

FINANCIAL MARKETS IN MARCH 2014

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Having experienced a sharp drop in March, Russia's stock market was steadily recovering throughout April. Over the period from 1 April through 23 April, the MICEX Index stood at an average of 1,350.17 points. The growth leader among highly liquid shares were Norilsk Nickel securities – over the period from 27 March through 23 April they rose 9.41%, while the annual yield on that company's shares rose to more than 30%. As of 23 April, the stock market's capitalization amounted to Rb 21.6 trillion (or 33.3% of GDP), which represented a Rb 89bn fall (-0.4%) compared with 27 March. The situation on the Russian domestic market of corporate bonds continued to worsen due to the exacerbation of negative trends in the Russian economy. As a consequence, the key market indices – the Corporate Bond Market Index, the market's size, the weighted average yield and the activity of issuers and investors – showed negative dynamics.

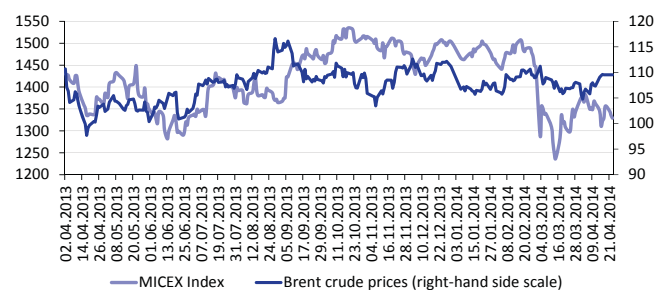
The Movement of the Russian Stock Market's Main Structural Indices

The movement of the MICEX Index in April reflected the Russian stock market's recovery after its sharp fall in March. Over the period from 1 April through 23 April, the MICEX Index stood at an average of 1,350.17 points. It should be remembered that on 14 March the MICEX Index had plummeted to 1237.43 points.

shares traded on the Moscow Exchange are concerned, the only shares that were losing in value in the second half of April were those issued by Sberbank – over the period from 27 March through 23 April, that company's ordinary shares dropped 9.19%. It should be noted that the drop in Sberbank stock quotes was taking place in the absence of any negative reports on that company's activity. At the same time, April saw a continuation of the upward trend in the price of shares in Norilsk Nickel, which rose by 9.41% over the aforesaid period. An upward trend was also demonstrated by shares in VTB, which gained 5.07% over the period from 27 March through 23 April.

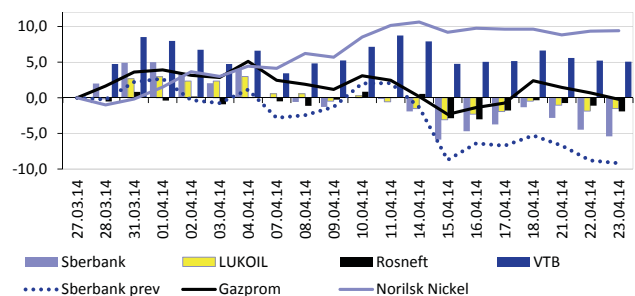
As of 23 April, the annual yield on ordinary shares in Sberbank was negative, with the losses incurred by its investors since 23 April 2013 amounting to 21.7%. The annual yield on privileged shares in Sberbank and VTB was also negative, amounting to -15.1% and -15.6% respectively. The leader in growth was shares in Norilsk Nickel, which gained more than 30% over the course of 12 months. One of the possible reasons for that price rise was the 35% climb in global nickel prices which took place during the aforesaid period. Over the course of 12 months, shares in Gazprom and Rosneft climbed by 8.6% and 6% respectively. The price of shares in LUKOIL remained practically unchanged.

