

FINANCIAL MARKET IN NOVEMBER 2013

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The MICEX index was declining in the first decade in November 2013 until the middle of the month when the stock market saw the beginning of insignificant uptrend in response to oil price recovery. The stock market capitalization reached Rb 24,68 trillion (38.05% of GDP) as of November 26, 2013. The domestic corporate bond market saw a downtrend determined by adverse trends in the Russian economy. Investment activity was deteriorating, although market trading indicators still remained at a high-priced level.

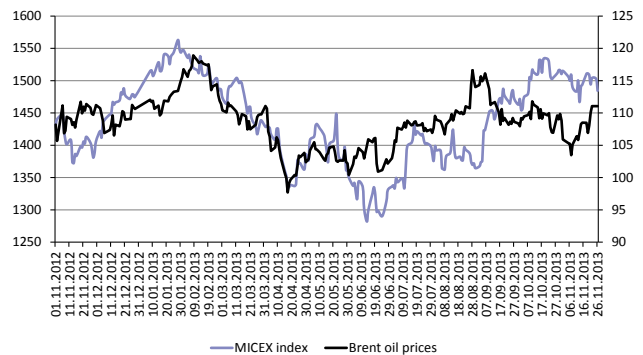
Dynamics of Russian stock market basic structural indices

The November was characterized by a downtrend of \$103,8 per barrel in prices of Brent crude oil early in November 2013 and a growth of \$111 per barrel by the end of the month. The MICEX index varied around 1500 points at that period, the monthly lowest (1466.82 points) was reached on November 13, 2013, followed by a growth of 3.02%, and the monthly highest (1511.19 points) was reached on November 19, 2013 which gave way to a decline by the end November 2013 (1484.37 points as of 26.11.2013).

Blue chips demonstrated mostly a downtrend in November 2013. Specifically, Gazprom stocks lost 4.93% between the beginning of the month and November 13, 2013, followed by an insignificant growth which had no effect on the total monthly dynamics – the stocks lost 4.76% in the period of November 1 thru November 26, 2013. Rosneft stocks saw a similar negative dynamics, having lost 4.45%. At the same time, banks' stocks saw positive dynamics in November 2013 – VTB stocks gained 5.15% since the beginning of the month while Sberbank preferred stocks gained 1.85% at the same period.

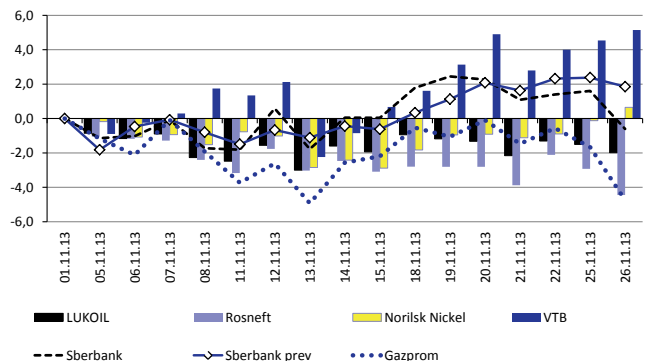
The positive dynamics of VTB stocks had no effect on the bank's stocks annual yield – the stocks lost 9.23% in the period of November 27, 2012 thru November 26, 2013. It was Sberbank preferred stocks that showed the highest annual yield (30.83%), the bank's common stocks also gained 15.49% during the year. Other blue chips also demonstrated a positive annual yield, but Rosneft stocks gained as little as 0.46%, Gazprom and Lukoil gained 3.6% and 8.24% respectively, and Norilsk Nickel stocks gained 6.93%.

It was the financial & banking sector index that was leading as gainer among the sector indices, having gained 5.1% in the period of since the beginning thru November 26, 2013. The consumer sector index gained 1.8% by the end of the month. It was the energy sector index that was leading as loser among the sector indices, having lost 10.46% since the beginning



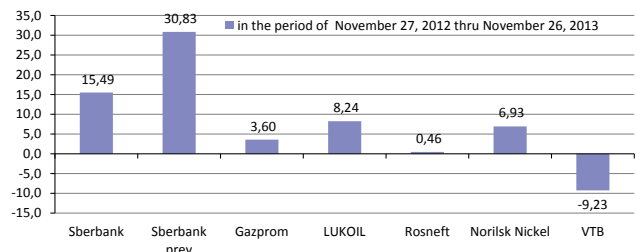
Source: RBK Quote.

Fig. 1. Dynamics of the MICEX index and futures Brent oil prices in the period of November 1, 2013 thru November 26, 2013



Source: RBK Quote, author's estimates.

Fig. 2. Blue chips growth rates in the Moscow Stock Exchange in August 2013 (over a period since the beginning of the month)



Source: RBK Quote, author's estimates.

Fig. 3. Blue chips growth rates in the Moscow Stock Exchange in the period of November 27, 2012 thru November 26, 2013

of the month. The innovative sector index also lost 6.77% since the beginning of the month. Other sector indices lost from 1.2 to 3.2% since the beginning of November 2013.

