

FINANCIAL MARKETS IN SEPTEMBER 2014

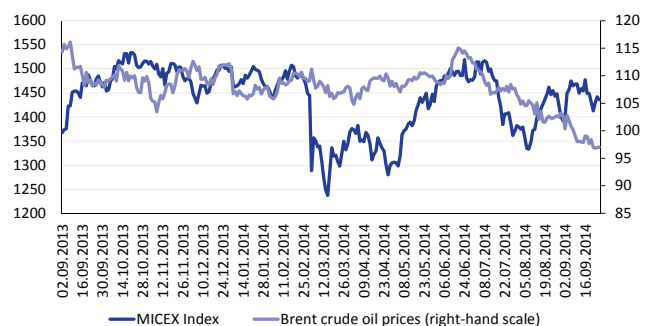
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In September 2014, the MICEX Index saw an uptrend starting at 1392 and reaching a month high of 1477 by September 16 but then went down to 1430 and stood still until the end of the month. The MICEX capitalization was Rb 22,8trillion (35.2% of GDP) by September 25. At the same time, the share of traded highly liquid stocks saw a decline in August. The Russian corporate bond market in September kept facing poor market conditions because of mounting external pressure upon the Russian economy and after the Chairman of the Board of AFC Systema was placed under house arrest. Increasing dynamics of the weighted average yield of bond issues remained the key adverse development in the market, whereas the key market indicators (in particular the market volume and index) showed stabilization.

Dynamics of the Russian stock market basic structural indices

September 2014 saw a new round of tensions in foreign affairs and a recession in the Russian stock market. The MICEX Index closed at 1392.4 on September 1, 2014 but recovered to 1450 in response to no actual economic sanctions on Russia early at the end of the first week in September. The Index reached a month high of 1477 by September 16, but then went down to 1430 points and saw no further movement until the end of the month.

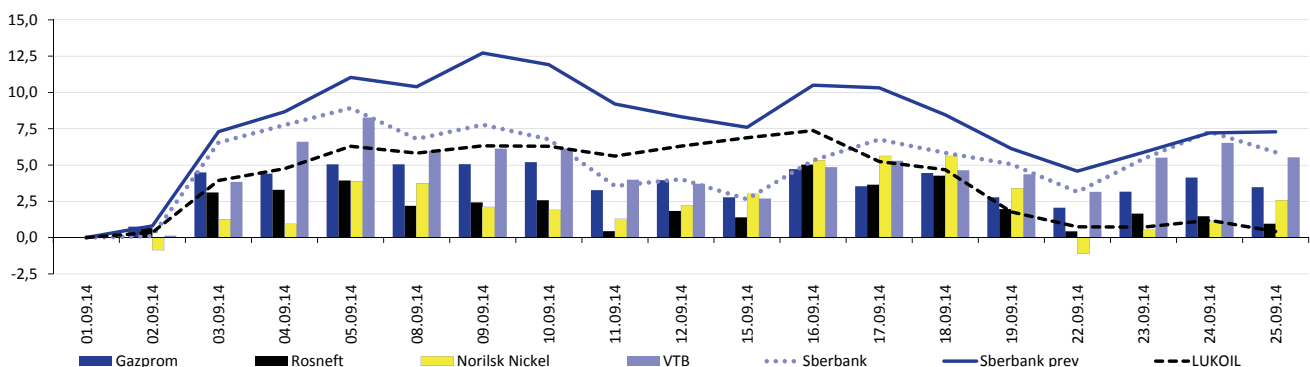
Highly liquid stocks tended to grow in September in spite of the fact that in August they were went down in response to western sanctions. During the first decade of September Sberbank common shares gained 7.8% while its preferred shares went up by more than 12.7%. By September 25 common and preferred shares in Sberbank rose 5.8% and 7.2% respectively compared to their quotations early in the month. Another bank, shares in VTB saw the same dynamics during the given period: rising high (7.5%) in the period of September 1 thru September 5, and stabilized by September 25 at a level of 5.5% gained



Source: RBK Quote.

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

since the beginning of the month. In September, shares in Gazprom gained 3.5% in value in the period between September 1 and September 25. In September, shares in LUKOIL and Rosneft also saw growth, by September 16 and September 17 they gained a maximum of 7.3% and 5% by respectively, but the uptrend stopped by the end of the month.



Source: RBK Quote, author's estimates.

