

FINANCIAL MARKETS IN JUNE 2014

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In June 2014, the MICEX Index fully recovered the loss sustained in May, the monthly average index reached 1486.0 points. VTB Bank's shares stopped growing in value in June, losing more than 10.6% in the period between May 30, 2014 and June 26, 2014. The Moscow Exchange trading volume reached Rb 620.5bn in the period between June 2 and 26, 2014. The stock exchange capitalization amounted to Rb 23.63 trillion (36.4% of GDP) as of June 26, 2014.

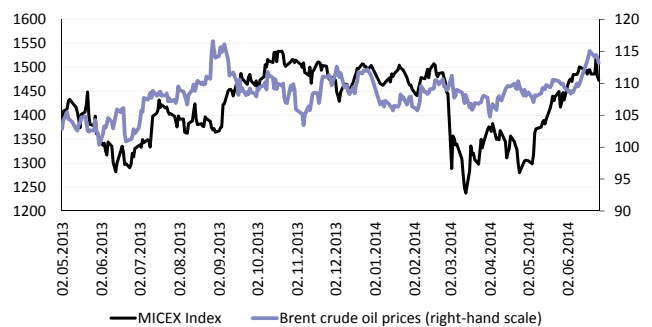
The key corporate bond market indicators, such as market volume and index, activity of issuers and investors improved in June 2014. At the same time, stabilization at high level of bond issue yield and reduction in duration constitute an adverse factor in the bond market.

Dynamics of the Russian stock market basic structural indices

The MICEX Index in June 2014 went up to the level observed at the end of February 2014. The Index monthly average was 1486.0 points in the period between June 2 and 26, 2014.

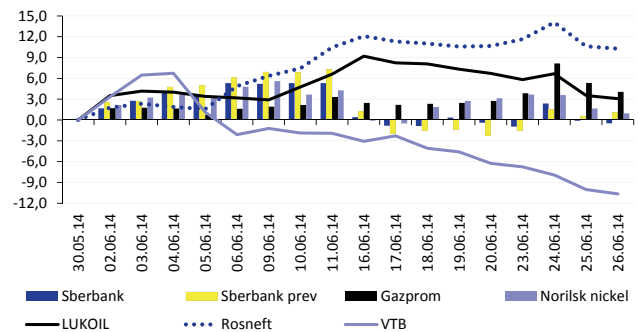
The first week in June 2014 saw steady growth in most liquid stocks. By June 11, they gained an average of 5.0%, except for VTB's shares which didn't grow during the same period. As a reminder, VTB's shares were growing within a period of three months since the beginning of March, reaching maximum of 5.1 kopeks per share on June 4, 2014. However no news that might have had an impact on the dynamics of VTB's stock could be found. At the second decade of June dynamics of the most liquid stocks saw various changes: growth rates in Sberbank's shares dropped to zero, whereas growth rates of LUKOIL's and Rosneft's shares increased by more than 7.5% since the beginning of the month. However, LUKOIL's shares began to lose in value by the end of the month, and neither purchase of shares by the LUKOIL managers, nor distribution of 2013 dividends, 22% more than in 2012, could promote any growth. At the same time, growth rates of Rosneft's shares remained at 10% since the beginning of the month.

Sberbank's shares showed a negative annual yield by June 26, 2014, with annual loss on common and preferred shares reaching 9.8% and more than 0.5% respectively since June 27, 2013. VTB Bank's shares sustained a loss of 9.7% since June 27, 2013. Norilsk Nickel's and Gazprom's shares gained most during the year. The iron-and-steel works gained 43.2% while Gazprom gained 37.0% in the period between June 27, 2013 and June 26, 2014. Distribution of 2013 dividends varied within a range of 2.34% of VTB Bank's shares on June 26, 2014 and 6.98% of Norilsk Nickel's shares closing value on the same date.



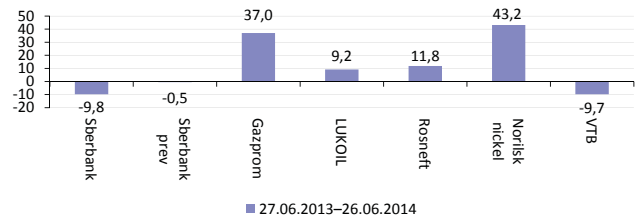
Source: RBK Quote.

