and energy sectors) grew.

### The dynamics of the Russian stock market basic structural indices

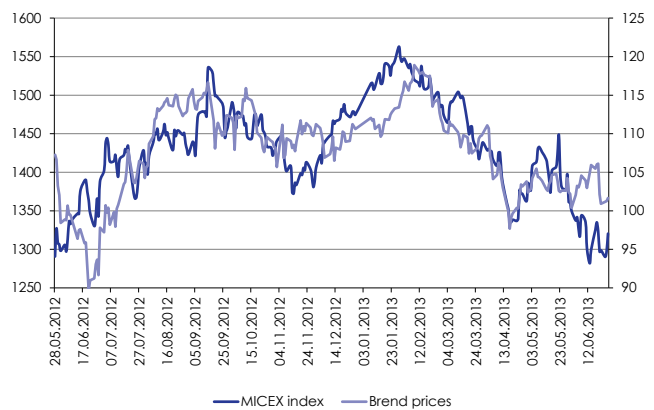
The main influence on the MICEX index in June was provided by the dynamics of the global stock indices. Thus, from May 31, 2013 to June 24, the Shanghai stock exchange index fell down by more than 14% due to liquidity problems in the banking sector. Herewith, the dynamics of the MICEX index was nearly the same as the dynamics of the indices of the American Stock Exchange NASDAQ and S & P 500. As a result, the MICEX index fell down by 2% from 1350 as of May 31 to 1320 points on June 26 (Fig. 1). Even the rise in oil prices to USD 106.12. / Bbl. by 19 June (5.7% of the price at the end of May) could not compensate for the negative impact of the dynamics of international stock exchanges (Fig. 2).

The positive dynamics of “blue chips”, which was observed in May, when the maximum in price value of the shares of Sberbank was recorded and the shares of Gazprom have grown by 8% within one week, was replaced in June by a reduction in prices. By June, 24 shares of Gazprom have lost 13.1% of the price as of the end of May, the same day the stock price of Sberbank share accounted only 80.8% from the maximum May indicator. Herewith, the optimistic forecasts for dividends and annual reporting caused an increase in growth of prices for shares of VTB by 7% within the period from May 31 to June 26 2013, and the shares of Rosneft have increased by 9.3% as compared with the beginning of the month (Fig. 3 and 4).



Source: Quote P5K. Yahoo Finance

Fig. 1. Dynamic of international indices from May 31 to June 26, 2013



Source: Quote P5K.

Fig. 2. The dynamics of the MICEX index and futures prices for Brent from May 28 2012 to June 26, 2013

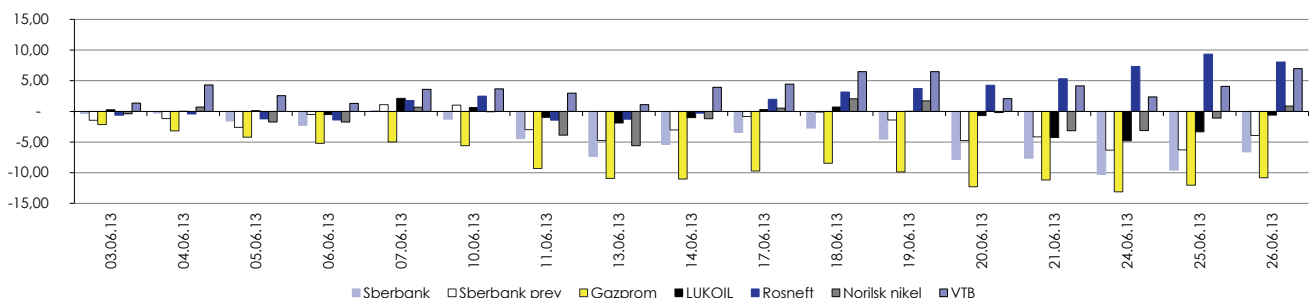


Fig. 3. Growth rates of quotations of highly liquid securities at the Moscow Stock in June

In June despite the decline in prices, the yield on common shares of Sberbank from June 27, 2012 to June 26, 2013 has reached 9.5%, while the preferred shares within the same period have been demonstrating the yield of 16.1%. The most significant loss was due to the shares of Gazprom, which have lost 28.5% of their value from the end of June 2012, the shares of Norilsk Nickel and VTB also turned out to be marginal (-13.3% and -12.1%, respectively).

