

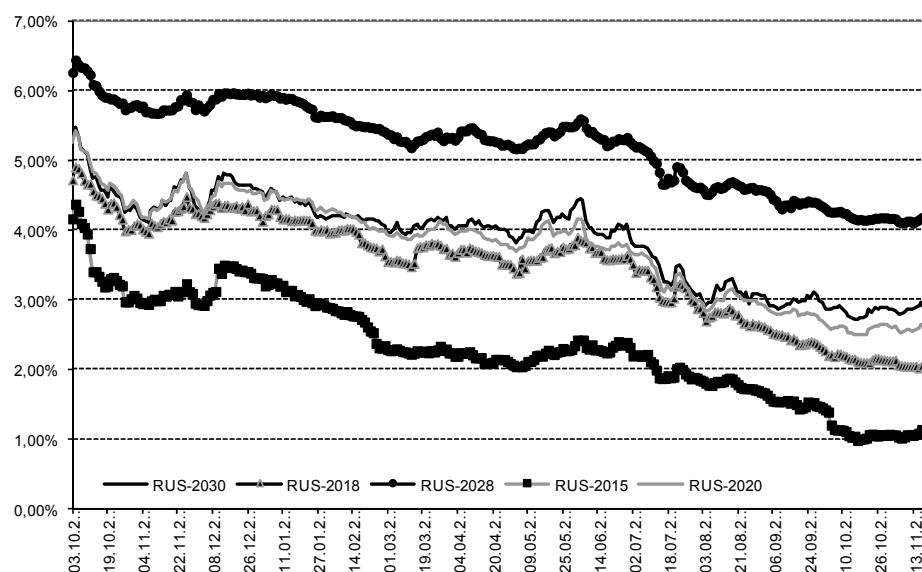
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Financial Markets

The "Big Twenty" fears of a slowdown in the global economy, downgrading of France credit rating and volatility of oil prices have led to deterioration in the Russian financial markets in November 2012. Herewith, the average daily market turnover of governmental securities has decreased most significantly (by 40%). Lower reduction rates were noted in the stock market average daily volume (by 7%) and the futures market of the Russian Federation (by 9%). For the domestic market of corporate bonds November was a period of stabilization, despite the difficult external economic situation. The volume and market index has also moderately increased. The situation has improved in the issuers' performance of their obligations, no real defaults were declared in November.

Government securities market

In November the volatility of global financial markets has resulted in slow development of the Russian market: investors' activity in the government securities market has decreased, despite the decline in the yield to maturity of securities in this sector (within 0.2-5.5%). Growth of 0.7% showed only Eurobonds RUS-15, one of the shortest securities in the market (See Fig. 1).



Source: "Finmarket" Information Agency data.

Fig.1. Yields to maturity of the Russian Eurobonds with maturity in 2015, 2018, 2020, 2028 and 2030

Within the period from October 30 to November 23, 2012, the total turnover in the secondary market of government bonds amounted to Rb 54.8bn with an average daily turnover at the level of Rb 3/05bn, which means the decline of the average monthly turnover by 40% as compared with the preceding period.

From October 30 to November 23 of the current year there were held four auctions (five auctions a month earlier) in federal loan bonds (OFZ) placement in the primary market (See Table 1). The total actual amount of placement made 84% of the planned volume (against 92%

in the preceding month). There were no auctions on additional OFZ issues placement in the secondary market.

Table 1

OFZ placements in the primary market

Auction date	Emission	Emission volume, RB m	Emission volume at face value, RB m	Average weighted yield
31.10.2012	ОФЗ-26208-ПД	30 000.00	29 798.00	7.22
07.11.2012	ОФЗ-26209-ПД	35 000.00	33 405.00	7.42
14.11.2012	ОФЗ-26207-ПД	25 000.00	9 027.00	7.72
21.11.2012	ОФЗ-26208-ПД	35 000.00	32 544.00	7.07
31.10.2012	ОФЗ-26208-ПД	30 000.00	29 798.00	7.22
Total:		125 000.00	104 774.00	

Source: Russian Ministry of Finance.