Fig. 1. Dynamics of the MICEX Index and futures prices of Brent crude oil in the period between April 2, 2013 and June 26, 2014



Source: RBK Quote, author's estimates.

Fig. 2. Growth rates of most liquid Russian stocks in the Moscow Exchange in June 2014 (within a period since May 30, 2014)



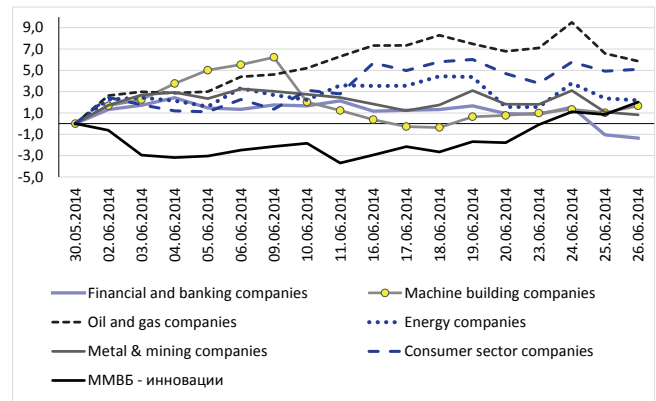
Source: RBK Quote, author's estimates.

Fig. 3. Growth rates of most liquid Russian stocks in the Moscow Exchange in the period between June 27, 2013 and June 26, 2014

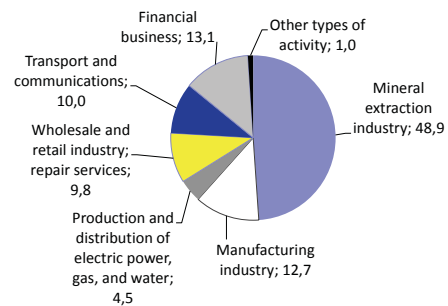
The oil and gas sector index went up 5.85% in the period between May 30, 2014 and June 26, 2014, gaining most among the sector indices in June 2014 in response to growth in prices of raw materials. The consumer sector index increased 5.09% since the beginning of June, in response to higher value of pharmaceutical companies Pharmstandard and Veropharm. Other sector indices increased more than 2% since the beginning of the month, except for dynamics of the MICEX-innovation index which lost 4% during the first half of the month. It was not until June 24, 2014 that this index managed to recover to the level observed at the beginning of the same month. It is worth noting that the finance and banking sector index lost 2% in growth during the period between June 24 and June 26, 2014, reaching a total loss of 1.35% since the beginning of the month.

Trading turnover in the Moscow Exchange in the period between June 2 and 26, 2014 reached Rb 620.5bn, a growth of 6.34% over the corresponding period in May 2014. Sberbank contributed an average 28.8% to the stock exchange turnover on a total of common and preferred stocks. It is only Gazprom, accounting for an average of 15.4% of the Moscow Exchange turnover in June 2014, that was able to compete with Sberbank. Therefore, the two major companies accounted for more than 47% of the trading turnover in the Moscow Exchange, whereas the next top-5 companies contributed an average of 28.0%. The eight most traded shares accounted for an average of 75.7% of the Moscow Exchange daily trading turnover.

According to the Emerging Portfolio Fund Research (EPFR), foundations investing in Russian shares saw \$108m of capital outflow in the period between May 29, 2014 and June 25, 2014. Moscow Interbank Currency Exchange (MICEX) capitalization amounted to Rb 23.6 trillion (36.4% of GDP) as of June 26, 2014, an increase of more than Rb 588bn (2.55%) in the period since May 30. In June 2014, the share of mineral production companies increased 1.37% to 48.9% in the



Source: RBK Quote, author's estimates.
 Fig. 4. Growth rates in various sector stock indices in the Moscow Exchange (within a period since March 27, 2014)