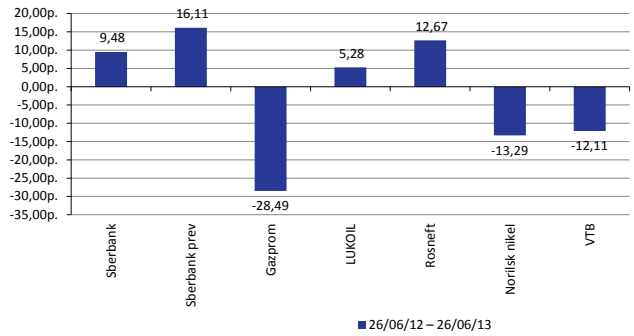
**The rate of growth of quotations of shares highly liquid**

Growth rates of Moscow highly liquid stock exchange quotations during the period from June 27, 2012 to June 26, 2013.

Dynamics of the sectoral index was influenced by the expectations of the results of the annual meetings of shareholders. So, while the MICEX-innovation grew 4.2% in the first ten days of June as a result of the positive outcome of the annual meeting of shareholders of companies "Armada", "Smelansky Electromechanical Plant", but then the negative results of "Utinet" led to the June 24th drop in the index by 5.8% as compared to the beginning of the month (Fig. 5). It should also be noted a significant decrease in the indices electricity, metallurgy and mining in June – the loss index reached 8.7% of the price at the beginning of the month. Among the positive trends can be noted correction "up" many indices at the end of the month. Thus, the above-mentioned innovation index rose from 24 to 26 June to 4% and the value of shares of the oil and gas industry to decline in the middle of the month to 94.2% from the level at the beginning of the month for the month rose by 1.8%.

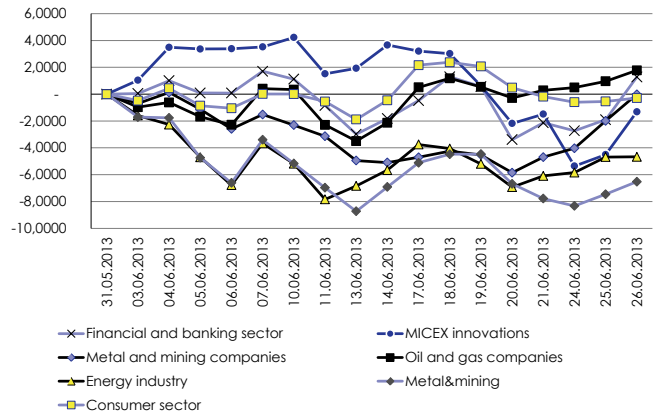
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The dynamics of stocks of sectoral indices was influenced by the expectations of the results of the annual



Source: Nickel Source Quote RBK, author 'estimates.

Fig. 4. Growth rates of the MICEX index and futures prices for Brent oil from May 28 2012 to June 26, 2013

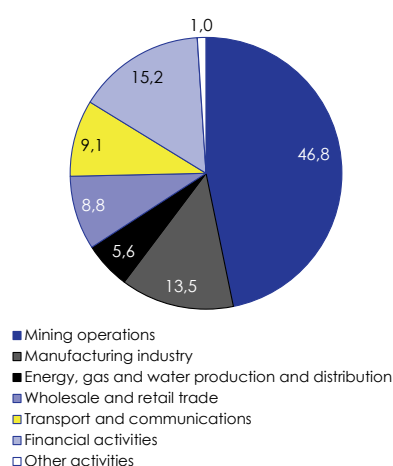


Source: Quote РБК, author's estimates.