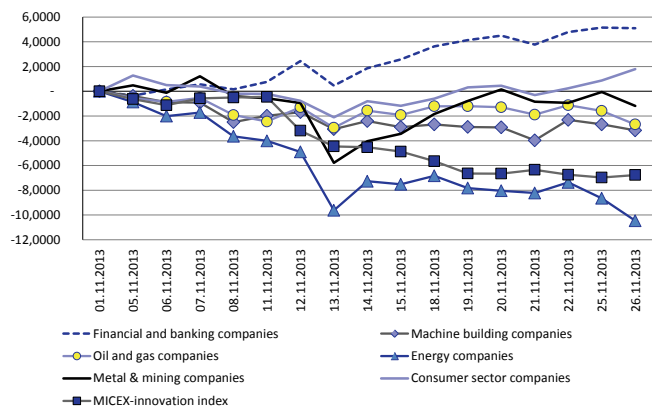
According to the Emerging Portfolio Fund Research (EPFR), Russian market-oriented foundations saw a capital inflow of \$408m in the period of October 31, 2013 thru November 20, 2013. Russia's stock market (MICEX) capitalization totaled Rb 24,68 trillion (38.05% of GDP) as of November 26, 2013, having shown a decline of Rb 677bn (2.7%) against the value observed as of November 1, 2013. The sector indices' negative dynamics had an adverse effect on energy companies which lost 0.2% of their share of capitalization. Mineral extracting companies and transport and communication companies also saw a decline in their share of 0.3% and 0.32% respectively. At the same time, the banking sector and extracting industry saw an increase in their share of 0.34% and 0.33% respectively.

Corporate bond market

The domestic corporate bond market in Russia (measured by the par value of outstanding securities denominated in the national currency, including those issued by non-residents) kept growing in November 2013 at an annual growth rate, having reached its new historical highest. The indicator reached Rb 5,026,7bn by the end of the month, having shown an increase of 1.6% against the value observed by the end of October 2013¹. The increase in the market capacity was determined by both increase in the number of bond issues (1039 corporate bond issues registered in the national currency against 1022 issues at the previous month end) and increase in the number of issuers in the bond segment (354 issuers against 346 companies at the end of October 2013). In addition, there are outstanding 12 USD-denominated bond issues of Russian issuers (a total of more than \$1.8bn), and a JPY-denominated bond issue.

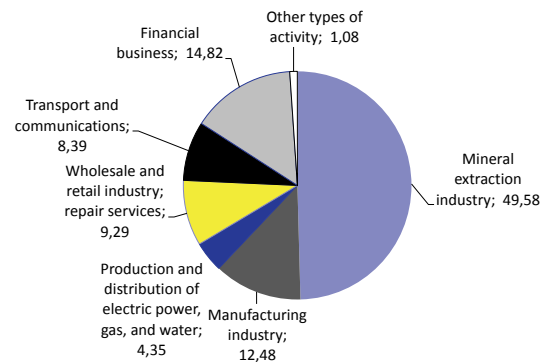
Although investment activity in the corporate bond secondary market deteriorated in November 2013 followed by a few months of growth, it still remains at a very high level. For instance, in the period of October 24, 2013 thru November 25, 2013, total volume of market transactions in the Moscow Stock Market amounted to Rb 148,8bn (to compare, the corresponding volume amounted to Rb 184,9bn in the period of September 24, 2013 thru October 23, 2013) while the number of transactions increased up to 29,500 (against 28,700 in the previous period)². It implies that relatively minor investors show more interest in corporate bonds.

1 According to Rusbonds information agency.
2 According to Finam Investment Company.



Source: RBK Quote, author's estimates.

Fig. 4. Growth rates in various sector stock indices at the Moscow Stock Exchange (over a period since the beginning of the month)



Source: The Moscow Stock Exchange's official website, authors' estimates.

Fig. 5. Stock market capitalization structure by type of economic activity

The Russia corporate bond market index (IFX-Cbonds) kept growing. Its value increased 2.4 points (or 0.6%) by October 2013 as compared to the value observed at the previous month end. The corporate bond average weighted yield remained unchanged (8.05%) by the end of November 2013 against 8.02% at the end of October 2013 (Fig. 6), however, the interest rate dropped lower than 8% in the period under review, having shown the lowest value over the last two years³.

The corporate market key indicators' positive dynamics slowed down in response to adverse processes in the country. Specifically, an increase in the inflation rate was observed for the first time since July 2013, thereby having resulted in upgrading (from 6% to 6.3%) the forecast for inflation at year-end. Negative trends in the market are related to slowdown in economic growth rates too.

Market players' activity is tempered to a certain extent by measures of the Central Bank of Russia, in-

3 According to Cbonds Information Agency.

cluding but not limited to revoking the banking license of large banks, introducing from 2015 a stock market obligation to participate in all derivatives transactions, plans for revision of broker capital requirements.