Stock market

Factors of the Russian stock market dynamics

The Russian stock market in November was affected by the information on the growth of unemployment rate in the Eurozone, poor economic statistics of Japan, reduction of France rating from AAA to AA1 with an "adverse" forecast by Moody's international agency, slowing of global economic growth and the RF economy in Q3 2012. Some support to the Russian market in the middle of the month was provided by such factors as the preservation of key interest rates by the European Central Bank and the Banks of England and Japan at the same level, and the reduction of unemployment in the U.S.

Since the beginning of the year the global market has increased by 2-38%, except for the Chinese market, whose basic stock index Shanghai Composite has declined by 6% (see Table. 2 and Fig.2).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES

Index	Value (as of 25.11.2012)	Dynamics within the month (%)*	Dynamics from the year beginning (%)
MICEX (Russia)	1 413.15	-1.31	2.12
RTS (Russia)	1 432.24	-0.20	3.85
Dow Jones Industrial Average (USA)	13 009.68	-0.74	7.28
NASDAQ Composite (USA)	2 966.85	-0.71	14.69
S&P 500 (USA)	1 409.15	-0.20	12.27
FTSE 100 (UK)	5 819.14	0.41	4.00
DAX-30 (Germany)	7 309.13	1.47	22.12
CAC-40 (France)	3 528.80	3.52	7.88
Swiss Market (Switzerland)	6 715.09	1.72	11.21
Nikkei-225 (Japan)	9 366.80	4.90	5.61
Bovespa (Brazil)	57 574.03	0.70	0.74
IPC (Mexico)	41 919.55	0.24	12.78
IPSA (Chile)	4 143.25	-2.68	1.91
Straits Times (Singapore)	2 989.28	-1.33	14.48
Seoul Composite (South Korea)	1 911.33	1.05	3.60
ISE National-100 (Turkey)	71 004.31	0.42	37.92
BSE 30 (India)	18 506.57	-0.69	20.58
Shanghai Composite (China)	2 027.38	-1.53	-6.39

Morgan Stanley Emerging&Frontier Markets Index	786.53	0.56	7.87
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* – versus index values as of October 29, 2012.

