

## FINANCIAL MARKETS IN JANUARY 2014

N.Andrievsky, E.Khudko

The MICEX Index slid down 2.5% at the beginning of January 2014, however Gazprom's stock and Norilsk Nickel's stock went up in the second half of the month, thereby having a positive effect on the MICEX Index which was pushed up to 1494.6 points. The annual dynamics of blue chips has been negative in most cases. It is only Sberbank's preferred stock which gained significantly (5.85%) over the period under review. Total MICEX stock exchange market capitalization amounted to Rb 24,9 trillion (37.56% of GDP) as of January 24, 2014, having shown an increase of Rb 450,7bn (1.8%) over the value observed as of December 30, 2013.

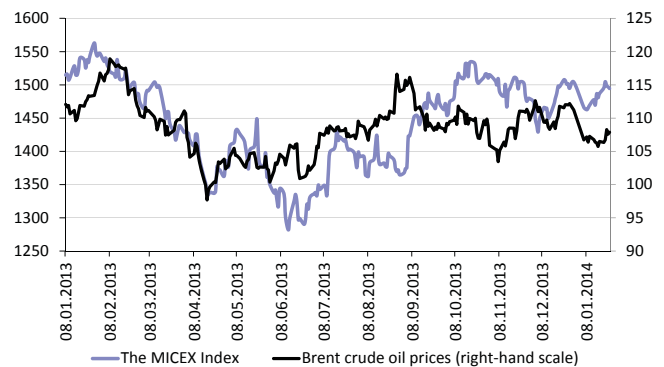
The domestic corporate bond market recovered at a quite a fast rate in January 2014 after a seasonal slump. The dynamics of the key indicators such as the market volume, the corporate bond market index, the average weighted yield (especially in the financial sector) has been showing a new positive trend. Issuing and investment activity has been at a high level. The situation of issuers' discharge of their obligations to bondholders has been stable since the beginning of the year.

### Dynamics of the Russian stock exchange market basic structural indices

The Russian stock exchange index (the MICEX Index) was quoted 1504.8 points at the previous 2013 year-end. Furthermore, futures prices of the Brent crude oil amounted to \$111,2 per barrel. However, the crude oil price fell to \$106,73 per barrel at the opening after a holiday brake and kept at the same level throughout the entire first month of 2014. Additionally, the Index lowered 2.5% early in January 2014, however, Gazprom's and Norilsk Nickel's stock went up in the second half of the month, having had a positive effect on the MICEX Index which increased to 1494,6 points.

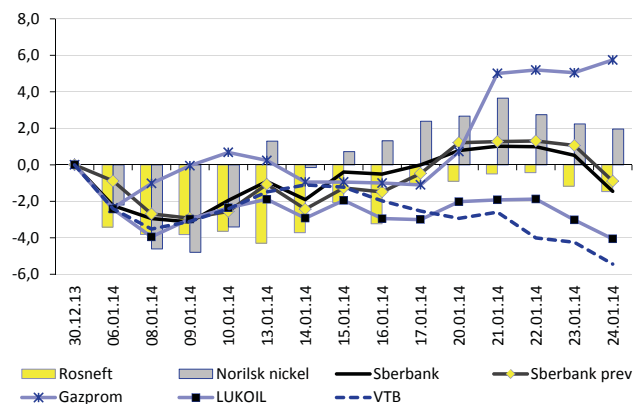
Norilsk Nickel's stock demonstrated the monthly highest growth (3.65%) among blue chips in the Moscow Stock Exchange since the end of 2013 against January 21, 2014 in response to the news on the company's plans to borrow and sale its fields located in other countries. Gazprom became the focus of attention in the stock exchange against the backdrop of the purchase of an interest in gas distributors, as well as statistics on the company's revenue growth within the nine months in 2013. Unlikewise, VTB's stock lost 5.44% since the end of 2013 by January 24, 2014, except that the bank's annual profit increased 60%, based on the Central Bank's data.