Fig. 5. The growth rates of various stock indices of Moscow stock exchange

meetings of shareholders. Thus, while the MICEX-innovation has increased by 4.2% within the first ten days of June as a result of the positive outcome of the annual meeting of shareholders of companies: Armada and Smelansky Electromechanical Plant, but afterwards, the negative results of Utinet has resulted on June, 24 the drop in the index by 5.8% as compared to the beginning of the month (Fig. 5). It should be also noted a significant decrease in the indices of electricity, metallurgy and mining in June – the loss index reached 8.7% of the price at the beginning of the month. "Grow up" correction of a number of indices at the end of the month can be noted among the positive trends. Thus, the above-mentioned innovation index has increased from 24 to 26 June by 4%, and the value of shares of companies in the oil and gas sector which has been declining in the middle of the month to 94.2% from the level as of the beginning of the month, within the month has increased by 1.8%.

The total capitalization of the Russian stock market MICEX index on June 26, 2013 amounted to Rb 22.8 trillion or 35.8% of GDP, which is by 2.5% or Rb575bn lower, than the relevant indicator as of May, 24 (previous review). Herewith, there were some changes in the



Source: MICEX official web-site, authors' estimates.

Fig. 6. The structure of the stock market capitalization as broken down by industries

structure of the capitalization. In particular, the share of mining has declined from 47% in May to 46.6% in June. Moreover, in the proportion of wholesale and retail trade and financial activities continued to increase (increase in June was 0.6 percentage points and 0.2% points, respectively).

### Corporate bonds market

The volume of domestic corporate bond market in Russia (at the nominal value of the securities in issue and those, denominated in national currencies, including non-residents of the Russian Federation) in June has slightly increased. By the end of the month it has reached the level of Rb 4 513. 8bn, which is only by 0.4% higher than its value as of the end of May (in the QI the growth was on average 1.5–2.0% per month). The stabilization of market capacity is mainly based on an increased number of bond issues (971 corporate bonds registered in national currency against 969 emissions at the end of the preceding month) and the number of emitters recorded in the debt segment (347 issuers against 348 companies in May). Eight issues of bonds issued by Russian emitters in U.S. dollars, and one issue of bonds in Japanese yen are still in circulation.

Investment activity in the secondary market for corporate bonds after the seasonal decline in the first half of May has increased again, though the trade figures were still well below the level of the QI of the current year. Therefore, from May 25 to June 24, the total volume of transactions on the Moscow Stock Exchange amounted to Rb 128.9bn (for comparison, from April 23 to May 24, the turnover was equal to Rb110.2bn), and the number of transactions within the period under review remained virtually

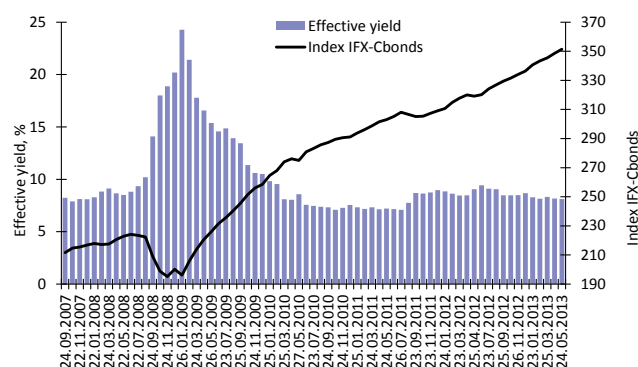
unchanged – 23.1 thousand (against 22.9 million in the preceding period).

The index of Russian corporate bond market IFX-Cbonds has declined for the first time during the recent year. As of the end of June, its value has decreased by 0.6 points (or 0.2%) as compared with the value at the end of the previous month. The weighted average yield of corporate bonds has increased from 8.11% at the end of May to 8.45% by the end of June (Fig. 7).

The negative dynamics of the indexes of the bond market (in the public sector, as well as in the corporate segment) was determined by a number of internal and external factors, although none of them can be called dominant. The relative stabilization of the financial sector, achieved by early May, proved to be unstable. The rate of growth of economic activity remains low, and the annual inflation rate by the end of May accelerated by 0.2 percentage points. The world economy in June is dominated by negative trends as well. Bank lending in the euro area is almost not growing, while inflation and unemployment is rising. The growth rate of China's economy slows down.