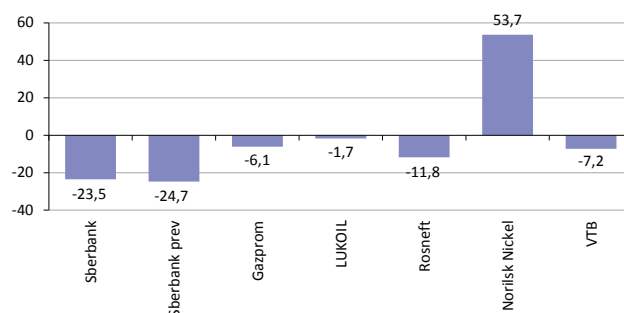
Fig. 2. Growth rates of most highly liquid Russian stocks in the Moscow Exchange in the period between September 1, 2014 and September 25, 2014

Shares in Sberbank showed a negative annual yield by September 25, with annual loss on common and preferred shares reaching 23.5%¹ and more than 24.7% respectively since September 25, 2013. Shares in VTB Bank sustained a loss of 7.2% since September 25, 2013. Shares in Norilsk Nickel gained considerably since the beginning of 2014, resulting in 53.7% of annual yield, exclusive of the dividends accounting for 6.5% of the value observed on August 29, 2014.

Up to September 17 the machine-building sector index lost more than 7% since the beginning of the month. The loss was caused mostly by a 10.7% fall in the value of shares in Sollers Holding in the period between September 1 and September 25. Additionally, the finance and banking sector index also dropped at the end of the second decade of the month. The index plummeted in response to a 36.9% devaluation of shares in AFK System in one day after its chairman was placed under house arrest. The index finally lost 7% in one day and saw a fall of 8.25% by September 22. It was the consumer sector index that was leading in growth, gaining 7.6% in the period between September 1 and September 25. The oil and gas sector indices were up 3.3% and 1.9% respectively in the period between September 1 and September 25.

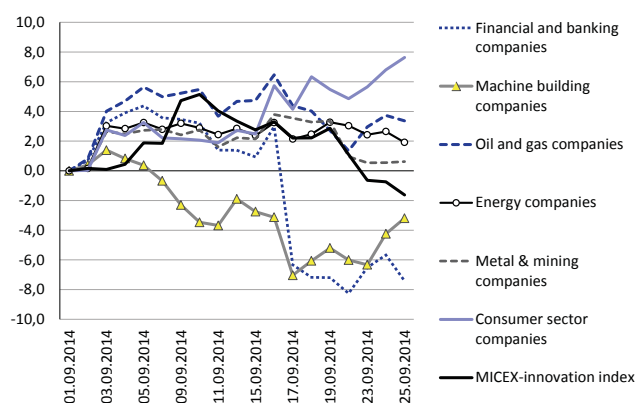
Trading turnover in the Moscow Exchange in the period between September 1 and September 25 amounted to Rb 609,8bn, 18.1% higher than in the same period in August. Sberbank's total turnover on common and preferred shares contributed 36.2% on average to the stock exchange turnover. Shares in Gazprom were ranked 2nd, accounting for an average of 12.6% of the Moscow Exchange trading turnover in September. Therefore, the two most highly liquid shares accounted for more than 49% of the Moscow Exchange trading turnover, being far below the value observed in August, while the next top-5 most traded shares accounted for an average of 21.6% of the Moscow Exchange trading turnover. The eight most traded shares accounted for an average of 70.4% of the Moscow Exchange daily trading turnover, which is less than in the preceding month, because of the trading turnover on shares in AFK System which increased nine times in one day.

According to the Emerging Portfolio Fund Research (EPFR), foundations investing in Russian shares saw \$386,1m of capital inflow in the period between August 28 and September 24, 2014. Moscow Interbank Currency Exchange (MICEX) capitalization amounted to Rb 22,8trillion (35.2% of GDP) as of



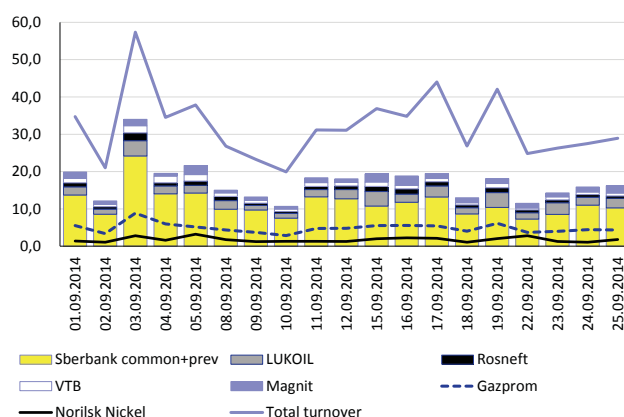
Source: RBK Quote, author's estimates.

