

THE CORPORATE BOND MARKET

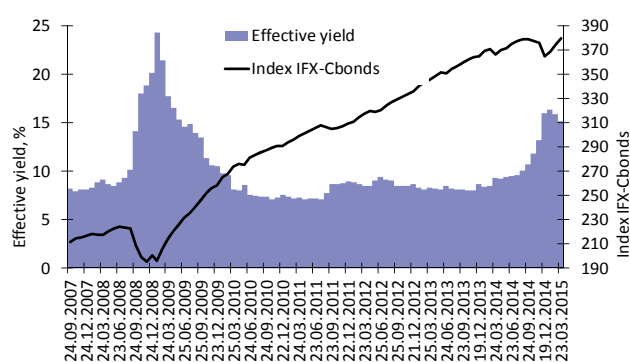
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In March, the situation on Russia's domestic corporate bond market began to show some signs of stabilization, displayed by key market indicators, such as the market volume and the market index, as well as issuer activity; the weighted average effective yield on bond issues declined, although its level remains quite high. The main negative market manifestation was the low investment activity. The situation with regard to fulfillment, by bond issuers, of their obligations to bondholders was also rather precarious.

In early 2015, 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 grow in spite of the complicated situation in the economy, albeit at a much slower rate. By the end of March, this index hit yet another record high of Rb 7,059.3bn, which, however, is only 0.6% above its value as of the end of February¹. The period under consideration (from 21 February through 23 March) saw a slight decline in the number of issued bond loans (1,083 ruble-denominated corporate bond issues vs. 1,088 issues over the period from 23 January through 20 February), whereas the number of emitters represented in the debt segment increased (359 vs. 354 companies). As before, a total of 16 US dollar-denominated bond issues (with an aggregate face value of above \$ 2.2bn) and one yen-denominated bond issue placed by Russian emitters are circulating on the MICEX.

After the unexpected surge in investment activity on the secondary corporate bond market in early February 2015, this index once again declined, which can be explained by its seasonal downward movement due to fewer trading days in the period under consideration. So, over the period from 21 February through March 2015, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 77.4bn (for reference: over the period from 23 January through 20 February, the monthly trade turnover amounted to Rb 118.2bn). However, the number of transactions carried out over that period, in spite of a slight decline, still remained high and amounted to 30 thousand (vs. 36.1 thousand over the previous period)², a fact that points to special interest displayed towards these stocks by retail investors.

In March, the IFX-Cbonds index of the Russian corporate bond market continued to be on the rise. By the end of March it had increased by 5.6 points (or 1.5%) on late February. At the same time, the weigh-



Source: According to data released by the Cbonds company.

Fig. 1. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of Its Weighted Average Effective Yield

ted average effective yield on corporate bonds was also demonstrating an increasingly positive trend, having declined from 15.91% in late February to 15.13% towards the end of the period under consideration (Fig. 1)³. The corporate bond portfolio duration index after a protracted decline once again surged, and as of the end of March amounted to 501 days, which represented a 208-day rise on late February. This can be interpreted as the market's response to the financial regulator's measures designed to soften the current monetary policy by lowering, in mid-March, its key rate by 1 p.p. – a move that investors found to be by no means unexpected.

In late February and in March, fundamental factors were displaying a trend that was very favorable for the Russian financial market: rising priced of oil, stabilization and even some signs of the ruble's strengthening foreign exchange rate, investor expectations oriented to a declining inflation rate, and a successful resolution of the problem posed by liquidity deficit in the banking system (banks were actively attracting funds in the form of deposits from the RF Treasury, State Corporation – Foundation for Promoting Reform in the

1 According to data released by the Rusbonds information agency.

2 According to data released by the Finam investment company.

3 According to data released by the Cbonds information agency.

Housing and Utilities Complex, Vnesheconombank, ACGRF (Agency for Credit Guarantees¹).

However, the debt market is still operating under the influence of negative external factors. Thus, in particular, international rating agencies continue to downgrade Russia's corporate ratings and their forecasts for the ratings of Russian issuers of securities, especially after yet another agency (Moody's), following S&P's example, had downgraded Russia's sovereign rating to the speculative BB+ level in late February. Among the companies whose corporate ratings and forecasts have been thus downgraded, there are Sberbank of Russia, VTB Bank, Gazprombank, OJSC Russian Agricultural Bank (Rosselkhozbank), AHML, Vnesheconombank, Alfa-Bank, Bank Financial Corporation OTKRITIE, Promsvyazbank, Bank Saint Petersburg, Vozrozhdenie Bank, ZENIT Banking Group, Raiffeisenbank, ROSBANK, Gazprom, Gazprom Neft, Rosneft, LUKOil, Norilsk Nickel, NLMK Group, URALKALI, Megafon, RusHydro, AtomEnergoProm, Transneft, etc.² These circumstances can give rise to no optimism with regard to future capital outflow statistics, as the policies of many investment funds rely directly on rating scores. Besides, Moody's analysts predict the year-end inflation rate for 2015 to hit its record high of 22%, while OECD expects speak of an economic growth slowdown in Russia. For their part, Russian expects are more optimistic: the RF Ministry of Finance and the RF Central Bank predict the inflation rate to be at the level of approximately 12%, while the RF Ministry of Economic Development expects the recession in the national economy to be short-lived.

In spite of the still complicated situation in the financial market, the RF Central Bank continued its purge of the banking and insurance sectors. Thus, in particular, the financial regulator revoked the licenses of non-banking credit institution Delta Key and several insurance companies – Sozidanie LLC, Socium LLC, STOLA, Promstrakhrezerv³.

