

RUSSIA'S FINANCIAL MARKET IN FEBRUARY 2014

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The MICEX Index increased 2.47% in February 2014, reaching its highest value 1507,49 points on February 17, 2014 supported mostly by a rising trend in Gazprom's stock. The MICEX stock exchange market capitalization amounted to Rb 23,92 trillion (36.88% of GDP) by February 25, 2014. The market volume and the corporate bond market index remained unchanged while the average weighted yield kept growing in February 2014. An increase in issuers' fundraising activity and stable situation with issuers honoring their obligations to bondholders had a positive effect on the corporate bond market.

Dynamics of the Russian stock exchange market basic structural indices

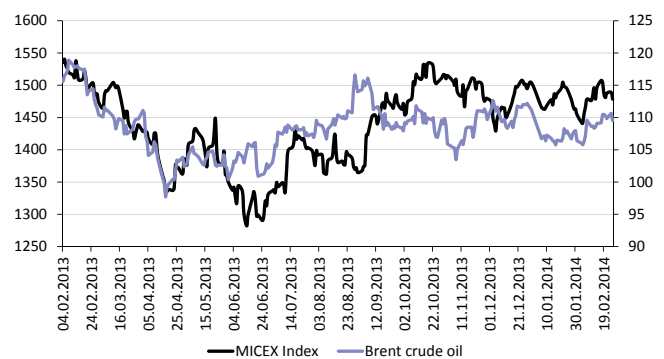
Russia's MICEX index showed 1442.84 points on February 4, 2014. In February 2014, the MICEX index reached its highest 1507.49 points on February 17, 2014 supported mostly by a rising trend in Gazprom's stock.

Norilsk Nickel's stock demonstrated the monthly fastest growth in February 2014, rising 11.09% in the period of February 1 thru February 25, 2014. As a reminder, in January 2014 Norilsk Nickel's stock was leading against the backdrop of the news on the company's plans to borrow and sale its ore fields located in other countries. Stocks of other companies saw an insignificant increase in February 2014. Sberbank's common stock dropped 0.52% from February 3 thru February 25, 2014, whereas its preferred stock went up 4.15% during the same period. VTB's stock saw a decline in February too, losing 1.5% by February 25, 2014.

Sberbank's stock showed a negative yield by February 25, 2014, with annual losses of 11.67% (since February 25, 2013). However, VTB lost most on its stock among the most liquid Russian stocks last year, losing 18.76%. Other stocks generated a small yield, e.g., Gazprom and Norilsk Nickel gained 5.93% and 5.97% annually, respectively. Lukoil's and Rosneft's stock generated no income for long-term investors, except for distribution of dividends, Rb 50 (2.49%) per Lukoil's share and Rb 8.05 (3.24%) per Rosneft's share.

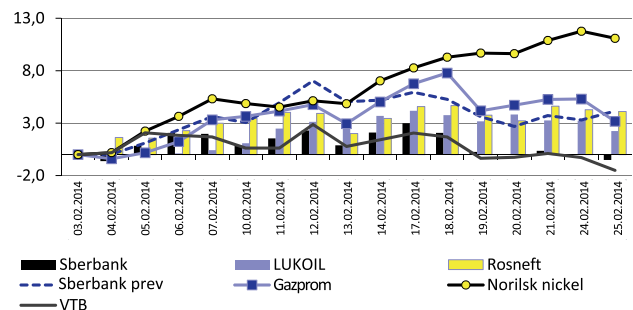
The dynamics of sector indices in February 2014 followed the dynamics of most liquid Russian stocks. The metal sector index gained most (7.85%) from the beginning to February 17, 2014. Oil and gas sector saw an increase too. Novatel's stock contributed substantially to the index growth, gaining 7.33% in response to the news of increased principal financial indicators.

Average daily trading turnover in the Moscow Stock Exchange in February 2014 was Rb 31,43bn, accounting for 0.13% of the stock exchange capitalization.