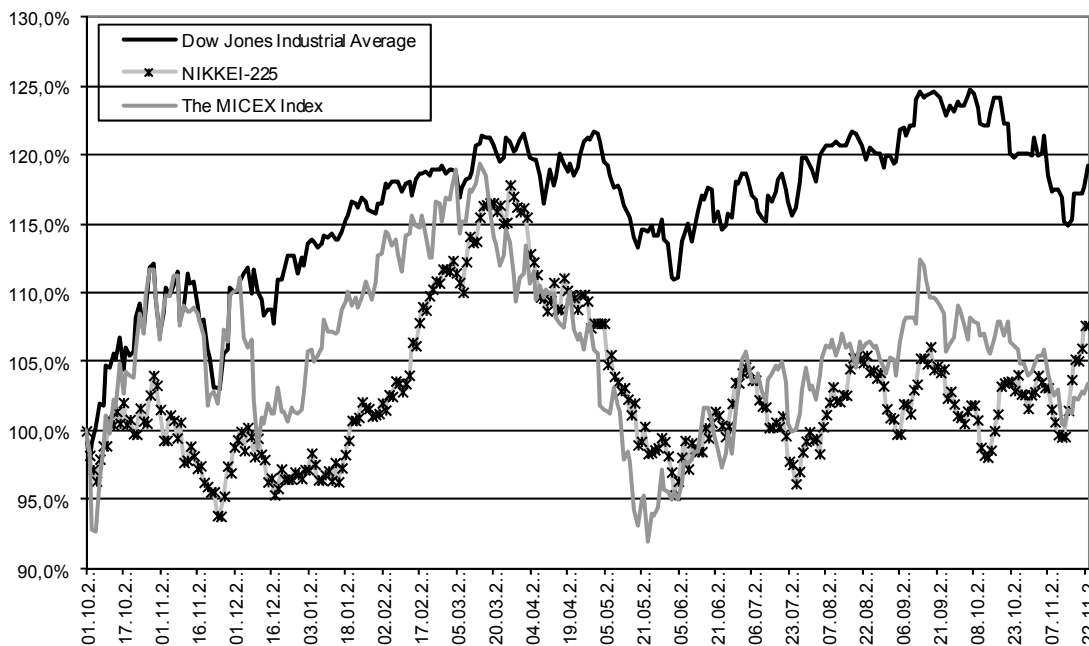
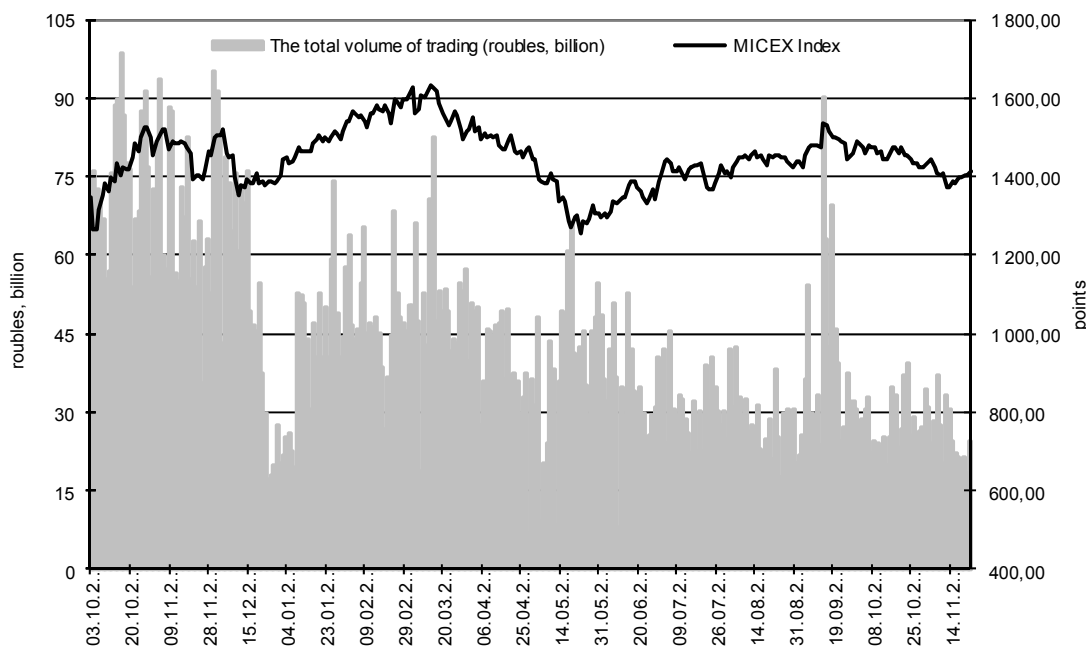


Fig.2. Dynamics of the main USA, Japanese and Russian stock indexes (in % to the date 01.10.2011)

Stock market situation development

Within the month, the maximum value of the MICEX index was demonstrated on November 6, having reached 1,446.5 p. (versus 1,490.2 p. in the preceding month). The minimum value of the MICEX index at 1,372.2 p. has been reached on November 14 (against 1,431.9 p. in the preceding month) (See Fig. 3).