Fig. 3. Growth rates of most highly liquid Russian stocks in the Moscow Exchange in the period between August 30, 2013 and August 29, 2014



Source: RBK Quote, author's estimates.

Fig. 4. Growth rates in various sector stock indices in the Moscow Exchange in the period between September 1, 2014 and September 25, 2014)



Source: RBK Quote, author's estimates.

Fig. 5. Trading turnover structure in the Moscow Exchange (in the period between September 1, 2014 and September 25, 2014), billions of rubles

1 Annual yield on shares is calculated on the basis of shares price movement and doesn't include dividends paid to shareholders following the results of the annual general meeting of shareholders.

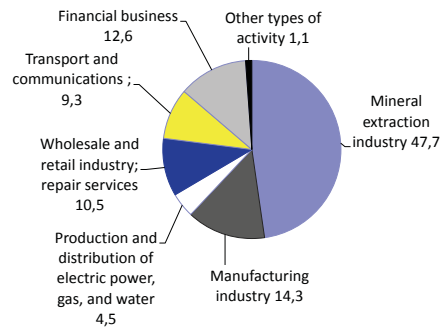
September 25, 2014, up by more than Rb 360,0bn (1.6%) in the period since September 1. In September, the share of financial companies shrank by 12.6% from 0.35% in the MICEX capitalization structure. Furthermore, the share of mineral production companies shrank by 0.4% to 47.3% of total capitalization. The decline in the share of the foregoing sectors was offset by growth in the share of retail and wholesale trade companies.

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) remained basically unchanged in September after a substantial growth in the previous months. By the end of September it amounted to Rb 5,588,2bn, only 1.0% higher than value observed as of the end of August this year¹. At the same time, the number of bond issues increased slightly over the elapsed period (1031 corporate bond issues registered in the national currency against as of the end of September against 1026 issues registered as of the end of August), whereas the number of issuers in the debt segment even reduced (344 issuers in September against 346 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.

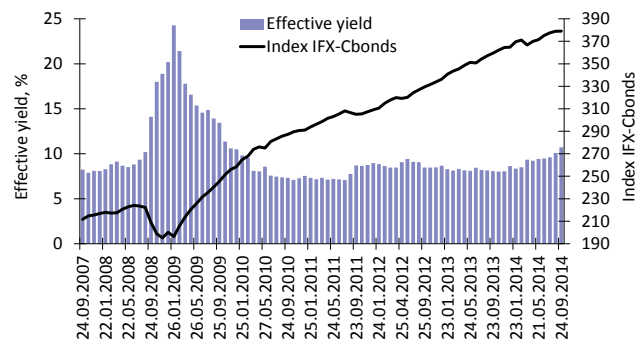
Investment activity in the secondary corporate bond market in September demonstrated a moderate growth after a strong downtrend in the previous month. For instance, in the period between August 26 and September 24 the total volume of transactions in the Moscow Exchange amounted to Rb 97,0bn (to compare, trading volume amounted to Rb 91,5bn in the period between July 25 and August 25). At the same time, the number of transactions in the period under review reduced timidly to 26,400 (the number of transactions in the previous period amounted to 27,600), but remained at the annual average level².

The Russian corporate bond market index IFX-Cbonds basically stopped growing. By the end of September the index gained only 0.1 points (or 0.02%) compared to the value observed as of the end of the preceding month. At the same time, the bond average weighted yield increased significantly again to 10.72% by the end of September from 10.09% late in August, the highest value since the end of the crisis-hit 2009 (Fig. 7)³. The corporate bond portfolio duration in-



Source: The Moscow Exchange's official website, authors' estimates.

Fig. 6. Stock market capitalization structure by type of economic activity in September 2014



Source: According to the data reported by Cbonds Information Agency.

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

creased unexpectedly after a few months of adverse dynamics: the duration was 456 days as of the end of September, 46 days longer than the period observed as of the end of the preceding month. Due to rising interest rates in the bond market this dynamics can be explained by longer maturity of bonds.

Unfavorable projections of the key economic development indicators (in particular, the Ministry of Economic Development downgraded its 2015 forecast of GDP growth to 1% from 2% and inflation growth up to 7.5%⁴ based on the results obtained in 2014) scale up the risks of investing in the securities of Russian issuers, thereby boosting the market yield.