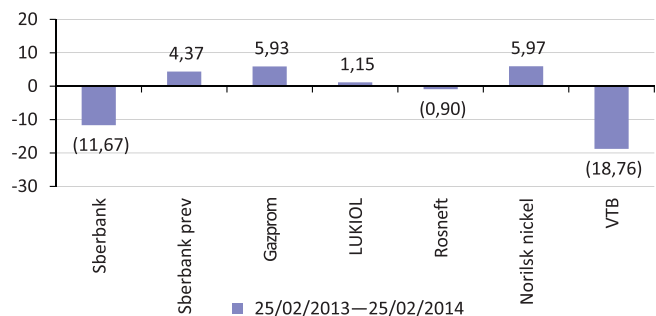
Source: RBK Quote.

Fig. 1. Dynamics of the MICEX Index and futures prices of Brent crude oil in the period of February 2013 thru February 25, 2014



Source: RBK Quote, author's estimates.

Fig. 2. Most liquid Russian stocks growth rates in the Moscow Stock Exchange in February 2014 (since the beginning of the month)



Source: RBK Quote, author's estimates.

Fig. 3. Most liquid Russian stocks growth rates in the Moscow Stock Exchange in the period of February 25, 2013 thru February 25, 2014

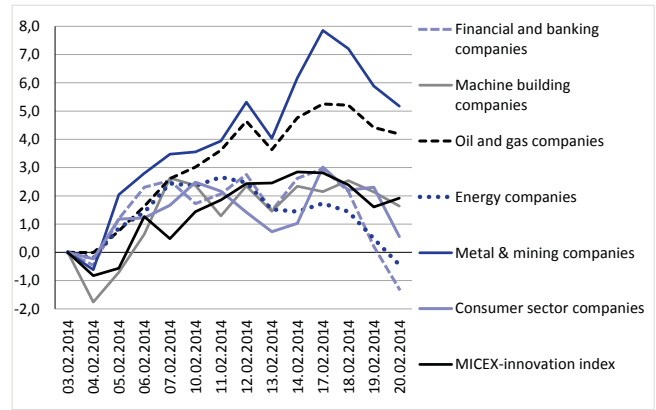
Sberbank's stock contributed an average of 24.56% to the stock exchange turnover on a total of common and preferred stocks. It was only Gazprom, accounting for an average of 24.8% of the stock exchange turnover, that could compete with Sberbank. Therefore, the two major companies accounted for up to 50% of the trading turnover in the Moscow Stock Exchange, whereas the next top-5 companies contributed 26.2%. It should be noted that besides the foregoing most liquid Russian stocks, the top-5 most traded stocks also includes Magnit retail company. Eight companies accounted for 70% to 80% of the daily trading turnover in the stock exchange.

According to the Emerging Portfolio Fund Research (EPFR), Russian market-oriented foundations saw a capital outflow of \$299m in the period of January 30, 2014 thru February 19, 2014, 18.0% less than in January 2014. Moscow stock exchange market (MICEX) capitalization totaled 23,92 trillion (36.88% of GDP) as of January 24, 2014, an increase of Rb 654,3bn (2.81%) since the beginning of the month. It should be noted that capitalization increased basically in response to an increase of capitalization in the energy and fuel sector. Extracting companies kept accounting for 48.0% of the MICEX capitalization structure by type of economic activity in February 2014. The share of the manufacturing sector accounted for 12.3%. It was only the share of wholesale and retail trade companies that saw significant changes, increasing 0.5%

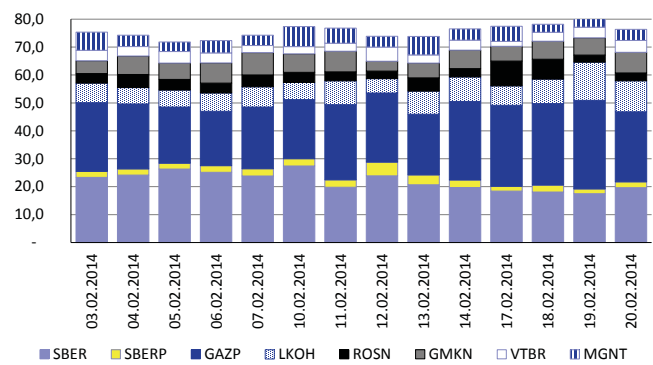
Corporate bond market

The Russian domestic corporate bond market volume (measured by the par value of outstanding securities denominated in the national currency, including those issued by non-residents) saw no changes in February 2014 after a rapid growth in the beginning of the year: the indicator reached Rb 5,284,1bn by the end of January 2014, showing an increase of 0.5% over the value observed at the end of January 2014¹. Consequently, no changes were recorded in the number of bond issues (1054 corporate bond issues registered in the national currency against 1052 at the previous month end), and the number of bond issues in the debt segment (355 issuers against 357 companies at the end of January 2014). 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.