Over the period under consideration, in the most liquid segment of the corporate bond market the decline in yields continued. The most significant drop in the interest rate (by more than 2 p.p.) was demonstrated by the following companies: VimpelCom-Invest LLC, Gazprom Neft OJSC, Vnesheconombank, ZENIT Banking Group. However, some of the issues placed by companies operating in the industrial sector were demonstrating a multi-vector movement of their yields (in particular, Russian Railways JSC, OJSC VimpelCom). In contrast to the situation observed over the previous months, the most significant yield drop among liquid

securities was demonstrated by the financial and energy segments (on the average by nearly 1 p.p.), while the corresponding movement in the hi-tech and industrial segments did not exceed 0.6 p.p. – that is, less than the decline demonstrated by the RF Central Bank's key rate⁴. It is noteworthy that in March, investors continued to display a high interest towards industrial companies and big energy producers, especially because the international rating agencies rated high the current financial status of Russia's energy producers⁵.

The relative stabilization of the situation on the bond market resulted in a higher activity on the market for initial placements of bond issues. Thus, over the period from 21 February through 23 March 2015, 12 emitters registered a total of 70 bond issues with a total nominal value of Rb 333.1bn (for reference: in the period from 23 January through 20 February, a total of 33 bond series with a total nominal value of Rb 109.0bn were placed)⁶. Big bond issues were placed by Russian Railways JSC (11 bond series with a total nominal value of Rb 145bn), VTB-Leasing Finance LLC (6 exchange-traded bond issues with a total nominal value of Rb 95bn), and OJSC Sberbank of Russia (34 exchange-traded bond issues with a total nominal value of Rb 50bn). Exchange-traded bonds accounted for more than half of all the newly registered bond issues.

Due to the effects of seasonal factors, investment activity declined not only on the secondary, but also on the primary market. Thus, over the period from 21 February through 23 March 2015, 9 emitters placed 10 ruble-denominated bond loans with a total nominal value of Rb 34bn, and 1 emitter placed a bond loan denominated in foreign currency with a total nominal value of \$ 153m (for reference: in the period from 23 January through 20 February, a total of 26 bond series with a total nominal value of Rb 478.7bn were placed, although this high index was achieved thanks to the activity of just one of the bond market's major players – Fig. 2). Big bond issues were placed by OJSC VEB Leasing (2 exchange-traded bond issues with a total nominal value of Rb 10bn), OJSC Russian Agricultural Bank (Rosselkhozbank) (1 exchange-traded bond issue with a total nominal value of Rb 5bn), Sviaz Bank (1 exchange-traded bond issue with a total nominal value of Rb 5bn), and State Transport Leasing Company (1 exchange-traded bond issue with a total nominal value of Rb 5bn)⁷. All the ruble-denominated bond loans placed during the period under consideration were exchange-traded bonds with no less than

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6 According to data released by the Rusbonds information agency.
7 According to data released by the Rusbonds information agency.

10 years of circulation period. As a separate note, it can be specified that ROSBANK placed bonds with structured interest rates, the coupon rate of 0.01% per annum and an additional yield pegged to the market movement of shares in Yandex. This is by no means the first placement of structural bonds attempted by ROSBANK; besides, bond loans of this type have already been attracted, for example, by UniCredit Bank, VTB Bank, and OJSC Sberbank of Russia. According to the issuers of such bonds, investor interest in such securities will be constantly on the rise.

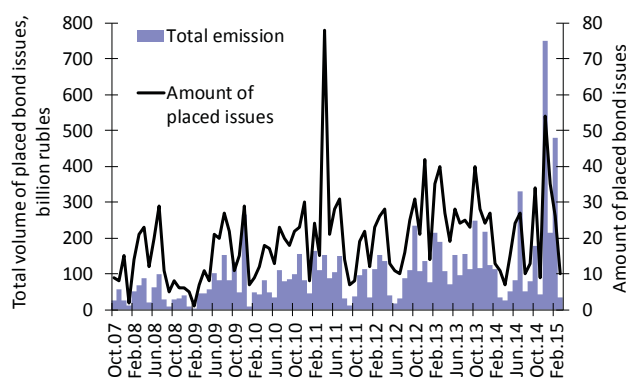
In late February and March 2015, the Bank of Russia did not annul any corporate bond issue due to the emitter's failure to place even a single security (while over the previous periods more than 10 bond issues had been annulled every month because their emitters themselves were making adjustments to their plans for attracting external funds)¹.

The currently complicated situation in the national economy notwithstanding, over the period from 21 February through 23 March 2015, 12 emitters redeemed 18 bond issues with a total face value of Rb 84.2bn (in the previous period, all the emitters likewise redeemed their bond issues in due time). In April 2015, the redemption of 33 issues of corporate bonds with a total face value of Rb 100.7bn is expected².

The situation with regard to the fulfillment, by emitters, of their obligations to bond holders remains

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Source: According to data released by the Rusbonds company.

Fig. 2. Dynamics of the Primary Placements of Issues of Ruble-denominated Corporate Bonds

rather uneasy: one issuer declared a technical default on the buyback offers on three issues to their current holders, another one declared several technical and real defaults³ on the payment of the coupons (the previous period had likewise seen several technical and real defaults)⁴. At the same time, in the period under consideration, similarly to the situation in the bond market over the last few months, there were no real defaults on the redemption of a whole bond loan.

3 That is, when the emitter fails to make due payments on securities even during the payment grace period.

4 According to data released by the Rusbonds information agency.