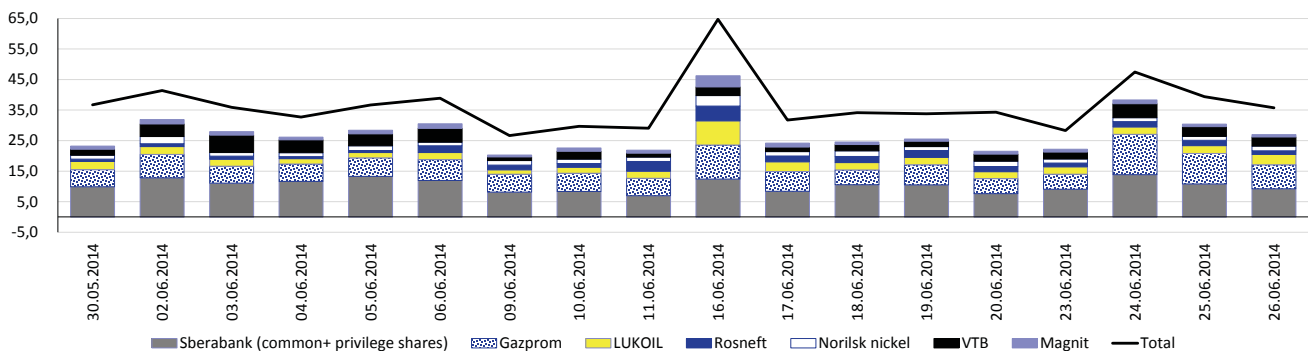


Source: The Moscow Exchange's official website, authors' estimates.
 Fig. 5. Stock market capitalization structure by type of economic activity

MICEX capitalization structure. At the same time, the share of financial companies shrank by 1.5% to 13.0%.

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) increased a bit in June 2014 after a decline in the period of March to April 2014. By the end of June this indicator increased up to Rb 5 273.7bn, a growth of 0.5% over the value



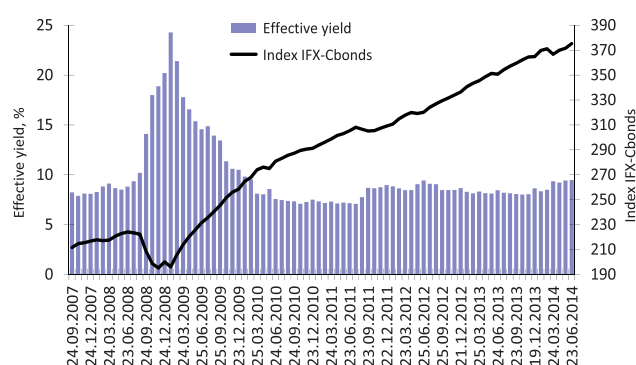
Source: RBK Quote, author's estimates.
 Fig. 6. Trading turnover structure in the Moscow Exchange (in the period between May 30, 2014 and June 26, 2014)

observed at the end of May¹. It should be noted that the number of issues decreased insignificantly over the elapsed period (1030 corporate bond issues registered in the national currency against 1034 issues at the preceding month end). The number of issuers in the debt segment decreased too (345 issuers against 353 companies in the preceding month). There were 17 outstanding issues of USD-denominated bond issues of Russian issuers (a total of more than \$2,7bn) and an outstanding JPY-denominated bond issue.

Investment activity in the secondary corporate bond market in June 2014, resumed, after a seasonal downturn in May, to its average level observed over the last few months. For instance, in the period between May 22, 2014 and June 23, 2014 the total volume of transactions in the Moscow Exchange amounted to Rb 108.9bn (to compare, trading volume amounted to Rb 76,3bn in the period between April 22, 2014 and May 21, 2014), while the number of transactions in the period under review increased up to 25,200 (the number of transactions in the previous period amounted to 23,800)².

The Russian corporate bond market index IFX-Cbonds kept growing, its value gained 3.8 points (or 1.0%) by the end of June over the value observed in at end of the preceding month. However, the bond average weighted yield increased insignificantly again, from 9.43% at the end of May to 9.48% by the end of June (Fig. 7)³. Furthermore, negative dynamics of the duration of the corporate bond portfolio increased: duration was 472 days as of the end of June, 82 less than the value observed as of the end of previous month. In this case, the dynamics can be explained by both shortening of the maturity of bonds and a timid gain in the market yield.

The most liquid segment of the corporate bond market saw different trends towards the yield of bond issues. Some issues of companies operating in the production and financial sectors showed highest volatility. For instance, OJSC METALLOINVEST, OJSC ALFA-BANK, OJSC Norisk Nickel saw a substantial decline (more than 1 p.p.) in the yield on their securities. OJSC Gazpromneft and OJSC Federal Grid Company of United Energy System saw a growth in the yield. Furthermore, it should be noted that higher than normal volatility in interest rates was observed along with increase in trading activity (volume of transactions on certain issues of the foregoing issuers increased Rb 0.5bn over the period under review). At the same time, producing companies lost an average loss of 0.36 p.p. in the yield of their securities. Moreover, financial companies



Source: According to Cbonds Information Agency.