Index of corporate bonds portfolio duration corporate bonds has grown sharply in June. At the end of June the duration was 763 days, which is 86 days more than the indicator of the end of the preceding month. Due to the increase in market interest rates, such a growth of duration reflects treatment of bonds in the corporate segment. With an increase in the interest rates in the market the duration growth reflects an increase in the urgency of bond loans circulation in the corporate segment.

In the most liquid segment of the corporate market there was observed a remarkable increase in the yields of emissions. Maximizing yield (more than 1 percentage point) was cut out of the bonds of JSC "NLMK" (Series BO-07), JSC "RUSAL Bratsk Aluminum Plant" (series 07 and 08), JSC "Bank" Saint Petersburg (Series BO-02). "ALFA-BANK" (Series BO-07), JSC "Russian Rail-



Source: Cbonds information agency.

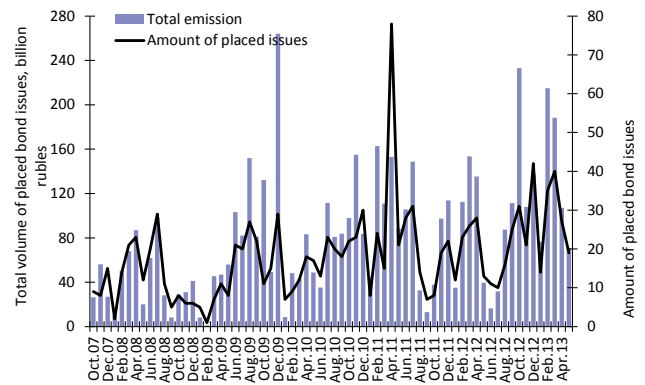
Fig. 7. Index dynamics of the Russian market of corporate bonds and the weighted average yield

ways” (series 17) and JSC “Russian Agricultural Bank” (Series 03) which yield of the securities mentioned above has declined by more than 1 p.p. were the exception from the general trend.

The most significant growth was demonstrated by the rates in the manufacturing and energy market segments (the rates increased on average by 0.3–0.4 p.p.), though the opposite trend was observed in May. Moreover, it should be noted, that the value of the most liquid issues of major issuers of financial sector still continued to decline.

Russian issuers have once again showed high activity in regard to registration of bonds, surpassing the record of the preceding month. Thus, over the period from May 25 to June 24, 18 issuers have registered 79 bond issues with total value of Rb 590.7bn. (For comparison, during the period from April 23 to May 24, there were 64 issues of the amount of Rb 531bn). Almost all of the registered bonds were stock bonds. Vnesheconombank has also registered two currency issues of bonds denominated with total value of more than \$ 1bn.

Despite the deterioration in market conditions, IPOs performance indicators were also rather high, moreover, not only the loans of large emitters, but also the debut issues have been successfully accommodated. Thus, since May 25 to June, 24, 23 issuers have accommodated 28 of bonds with total value of Rb 151.8bn (for comparison, from April 23 to May 24 19 bond issues in the amount of Rb 70.9bn were accommodated ( See Fig. 8). The stock bonds accounted for a third part of all outstanding issues. The largest bond issues were placed by OAO or NK “Rosneft” (three series of bonds totaling Rb 40bn), JSC “Federal Grid Company UES” (two series of bonds with total value of Rb 30bn) and JSC “Russian Railways” (the series of exchange bonds



Source: Rusbonds data.

Fig. 8. Dynamics of primary placement of corporate bonds denominated in domestic currency

with total value of Rb25bn). Long-term loans for more than 10 years were over one-third part of the accommodated issues.

As of the end of June, there was no bond issue canceled because of non-deployment of any security, while in the period from April 23 to May 24, one debut issue and in the preceding month about 10–15 issues were canceled by the FFMS of Russia.

Since May 25 to June 24, 14 issuers had to pay off their loans of bonds totaling to Rb 51.1bn. However, a single issuer was not able to fulfill its obligations in due time (in the previous period, two of the issuers have announced of technical default), which is a negative event in the market. In July of 2013 the repayment of 17 corporate bond issues totaling Rb71.9bn is expected.

The situation with the fulfillment by issues their duties to the holders of the obligation bonds remains stable. From May 25 to June 24, as in the preceding period, there were no actual defaults. ●