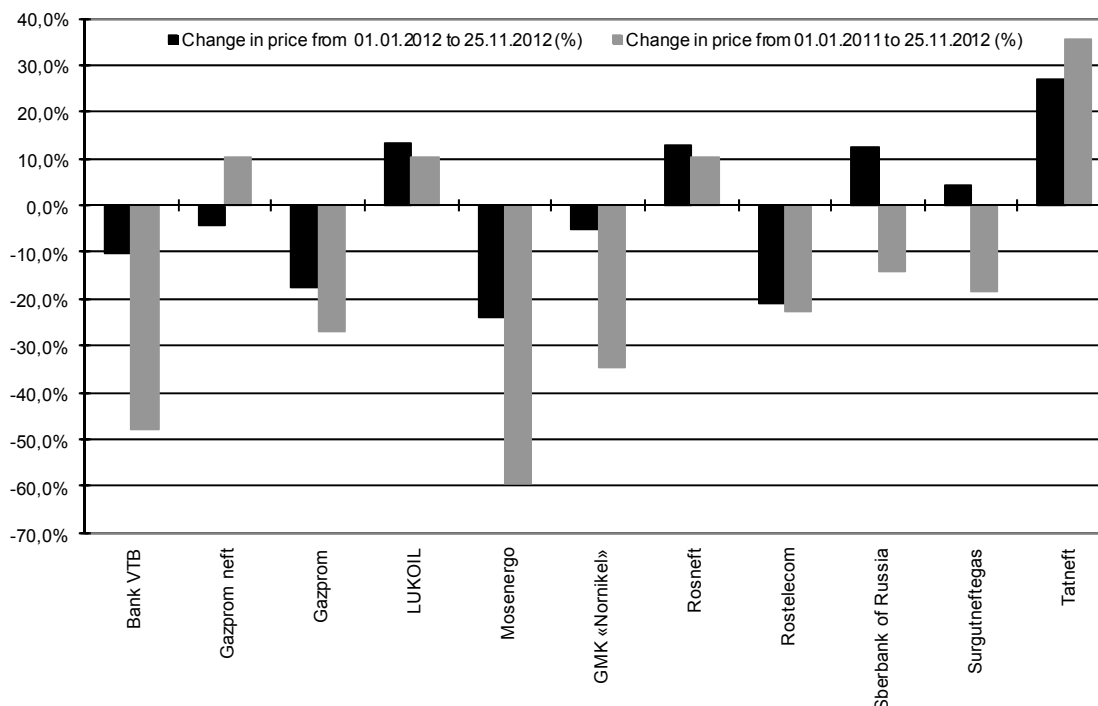


Source: OAO MICEX

Fig.3. Dynamics of MICEX Index and trading volume

Overall, in the period from October 30 to November 25, 2012, the MICEX index has declined by 1.3% (from November 26, 2011 to November 25, 2012, the MICEX index has increased by 0.2%), and the turnover of auctions included in the MICEX index reached Rb 494,9bn. Average daily activity of investors in the stock market in November has decreased by 6.7% as compared with the previous month.

Since the beginning of the year through November 25, 2012 the leaders in the value growth among the “blue chips” were securities of Tatneft, which value has increased by 27.2, while the leaders of decline, like a month earlier, were Mosenergo securities, downgraded by 23.8% (See Fig. 4).



Source: OAO MICEX

Fig.4. Dynamics of the Russian Blue Chips

According to the OAO MICEX, on November 25 of this year, five leaders of the domestic market in terms of capitalization were as follows: Gazprom – Rb 3,354bn (against Rb 3,569bn on October 29, 2012), Rosneft – Rb 2,556bn (against Rb 2,439bn), Sberbank of Russia – Rb 1,916bn (against Rb 1,976bn), LUKOIL – Rb 1,604bn (against Rb 1,604bn) and Surgutneftegas – Rb 937bn (against Rb 978bn).