Blue chips demonstrated negative annual dynamics in most cases. VTB stock demonstrated the lowest decline by 20.6% in the period of January 25, 2013 thru January 24, 2014. Rosneft's stock and Norilsk Nickel's stock lost 9.06% and 9.16% respectively at the same period. It is only the Sberbank's preferred stock that showed a considerable increase of 5.85% over the period under review.



Source: RBK Quote.

Fig. 1. Dynamics of the the MICEX Index and futures Brent crude oil prices in the period of January 8, 2013 thru January 23, 2014



Source: RBK Quote, author's estimates.

Fig. 2. Blue chips growth rates in the Moscow Stock Exchange in January 2014 (over a period since the beginning of the month)

The first week of the year saw a decline in most of the sector indices, except that later the index in the metallurgical sector and energy sector increased and gained 2% by the end of the month since its beginning. It is the consumer sector companies that dropped lowest in January 2014 – by 5.92% on January 24, 2014 against December 30, 2013.

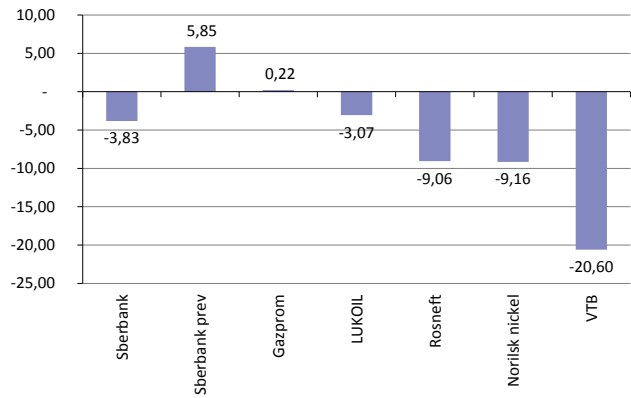
According to the Emerging Portfolio Fund Research (EPFR), Russian market-oriented foundations saw a capital outflow of \$135m in the period of January 2, 2014 thru January 22, 2014, suggesting that the Russian stock market is still influenced by the outflow trend. Russia’s stock market (MICEX) capitalization totaled Rb 24,9 trillion (37.56% of GDP) as of January 24, 2014, having shown an increase of Rb 450,7bn (1.8%) against the value observed as of December 30, 2013. It should be noted that capitalization increased basically in response to an increase of Rb 200bn in Gazprom’s capitalization at that period. By the end of January 2014, the share of the mineral extraction sector accounted for 49.5% of the MICEX capitalization structure, being 0.5% above the value observed early in the month. The share of the manufacturing sector accounted for 13.1%, having shown a gain of 0.2% since the end of 2013. The share of the trade sector and transport sector and communications sector shrank 0.3% each in the capitalization structure.

**Corporate bond market**

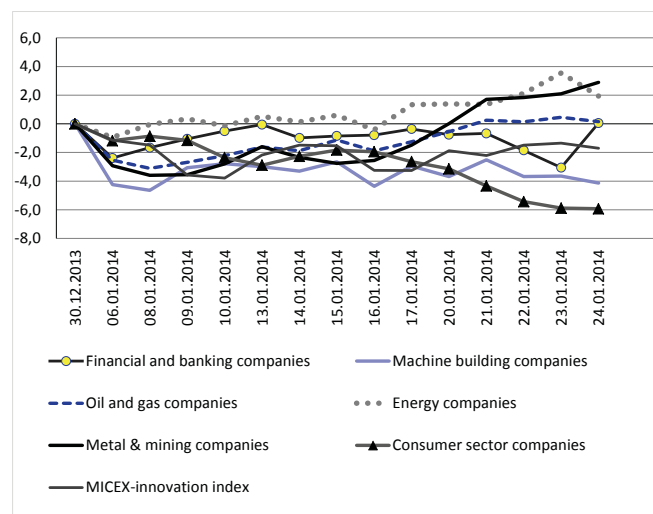
The Russian domestic corporate bond market volume (measured by the par value of outstanding securities denominated in the national currency, including those issued by non-residents) demonstrated accelerated growth rate. The indicator reached Rb 5,259.2bn by the end of January 2014, having shown an increase of 3.7% over the value observed at the end of December 2013<sup>1</sup>. Growth in the market capacity was associated with drastically increased number of bond issues (1052 corporate bond issues registered in the national currency against 1034 issues at the previous month end), because the number of issuers in the bond segment remained unchanged (357 issuers against 355 companies at the end of December 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.