Fig. 7. Dynamics of the Russian corporate bond market index and average weighted yield

also saw a decline, not nearly as substantial as that of producing companies though, in the yield of their securities.

The indicators of registration of new bond issues again made new records over the last few months. For example, 15 issuers registered 70 bond issues at an aggregate par value of Rb 489.6bn in the period between May 22, 2014 and June 23, 2014 (to compare, 61 bond issues at Rb 304.4bn were registered in the period between April 22, 2014 and May 21, 2014), which can be explained by reduced access to foreign funding. Major bond issues were registered by State Corporation 'Bank for Development and Foreign Economic Affairs (Vnesheconombank) (a bond issue at Rb 212.6bn), LLC VTB Capital Finance (26 bond issues at a total of Rb 110bn), LLC VTB Leasing Finance (eight issues of exchange bonds at Rb 68bn), OJSC Otkrytiye Holding (six issues of exchange bonds at Rb 31.5bn)⁴. It is worth noting with regard Vnesheconombank that it was a private offering, and the securities are to be purchased by the Central Bank of Russia. Exchange traded bonds accounted for only one third of all the bond issues that were registered, but there were a few debut issues among the registered bond issues.

Twenty one issuers issued 24 bond issues at an aggregate par value of Rb 82.9bn in the period between May 22, 2014 and June 23, 2014 (to compare, 15 series of bonds at a par value of Rb 51.38bn were issued in the period between April 22, 2014 and May 21, 2014) (Fig. 8). The largest bond issues were issued by OAO Bashneft Joint-Stock Company (a series of exchange traded bonds at Rb 10bn), OAO Gazprombank (a series of exchange traded bonds at Rb 10bn), and CJSC Unicredit Bank (a series of exchange traded bonds at Rb 10bn). Exchange traded bonds accounted for more than a half of the issues. Despite the remaining risks and capital outflow from Russian assets, two mortgage agents managed to raised funds for a period

1 According to Rusbonds information agency.

2 According to Finam Investment Company.

3 According to Cbonds Information Agency.

4 According to Rusbonds information agency.

of 32 and 25 years while another three issuers managed to borrow for a period of 10 years.

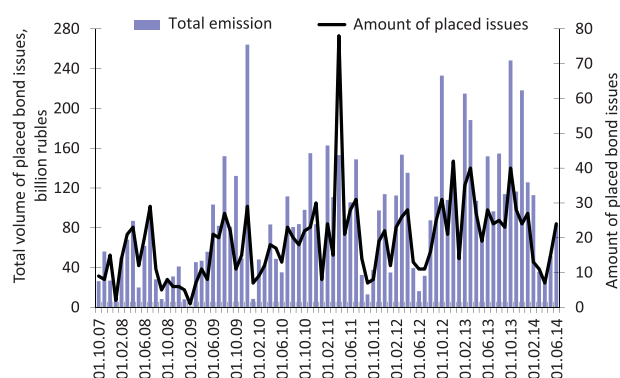
In June 2014, seven bond issues of LLC VTB Capital Finance, one of the major bond issuers, were declared void and cancelled for registration by the Bank of Russia for non-placement of a single bond (eight bond issues were declared void on the same grounds in the preceding month)¹. Considering that in June 2014 the said company registered 26 issues more, one can say the issuer itself changed time limits of the fundraising program.

Twenty issuers were to redeem their bonds at an aggregate value of Rb 52.3bn in the period between May 23, 2014 and June 23, 2014, however one of them failed to honor its obligations and declared a technical default (all issuers redeemed their bonds in the preceding period). Twenty four corporate bond issues at a total of Rb 89.4bn are to be redeemed in July 2014²

Additionally, technical defaults on the coupon yield and on the put date were declared in the period between May 23, 2014 and June 23, 2014. How-

1 According to the Bank of Russia.

2 According to Rusbonds company.



Source: According to Rusbonds information agency.

Fig. 8. Dynamics of initial public offerings of corporate bonds denominated in the national currency

ever, no real defaults³ on coupon yield payment and early redemption of securities on the put date and full repayment⁴ were reported, like in the previous months.

3 I.e. situations when the issuer is unable to pay to bondholders even within a "grace period".

4 According to Rusbonds company.