Futures and Options Market

In FORTS market, the average daily activity of investors from October 30 to November 25, 2012 has decreased by 9% as compared with the previous month. Herewith, the leaders in terms of trading in futures were contracts for the RTS index, followed with a significant lag by the contracts for Rb/\$ rate, for Euro/\$ rate, for the securities of Sberbank of Russia and Brent crude. Prices of the recent transactions, concluded for futures contracts for Rb/ \$ rate with the date of execution on December 15, 2012 were mostly within the range of Rb/\$ 31.2.-31.9, i.e., ruble weakening (by 0/2-2.5%) is expected by market participants as compared with the indicator of November 25, 2012 (to Rb/\$ 31.13), and with the date of execution on March 15,

2013 - within the range of Rb/\$ 31.7–32.4. Prices of recent transactions concluded on futures contracts for Rb/Euro rate with the execution date on December 15, 2012 were mostly in the range of Rb/Euro 40.2–4, i.e., a depreciation of the ruble by 0.2-2.1% is expected as compared with the indicator of November 25, 2012 –Rb/ Euro 40.14, and with the date of execution on March 15, 2013 - within Rb/ Euro 40.7–41.7.

The value of the futures contract for RTS index (based on prices of recent transactions) with the execution date on December 15 was within 1360–1440 p., i.e., market participants expect a 0-5% decline against the indicator of November 25, 2012. By March 15, 2013 market participants expect the RTS index value to be in the range of 1,380-1,430 points. Prices of recent transactions in futures contracts for the MICEX index with the date of execution on December 15, 2012 were in the range of 1,380-1,440 points, i.e., market participants in general expect a decline of MICEX index in the range of 0–2.3%, as compared with November 25, 2012. Options enjoyed a far less demand, from October 30 to November 25, 2012 their trading turnover made about Rb 219.4bn (versus Rb 381.3bn in futures). The leaders in terms of trading turnover were the marginal options for futures contracts on the RTS index.

Corporate bonds market

In November the volume of domestic corporate bonds market in Russia (at par value of circulating securities denominated in local currency) has grown again, though not so significantly as in preceding month, and reached the level of Rb 3,980.3bn, which is by 1.4% more than its value at the end of October¹. The growth of the market capacity is exclusively with an increased number of bond issues (865 issues of corporate bonds were offered in the national currency against 850 emissions at the end of the previous month), whereas the number of emitters recorded in the debt sector has decreased (333 emitters against 342 companies in October). In circulation there remain a number of bonds emissions issued in US dollars and one bonds issue in Japanese yen.

Investment activity in the secondary market of corporate bonds in November has decreased. Thus, from October 30 to November 23, the total volume of transactions in the MICEX amounted to Rb 116.3bn (for comparison, from September 25 to October 29, the trading turnover was equal to Rb 144.0bn), and the number of transactions within the period under review made 221.8000 (against 29.300 in the previous period)².

Index of the Russian corporate bond market IFX-Cbonds continued its steady growth trend. By the end of November of the current year its value increased by 2.4 points (or 076%) as compared with the value of late October. The average weighted yield of corporate bonds remains unchanged for two consecutive months and at the made 8.48% in late November against 8.48% at the end of preceding month (See *Fig. 5*). Stabilization of the indicator to some extent a result of mutual leveling of positive and negative effects in both, foreign and domestic markets.

Problems of the Eurozone continue to exert pressure on global financial markets. Until now, EU countries still cannot agree on a financial plan of Community for 2014-2020, and economic activity in the Eurozone continues to decrease. "Greek problem" has aggravated again,