Investment activity in the secondary corporate bond market early in the year remained at a high level despite a traditional seasonal fall in the initial trading days of the year. For instance, in the period of December 20, 2013 thru January 23, 2014, total volume of transactions in the Moscow Stock Market amounted to Rb 163,8bn (to compare, trading volume in the pe-

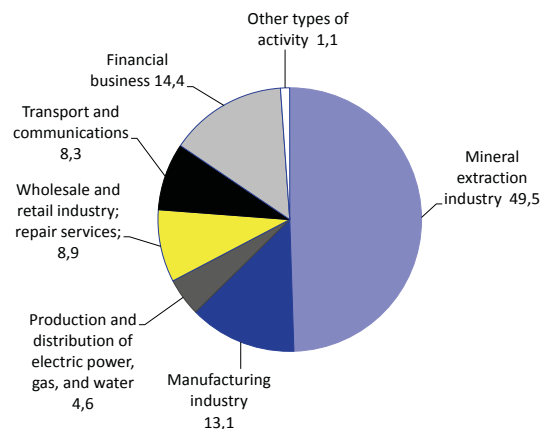
1 According to Rusbonds information agency.



Source: RBK Quote, author’s estimates.  
 Fig. 3. Blue chips growth rates in the Moscow Stock Exchange in the period of January 25, 2013 thru January 24, 2014



Source: RBK Quote, author’s estimates.  
 Fig. 4. Growth rates in various sector stock indices at the Moscow Stock Exchange in January 2014 (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

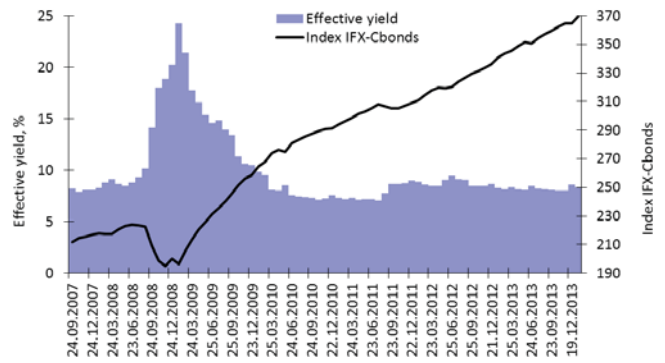
riod of November 26, 2013 thru December 19, 2013 amounted to Rb 160,5bn) while the number of transactions in the period under review increased to 29,100 (to compare, the number of transactions in the previous period amounted to 23,500)<sup>1</sup>. Such a dynamics of trading figures suggests an upsurge in retail investors' interest in the securities.

The Russian corporate bond market index IFX-Cbonds kept growing following a short-term period of stabilization. By the end of January 2014 it gained almost 5 points (or 1.3%) against the level observed at the end of the 12<sup>th</sup> month in 2013, thereby having shown the highest growth over the last three years. After a skyrocketing growth in December 2013 the corporate bond average weighted yield slid to 8.35% by the end of January 2013 against 8.64% late in December 2013, yet it haven't reached the value observed in October-November of the previous year (Fig. 6)<sup>2</sup>.

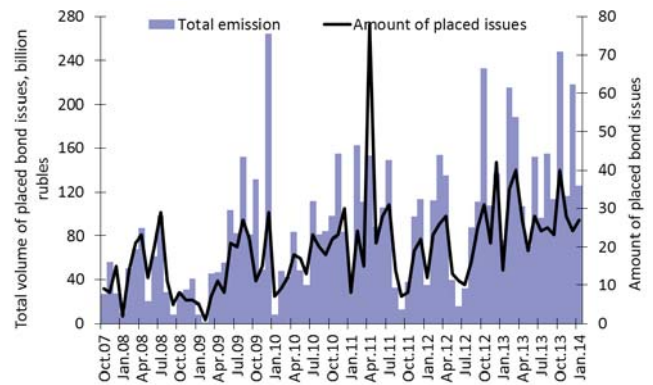
After a skyrocketing growth in December 2013 the corporate bond portfolio duration value resumed a downtrend which was not drastic during the month. The duration was 714 days as of the end of January 2014, being 23 days shorter than the value observed as of the end of the previous month. Factoring in a lowering of interest rates in the market, such a dynamics of the duration indicator reflects reduction in maturity of flow of payments on bonds, and, therefore, of outstanding bond issues in the corporate segment.