In early April sectoral indices grew at moderate rates. The only exception was the MICEX Index-Machine Building, which displayed a sharp rise deter-



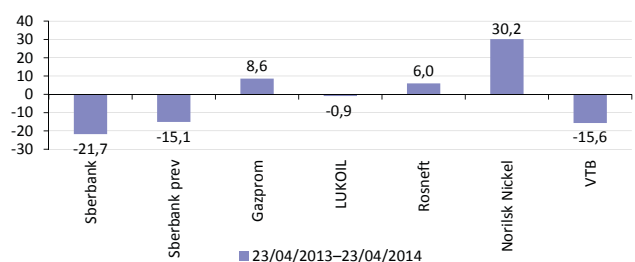
Source: Quote.rbc.ru.

Fig. 1. The Movement of the MICEX Index and Brent Crude Oil Futures Prices in the Period from 4 February 2013 through 23 April 2014



Source: Quote Rbc.ru, the author's calculations.

Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange (Over the Period from 27 March through 23 April)



Source: Quote rbc.ru, the author's calculations.

Fig. 3. Growth Rates of the Prices of Highly Liquid Shares Traded on Moscow Exchange Over the Period from 26 March through 26 March 2014

mined by the climb in shares issued by the Sollers company manufacturing a number of foreign car brands in Russia. The leader in growth was the MICEX Consumer Goods and Services Index – over the period from 27 March through 23 it gained 8.88%, mainly due to a significant growth in the stock quotes of *Farmstandard* and *M.Video*.

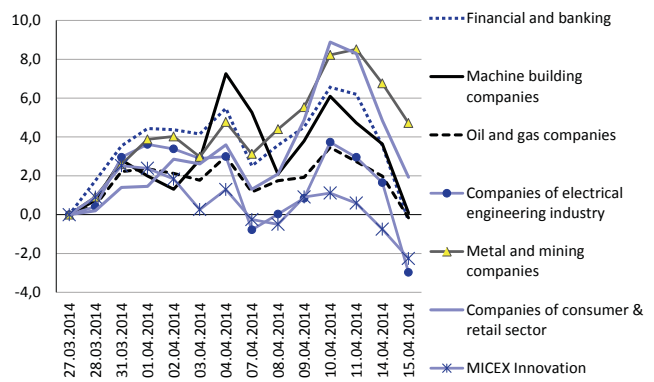
In April, the average daily trading turnover of the Moscow Exchange amounted to Rb 39.7bn, which represented a 38.4% drop on March. Shares in *Sberbank* accounted for 35.8% of the average daily trading in common and privileged shares on the Moscow Exchange. In April, the second-best performer on the MICEX was shares in *Gazprom*, which accounted for 21% of the average daily trading turnover of the Moscow Exchange. Thus, these two biggest companies accounted for more than 57% of the Moscow Exchange’s trading turnover. Trailing behind them were five companies whose combined volume of trade in shares on the MICEX accounted, on the average, for 23.5% of the daily trading turnover of the Moscow Exchange. It should be noted that those five companies included *Magnet*, Russia’s biggest retailer. Eight best-performers on the MICEX accounted, on the average, for 80.7% of the daily trading turnover of the Moscow Exchange.

According to *Emerging Portfolio Fund Research* (EPFR), over the period from 27 March through 19 April, funds oriented to the Russian market experienced net inflows in the amount of \$ 122m. As of 23 April, MICEX’s total capitalization amounted to Rb 21.6 trillion (or 33% of GDP), having fallen since 27 March by more than Rb 89bn (-0.4%). As far as the stock market’s capitalization structure by type of economic activity is concerned, in April the capitalization share of the companies belonging to processing industries rose by 0.7 p.p., to 13.5%. The capitalization share of companies belonging to the financial sector shrank by 0.5 p.p.