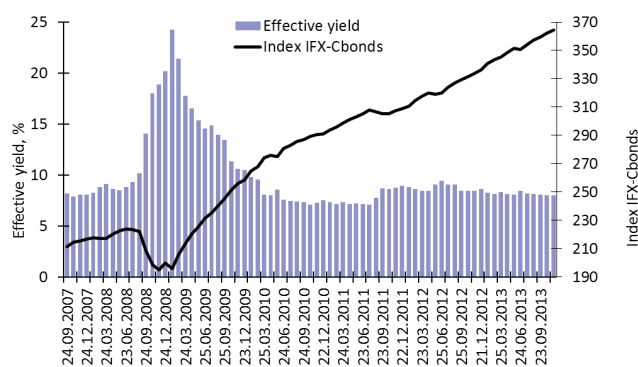
The corporate bond portfolio duration value kept declining. The duration was 663 days as of the end of November 2013, being 28 days beyond the value observed as of the previous month end. Smaller duration value due to stabilization of market interest rates reflects contraction of maturity of flow of payments on bonds and, therefore, maturity of outstanding bond issues in the corporate segment.

The most liquid segment of the corporate bond market saw a feebly marked uptrend with regard to bonds' yield. Like in the previous month, it was financial corporate issuers that experienced most significant changes in their bond yield (more than 1 p.p.). Most liquid bond issues of high-tech companies saw a downtrend for the second straight month, being indicative of high demand for the securities issued by such companies. The energy sector saw mixed trends again¹.

In spite of the market slump in November 2013, Russian bond issues showed a record-high activity in terms bond issue registration. For instance, 15 issuers placed 72 bond issues denominated in rubles at an aggregate par value of Rb 669,3bn in the period of October 24, 2013 thru November 25, 2013 (to compare, 38 bond issues denominated in rubles at Rb 123,3bn were registered in the period of September 24, 2013 thru October 23, 2013). Major issues were registered by OJSC NK Rosneft (Rb 300bn), OJSC Federal Grid Company of United Energy Systems (Rb 145bn), LLC INTER RAO Finance (Rb 60bn), OJSC VEBLEASING (Rb 50bn)². Listed bonds accounted for more than two thirds of the registered issues.

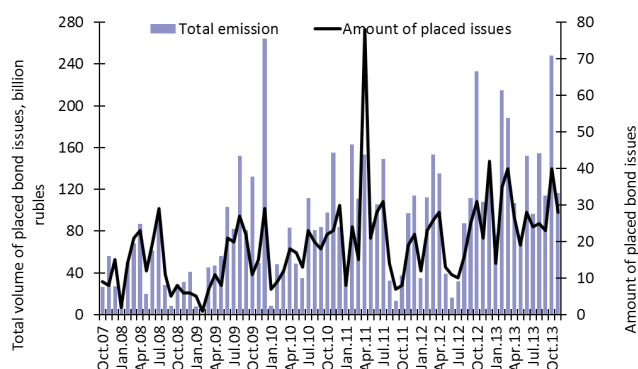
Unlike bond issue registration values, investment activity in the primary market was governed by total downtrends in the market. Therefore, the flotation value in the corporate bond segment halved but remained at a fairly high level in 2013. For instance, 23 issuers placed 28 bond issues at an aggregate par value of Rb 116,4bn in the period of September 24, 2013 thru October 25, 2013 (to compare, 40 series of bonds at Rb 248,3bn were placed in the period of September 24, 2013 thru October 23, 2013) (Fig. 7). Major bond issues were placed by OJSC Russian Railways (Rb 25bn), OJSC Raiffeisen Bank (Rb 10bn), OJSC Alfa-Bank (Rb 10bn) OJSC Moscow Credit Bank (Rb 10bn), OJSC VEBLEASING (Rb 10bn)³. One issuer, a mortgage agent, managed to borrow for a period of 33 years,

1 According to Finam Investment Company.
2 According to Rusbonds information agency.
3 According to Rusbonds information agency.



Source: According to Cbonds Information Agency.

Fig. 6. Dynamics of the Russian corporate bond market index and average weighted yield



Source: According to Rusbonds information agency.

Fig. 7. Dynamics of initial public offerings of corporate bonds denominated in the national currency

OJSC Russian Railways for 25 years, while a few other issuers borrowed for 10 years.

In spite of wakened investment activity in November 2013, no bond issues were declared void by the Bank of Russia Financial Markets Service for non-placement of a single bond (to compare, from 10 to 15 series of bonds were declared void in the previous months)⁴.

In the period of October 24, 2013 thru November 25, 2013, all of the 13 issuers redeemed their bond issues at an aggregate value of Rb 57,3bn in the due date (to compare, one issuer failed to discharge its obligations and declared a technical default in the preceding period). Fifteen corporate bond issues at a total of Rb 52,3bn are to be redeemed in December 2013⁵.

Furthermore, like in the previous period, no real default(s) on coupon yield payment and early redemption(s) of securities on put date were reported in the market in the period of 24 October 24, 2013 thru November 25, 2013⁶.

4 According to the Bank of Russia Financial Markets Service.
5 According to Rusbonds company.
6 According to Rusbonds company.