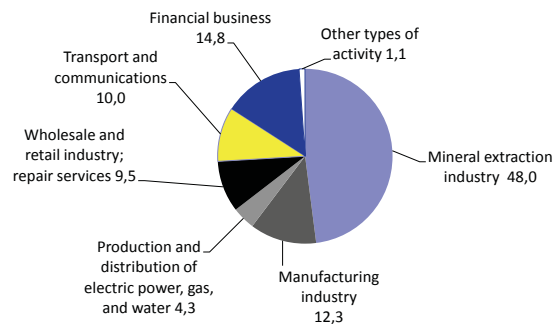
Investment activity in the secondary corporate bond market in February 2014 diminished considerably, especially against January, when sales normally subside. For instance, total volume of transactions in the Moscow Stock Market amounted to Rb 117,8bn in



Source: RBK Quote, author's estimates.
 Fig. 4. Growth rates in various sector stock indices in the Moscow Stock Exchange (since the beginning of the month)



Source: RBK Quote, author's estimates.
 Fig. 5. Trading turnover structure in the Moscow Stock Exchange (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 period of January 24, 2014 thru February 21, 2014 (to compare, trading volume in the period of December 20, 2013 thru January 23, 2014 amounted to Rb 163,8bn), while the number of transactions in the period under review slightly decreased to 27,900 (to compare, the number of transactions in the previous period amounted to 29,100)². This dynamics of trading

1 According to Rusbonds information agency.

2 According to Finam Investment Company.

shows that small investors were interested in trading securities.

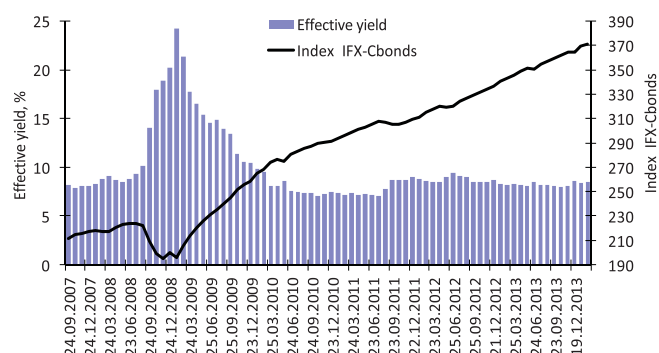
The Russian corporate bond market index IFX-Cbonds kept growing, although at a slower rate, like in January 2014. By the end of February it gained merely 1.4 pints (or 0.4%) against the level observed in the previous month. The corporate bond average weighted yield increased after a temporal decline in January 2014 to reach 8.50% by the end of February 2014 against 8.35% late in December 2013 (Fig. 6)¹.

Speaking of worsening of the situation in the corporate bond market, it should be noted that the market saw a relative stabilization as early as February 2014. In particular, the Central Bank's decision late in January 2014 to lower the limit on overnight repo operations had no impact on bank liquidity. Previously rated scores of credit rankings for Russia and several large issuers in the debt market early in February were re-confirmed with a stable forecast. This in turn facilitated further support of strong demand for sovereign bonds. However, the situation in the debt market deteriorated markedly in the second half of February 2014 in response to worsening of the economic situation in the Russian Federation and rapid weakening of the ruble because of substantial capital fleeing the country.

The corporate bond portfolio duration value kept falling. As of the end of February 2014, duration was 687 days, 27 days shorter than the value observed as of the end of the previous month. Such a dynamics of duration resulted partially from growth in interest rates in the market.