The Corporate Bond Market

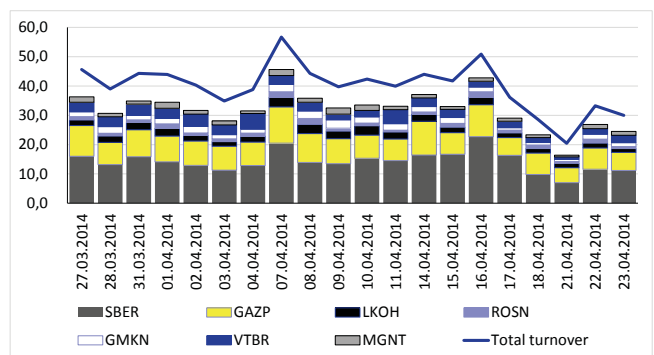
In April 2014, the volume of Russia’s domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation, including those issued by RF non-residents) continued to shrink. By 21 April, this index had shrunk to around Rb 5,237.6bn, which represented an almost 0.5% drop in the domestic corporate bond market’s volume by comparison with 25 March¹. As before, 16 U.S dollar-denominated bond issues (with an aggregate face value of above \$ 2.2bn) and one yen-denominated bond issue placed by Russian emitters remained in circulation. The drop in the volume of the market was caused by a notable reduction in the number of issued bond loans (1,034 ruble-denominated corporate bond issues vs.

¹ According to data released by the Rusbonds information agency.



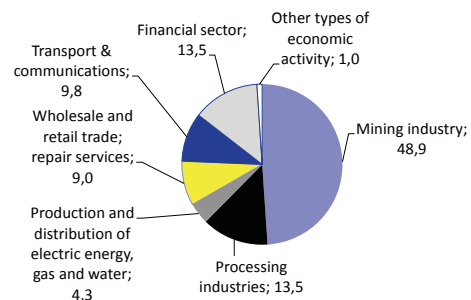
Source: Quote rbc.com, the author’s calculations.

Fig. 4. Growth rates of Different Sectoral Indices on the Moscow Exchange (Over the Period from 27 March through 23 April 2014)



Source: Quote rbc.com, the author’s calculations.

Fig. 5. Structure of the Trading Turnover of the Moscow Exchange (Over the Period 27 March through 26 April 2014)



Source: the MICEX’s official website; the authors’ calculations.

Fig. 6. Structure of Capitalization of the MICEX Stock Market, by Type of Economic Activity

1,044 issues as of the end of the previous month). At the same time, the number of emitters represented in the debt segment remained almost unchanged (359 in April vs. 360 as of the end of March).

In April, investment activity on the secondary corporate bond market remained at a sufficiently high level. Thus, in the period from 25 March through 21 April, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 109.7bn (for reference: over the period from 24 February through 24 March the trade turnover was

Rb 108.7bn), while the number of transactions carried out over the period under consideration rose to 28.4 thousand (vs. 26.0 thousand in the previous period)¹. Such a behavior of the trade indices indicated that the said securities continued to be attractive to small investors.

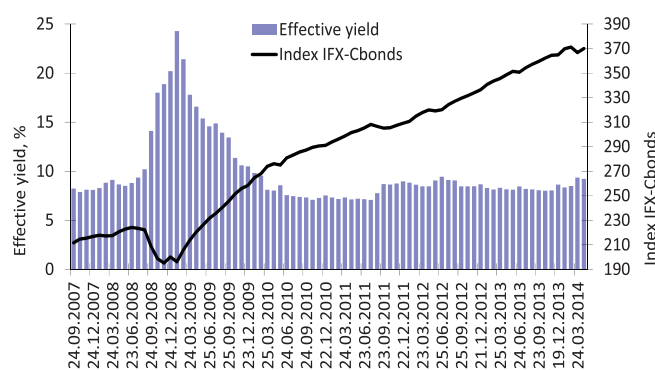
Having predictably fallen in March, the IFX-Cbonds index of the Russian corporate bond market made an attempt to rally back. By the end of April 2013, it had gone up 3.2 points (or 0.9%) from the end of the previous month. The weighted average effective yield on corporate bonds dwindled from 9.35% at the end of March to 9.22% as of the end of April (Fig. 7)². However, as the current level of this index still remains too high, it is too early to say that the market has finally become stabilized. As of the end of April, the corporate bond portfolio duration index amounted to 580 days, which represented a 25-day drop on the end of the previous month. Taking into account the dwindling of the weighted average effective yield on corporate bonds, it can be confidently said that this behavior of the duration index was caused by a decrease in the duration of bond circulation.