The most highly liquid segment of the corporate bond market saw an overall uptrend in the yield of bond issues in September. Certain issues of production companies (and their affiliates) saw the highest growth in rates (more than 1 p.p.), followed by active sales of bonds: OJSC Bashneft, LLC Gazprom Capital, OJSC MMC Norilsk Nickel. At the same time, some of finance companies saw equally substantial downtrend, namely OJSC AK BARS, OJSC MDM Bank, OJSC Otkritie FC Bank. Furthermore, it's worth noting that

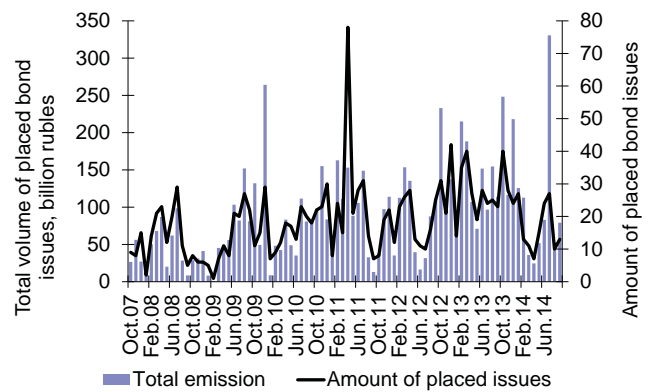
1 According to the data reported by Rusbonds information agency.
 2 According to the data reported by Finam Investment Company.
 3 According to the data reported by Cbonds Information Agency.

4 According to the data reported by Cbonds Information Agency.

the yield average dynamics in the financial sector as well as among the largest energy companies was less visible in the period under review. It was the production and high-tech companies that showed much stronger growth (rates increased by an average of 0.7 p.p. and 0.2 p.p. respectively). Therefore, it was the production sector that came to be most vulnerable to adverse external developments¹.

The indicators of registration of new bond issues saw a decline in September after the increased activity of issuers in registration of new issues in August. For instance, For example, 10 issuers registered 29 bond issues at an aggregate par value of Rb 67,3bn in the period between August 26 and September, 2014 (to compare, 25 bond issues at Rb 163,7bn were registered in the period between July 25 and August 25, 2014). Major bond issues were registered by OJSC PIK Group of Companies (seven bond issues at a total of Rb 29bn) and CJSC TPGC-Finance (three issues of exchange bonds at Rb 15bn)². Furthermore, another nine issues of securities were placed, without disclosing the issue parameters, because they were supposed to be privately traded among qualified investors. Exchange traded bonds accounted for more than 50% of the registered issues, but also there were a few debut issues among the registered bond issues.

The situation in the primary market improved a bit compared to the last period, however the investment activity indicators kept were still behind the annual average. For instance, in the period between August 26 and September 24 only 12 issuers managed to place 13 bond issues at an aggregate par value of Rb 79,1bn (to compare, 10 series of bonds at Rb 52,6bn were placed in the period between July 25 and August 25) (see Fig. 8). State Corporation 'Bank for Development and Foreign Economic Affairs' (Vnesheconombank) (a series of exchange traded bonds at Rb 20bn), LLC OGC Finance (a series of exchange traded bonds at Rb 15bn), OJSC Raiffaisen Bank (a series of exchange traded bonds at Rb 10bn) and OJSC Alfa-Bank (two series of exchange traded bonds at an aggregate value of Rb 10bn)³ placed the largest bonds issues. Almost all of the issues were exchange traded bonds. However in September, like in the previous month, issuers ma-



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

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

naged to raise for the mid-run (5 years or less), except Vnesheconombank and Alfa-Bank, both are largest credit institutions, which issued a bond with a maturity of 15 years.

In September, none of the bond issues was declared void and cancelled for registration by the Bank of Russia for non-placement of a single bond (nine bond issues were declared void on the same grounds in the preceding month)⁴. Considering a great deal of new issue registrations, it's worth noting that most of the issuers postponed their initial public offering to avoid a potential cancellation of securities issue.

Twelve issuers were to redeem their bond at an aggregate par value of Rb 24,2bn in the period between August 26 and September 24. However, one failed to honor its obligations and declared a technical default (all issuers redeemed their bonds in the preceding period). Six corporate bond issues at a total of Rb 17,5bn are to be redeemed in October 2014⁵.

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 between August 26 and September 24, like in the preceding period)⁶.

1 According to the data reported by Finam Investment Company.

2 According to the data reported by Rusbonds information agency.

3 According to the data reported by Rusbonds information agency.

4 According to the data reported by the Bank of Russia.

5 According to the data reported by Rusbonds information agency.

6 According to the data reported by Rusbonds information agency.