Manufacturing corporate issuers, namely OJSC Magnitogorsk Iron and Steel Company and OJSC Russian Railways, saw the lowest yield (more than 1 p.p.), whereas the bonds issued by financial companies such as OJSC NOMOS-BANK and OJSC Promsvyazbank saw the highest growth in the yield (in the previous month the financial sector was most of all driven by a downturn). However, most liquid bonds of issuers at the financial sector and high-tech companies saw a decline, although it was 0.1 p.p. or less on average.

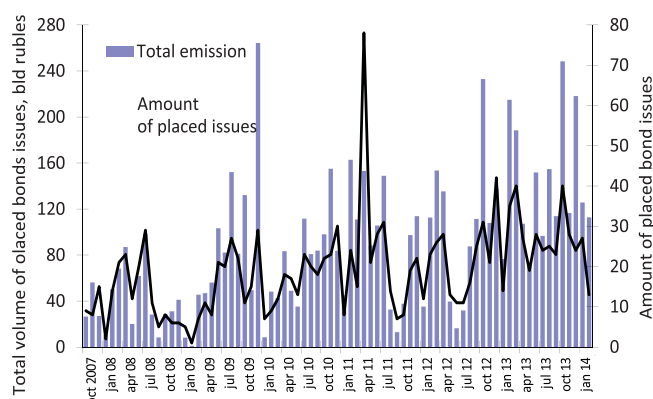
In February 2014, Russian bond issuers' activity regarding registration of new bond issues hit a record for the last few months. For instance, 10 issuers placed 61 bond issues denominated in rubles at an aggregate par value of Rb 398,6bn in the period of January 24, 2014 thru February 21, 2014 (to compare, 42 bond issues at Rb 167,2bn were registered in the period of December 20, 2013 thru January 23, 2014). Major bond issues were placed by OJSC Alfa-bank (30 series of listed bonds at an aggregate par value of Rb 200bn), OJSC Russian Agricultural Bank (15 series of listed bonds at an aggregate par value of Rb 100bn), OJSC Norilsk



Source: According to Cbonds Information Agency.

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

Nickel (4 series of listed bonds at an aggregate par value of Rb 50bn).² Although trading figures in the primary market were below issuers' activity regarding registration of new bond issues because of deteriorated conditions, they were still high. For instance, nine issuers placed 13 bond issues denominated in rubles at an aggregate par value of Rb 112,8bn in the period of January 24, 2014 thru February 21, 2014 (to compare, 27 series of listed bonds at an aggregate par value of Rb 125,7bn in the period of December 20, 2013 thru January 23, 2014) (Fig. 7). Major bond issues were placed by OJSC NK Rosneft (two series of listed bonds at an aggregate par value of Rb 35bn), two mortgage agents affiliated with VTB Group – CJSC VTB 2013-1 and CJSC VTB-BM1 (two series of bonds at Rb 28,8bn and Rb 25,96bn, respectively)³. Additionally, OJSC VEB-leasing placed a bond issue denominated in rubles and four bond issues denominated in foreign exchange at Rb 5bn and \$400m, respectively. Since mortgage bonds accounted for almost half of the placed bond issues,



Source: According to Rusbonds information agency.

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

1 According to Cbonds Information Agency.

2 According to Rusbonds information agency.

3 According to Rusbonds information agency.

the IPO statistics differed in large maturity terms. The mortgage agents managed to borrow for a period of 33 to 40 years while another three issuers for 10 years.

No bond issues were declared void by the Bank of Russia Financial Markets Service for non-placement of a single bond in February 2014 (a single bond issue was declared void in the previous month)¹. In the period of January 24, 2014 thru February 21, 2014, all of the 14 issuers redeemed their bond issuers at an aggregate value of Rb 91,7bn in the due date (all of the issuers honored their obligations and no technical default was announced in the previous months). This is a positive factor in the market. Fourteen corporate

bond issues at a total of Rb 53,8bn are to be redeemed in March 2014².

Additionally, no real default(s) (e.g., when the issuer has failed to repay to bondholders even within a grace period) on coupon yield payment and early redemption(s) of securities on the put date and full repayment were reported in the market in the period of January 24, 2014 thru February 21, 2014, like in the previous months³.

1 According to the Bank of Russia Financial Markets Service.

2 According to Rusbonds company.

3 According to Rusbonds company.