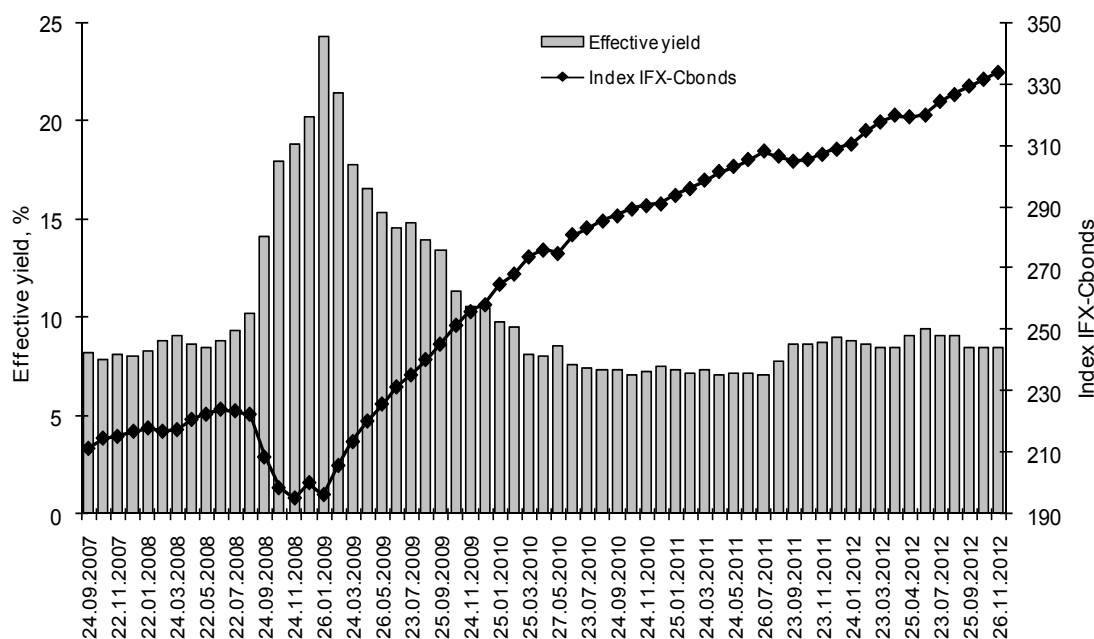
¹ Rusbonds Information Agency data.

² Finmarket Information Agency data.

while there is an outstanding problem of "fiscal breakdown" in the U.S., which can occur as early as 2013. In the second half of November, the sources of negative news were rating agencies: Standard & Poor's has downgraded the sovereign credit rating of Hungary and the national central bank, Moody has decreased France rating.

As positive news of the world market one can note a higher-than-expected GDP growth rates in leading EU countries.

The portfolio duration indicator of corporate bonds continued to decrease at the same rate as in October of the current year, and in late November made 547 days, which is by 28 days less than at the end of previous month.



Source: Cbonds data

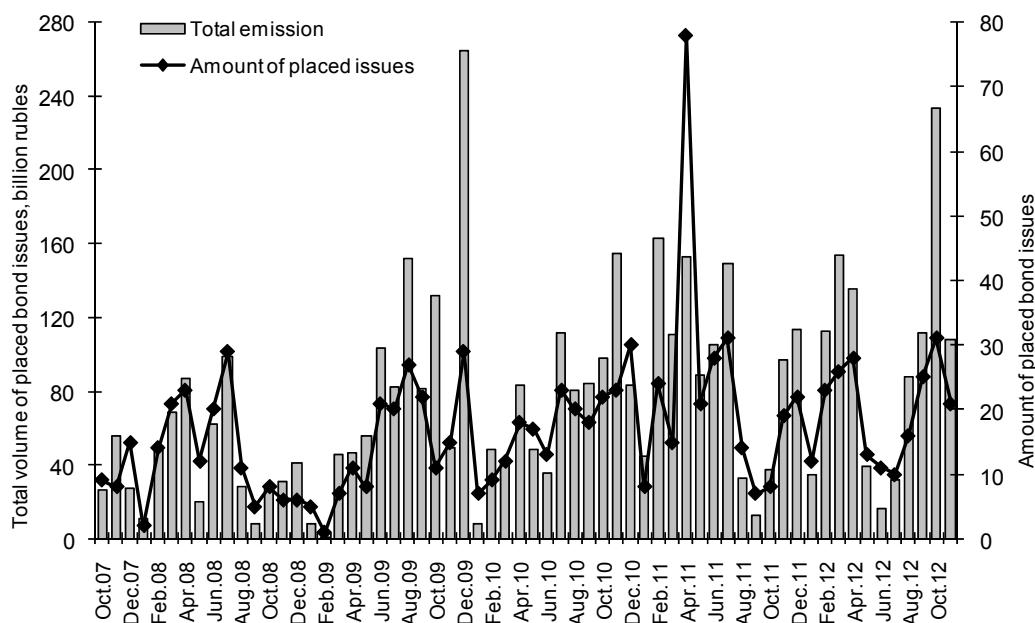
Fig. 5. Dynamics of the Russian corporate bonds market index and average weighted yield