Unlike in the previous period, yields on the most liquid bond issues all behaved differently and did not display a single trend. The financial sector was the most volatile. Sometimes, several bond issues of one and the same emitter (e.g. *Vneshekonombank*, *Rosselkhozbank* and *Credit Europe Bank*) all behaved differently. A considerable drop in yields (by more than 1 p.p.) was experienced by securities issued by the manufacturing and hi-tech companies OJSC *JSOC Bashneft*, LLC *EvrzHolding Finance*, AFK OJSC *Sistema* and LLC *SUEK Finance*. It should be said that *JSOC Bashneft* was one of the few Russian emitters affirmed by *Fitch Ratings* at 'BB' with a *Positive Outlook*. The rating upgrade for *Bashneft* followed the recent acquisition, by that company, of a Siberian oil producing asset. As a consequence, the number of transactions in *Bashneft's* securities significantly went up. On the whole, the highest drop in bond yield (by around 0.5 p.p.) was displayed by the manufacturing sector.

Due to the unfavorable situation on the market, the activity of Russian emitters whilst registering their new securities issues considerably declined in April. Thus, over the period from 25 March through 21 April, 8 emitters registered 19 bond issues with a total face value of Rb 58.6bn (for reference: over the period from 22 February through 24 March, a total of 35 bond issues were registered, with a total face value of Rb 140,5bn). More than half of the registered bond issues were exchange-traded bonds.

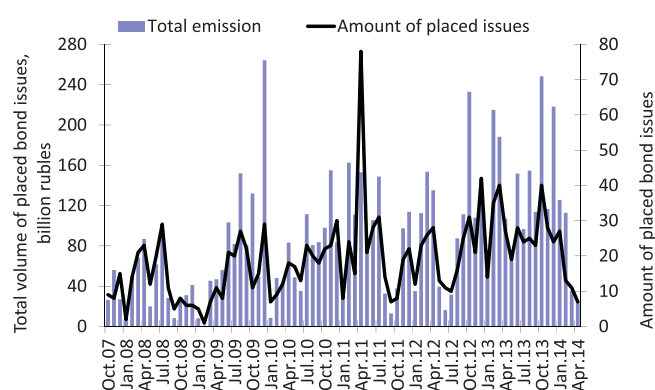
1 According to data released by the Finam company.

2 According to data released by the Cbonds company.



Source: According to data released by the Cbonds company.

Fig. 7. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of Its Weighted Average Effective Yield



Source: According to data released by the Rusbonds information agency.

Fig. 8. Dynamics of the Primary Placements of Issues of Ruble-Denominated Corporate Bonds

The activity on the primary market also dwindled, with the number of primary placements dropping to its lowest since mid-2012. Thus, over the period from 25 March through 21 April, just three emitters placed 7 bond loans with a total nominal value of Rb 24.6bn (for reference: over the period from 22 February through 24 March, a total of 11 bond loans with a total nominal value of Rb 35.7bn were placed) (Fig. 8). Nevertheless, despite the plummeting placement indices and the negative outlook on the Russian market, two mortgage agents managed to attract finance in the form of 32-year loans.

As the Bank of Russia did not place any securities at the MICEX in April, no bond issues were de-listed (for reference: In March, two bond issues were declared null and void and consequently de-listed)³.

In the period from 25 March through 21 April, 17 emitters should have redeemed the face value of their bond loans with a total nominal value of Rb 40.9bn. However, one emitter declared a technical default (in the previous period, all emitters observed

3 According to data released by the Bank of Russia.

their liabilities in due time). It is expected that, in May 2014, 13 corporate bond issues with a total face value of Rb 41.9bn will be redeemed¹.

It should be noted that the period from 25 March through 21 April saw no real defaults on the payment

of the coupons, on the buyback offers to the current holders of securities before their maturity, and on the redemption on a whole bond loan². In this respect, the situation remained unchanged from the previous few months. ●

1 According to data released by the Rusbonds information agency.

2 According to data released by the Rusbonds information agency.