Unlike the previous period, the most liquid segment of the corporate bond market saw a marked downtrend on the yield of bond issues. It is mostly financial corporate issuers that fell lowest (more than 1 p.p.) (the financial sector was leading in growth in the previous months), namely OJSC NOMOS-BANK (BO-03 series) and OJSC Promsvyazbank (BO-02 series). In general, the yield of the most liquid bonds of issuers in the financial sector dropped considerably 0.3 p.p. Additionally, both high-tech sector and energy sector showed a downtrend on the yield of their bond issues early in the year (yet the yield of the most liquid issues was 0.05 p.p. or less in the latter case). The industrial sector experienced mixed trends in January 2014, like in the previous month. Additionally, it is production companies' (Russian Railways, Rosneft and others) securities that were traded most<sup>3</sup>.

Russian bond issuers' activity regarding registration of new bond issues remained at a high level late in the period of December 2013 thru January 2014. For instance, 13 issuers placed 42 bond issues denominated in rubles at an aggregate par value of Rb 167,2bn in the



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

period of December 20, 2013 thru January 23, 2013 (to compare, to compare, 38 bond issues at Rb 164,2bn were registered in the period of November 26, 2013 thru December 19, 2013. Listed bonds accounted for more than one third of the registered issues while certain issuers plan to place debut issues. Furthermore, OJSC VEB-Leasing registered 10 bond issues denominated in US dollars at \$1bn at the end of the previous year.

While a seasonal weakening of investment activity in the primary market was observed early in 2014, trading volumes weren't so deplorably low as they were during the previous few years, having fallen to the average value at the 2013 year end. For instance, 19 issuers placed 27 bond issues at an aggregate par value of Rb 125,7bn in the period of December 20, 2013 thru January 23, 2013 (to compare, 24 series of bonds at Rb 218,2bn were placed in the period of November 26, 2013 thru December 19, 2013) (Fig. 7). Major bond issues were placed by OJSC Rosneft (two series of listed bonds at an aggregate par value of Rb 40bn), State Corporation 'Bank for Development and Foreign Economic Affairs (Vnesheconombank) (a series of

1 According to Finam Investment Company.  
2 According to Cbonds Information Agency.  
3 According to Finam Investment Company

listed bonds at an aggregate par value of Rb 20bn), CJSC Kama Ipotekhnny Agent (Kama Mortgage Agent) (a series of bonds at Rb 10bn)<sup>1</sup>. Since mortgage bonds accounted for almost half of the placed bond issues, the IPO statistics differed in large maturity terms, like in the previous period. Mortgage agents managed to borrow for a period of 28 to 33 years while another three issuers for 10 years.

A single bond issue was declared void by the Bank of Russia Financial Markets Service for non-placement of a single bond (seven bond issues were declared void for the same reason in the previous month)<sup>2</sup> because of high (given the onset of the year) investment activity. In this case, however, it refers to a major bond issuer, which suggests that issuer's plans have been changed rather than securities are poorly traded.

---

1 According to Rusbonds information agency.

2 According to the Bank of Russia Financial Markets Service.

In the period of December 20, 2013 thru January 23, 2013, all of the seven issuers redeemed their bond issuers at an aggregate value of Rb 20bn in the due date (all of the issuers discharged their obligations and no technical default was announced in the previous months). This is a positive factor in the market. Twenty two corporate bond issues at a total of Rb 120,2bn<sup>3</sup> are to be redeemed in February 2014.

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 December 20, 2013 thru January 23, 2014, like in the previous months<sup>4</sup>.

---

3 According to Rusbonds information agency.

4 According to Rusbonds information agency.