Despite the sustained weighted average yield in the bond market, the yield of the most liquid bond issues was growing, which was especially expressed in financial sector. However, the most severe volatility of the yield on various bond issues, both downward and upward, was demonstrated over the past months the issuers of financial sector: "MDM Bank" and "Russian Agricultural Bank".

As expected last month, issuers have shown significant activity in the debt segment of the market, despite the stabilization of the market rates and fairly adverse external background. Thus, in the period from October 25 to November 26 this year, 26 issuers have placed 68 bond issues at the total face value of Rb 305.2bn (for comparison, from September 26 to October 24, there were placed 48 issues of bonds at face value of Rb 192.0bn). About half of registered issues were stock bonds. For the first time ruble bonds were placed by the International Financial Corporation (IFC, investment branch of the World Bank Group) for a total amount of Rb 23bn.

However, the activity of investors in the primary market is far less than indicators of issues placements, which may be due to the volatility external market situation. From October 25 to November 26 of current year companies placed 27 bond issues totaling to Rb 107.9bn (from

September 26 to October 24, there were placed 31 loans worth Rb 233bn) (See Fig.6). However, even these indicators have exceeded the average level of primary placements made this year. The largest bond issues were placed by ZAO NC "Rosneft" (2 bonds series worth Rb 20bn), OAO "ALROSA" (2 bonds series amounting to Rb 10bn), ZAO "UniCredit Bank" (2 bonds series in the amount of Rb 10bn) and OAO "Rostelecom" (one series worth Rb 10bn)³. Exchange bonds again made more than a half of registered issues. Again, there were placed several long-term loans: three issuers have raised funds for 10 years, one issuer - for 12 years, and OAO "Glavnaya Doroga" has placed bonds with maturity term up to 17 years.



Source: Rusbonds data

Fig. 6. Dynamics of primary placement of corporate bonds, denominated in national currency

In November this year, FFMS of Russia has recognized as invalid eight bond issues due to the non-placement of any securities, followed by rejection of state registration⁴. However, this indicates not the lack of investment demand at the bond market, but rather the changes of borrowing programs of issuers themselves, given that in November there were cancelled securities of such companies as "RusHydro" oil company "Alliance", "TMK".

From October 25 to November 26 of the current year, sixteen emitters were to pay off their issues for the total amount of Rb 107.7bn. However, one emitter failed to fulfill its liabilities to the bondholders in due time and announced a technical default. In December 2012, fifteen corporate bond issues totaling to Rb 61.4bn are expected to be paid off⁵.

The situation with the announcement of actual default (when the issuer is unable to pay return to securities holders even in a few days after the due date of liabilities) has changed to the better against the previous month. Thus, in the period from October 25 to November 26, all issuers have fulfilled their current liabilities or repaid the nominal value of bonds, and early

³ Rusbonds data.

⁴ FFMS of Russia data.

⁵ Rusbonds data.

redemption of the securities on offer were accomplished by all issuers in due time or at least within the framework of a technical default⁶.

Finally, it should be noted that a new kind of securities - infrastructure bonds can be soon found at the bond market. At the legislative level, this issue has already been discussed a few years ago, but there was no further development so far. In mid-November this year, Russian President authorized the Ministry of Finance of Russia and the Russian government to prepare proposals on the use of pension savings to issue infrastructure bonds before the end of the year⁷.

⁶ Cbonds data.

⁷ Interfax.