

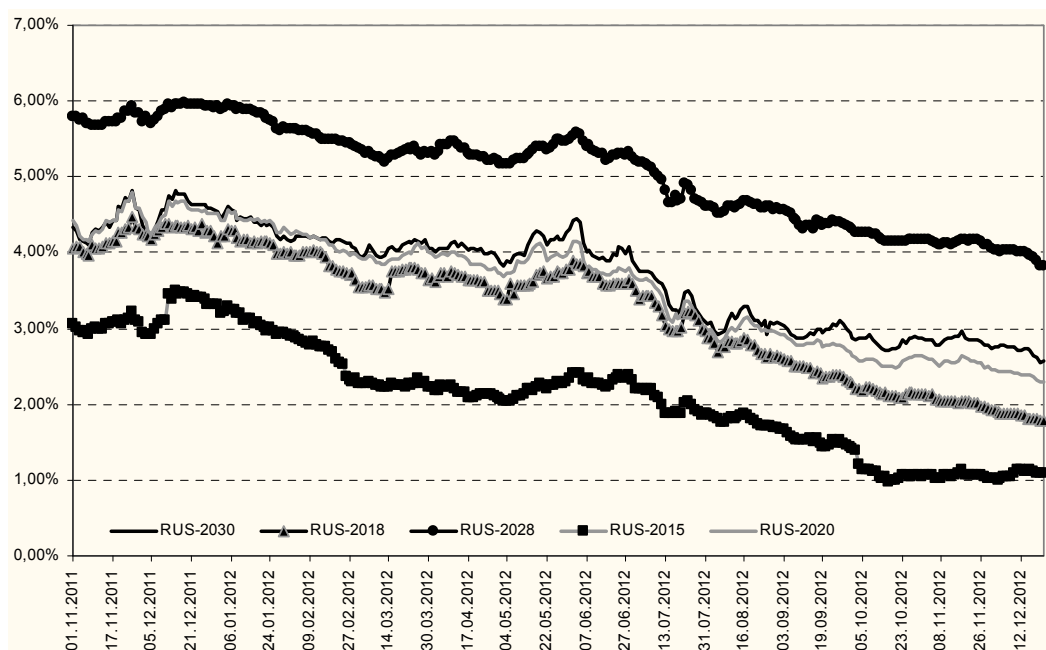
Natalia Burkova, Elizaveta Khudko

Financial Markets

In December 2012, the Russian financial markets demonstrated a similar trend to the previous months, characterized by significant volatility. An average monthly trading volume of the Russian Federation for the period increased by 4%, while the market for government securities and futures decreased by 2% and 4%, respectively. Positive trend in the domestic corporate bond market was reflected by the key market indicators: market volume and index, as well as by the activity of issuers and investors in the primary and secondary markets. During the month, a number of long-term mortgage bond issues were offered in the market.

Government securities market

In December the stagnation of global financial markets was continued in the absence of any significant domestic and external developments which could provide an effect in the market: the yield to maturity of government securities continued to decline (by 8-12%), despite the decreased investors' activity in this sector. Growth of 1.4% 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 November 26 to December 23, 2012, the total turnover in the secondary market of government bonds amounted to Rb 60bn with an average daily turnover at the level of Rb 3bn, which means the decline of the average monthly turnover by 1.7% as compared with the preceding period.

From November 26 to December 23 there were held six auctions (vs. four auctions a month earlier) in federal loan bonds (OFZ) placement in the primary market (See Table 1). The total actual amount of placement made 74% of the planned volume (against 84% 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
28.11.2012	ОФЗ-25080-ПД	15 000.00	13 499.00	6.80
05.12.2012	ОФЗ-26207-ПД	25 000.00	9 091.00	6.99
12.12.2012	ОФЗ-25080-ПД	19 989.00	19 989.00	6.48
12.12.2012	ОФЗ-26209-ПД	30 000.00	30 000.00	6.81
19.12.2012	ОФЗ-26207-ПД	16 479.65	6 564.00	7.03
19.12.2012	ОФЗ-26210-ПД	30 000.00	21 439.00	6.61
Total:		136 468.65	100 582.00	

Source: Russian Ministry of Finance.

Stock market

Factors of the Russian stock market dynamics

The growth of the Russian stock market in December was affected by the information on increased U.S. GDP over QIII 2012 by 2.7% in annual terms, the decision of Germany on new measures to support Greece, sustained key interest rates by the European Central Bank and the Bank of England. Herewith, factors hindering the growth of the Russian market were the reduced long-term credit rating of the Eurozone Stabilization Fund from "AAA" to "Aa1" with "negative" outlook by Moody's international agency, the revision of the Bundesbank its June forecast of German GDP growth in 2013 from 1.6% to 0.4%, declined OECD forecast growth in the Russian economy for 2012 (from 4.5 to 3.4%) and for 2013 (from 4.1 to 3.8%).

Since the beginning of the year the global market has increased by 1-39%, except for the Chinese and Chile markets, whose basic stock indices Shanghai Composite and IPSA have declined by 8 and 1% accordingly (see *Table 2* and *Fig.2*).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES

Index	Value (as of 23.12.2012)	Dynamics within the month (%)*	Dynamics from the year beginning (%)
MICEX (Russia)	1 477.44	4.55	0.78
RTS (Russia)	1 512.18	5.58	3.65
Dow Jones Industrial Average (USA)	13 190.84	1.39	6.48
NASDAQ Composite (USA)	3 021.01	1.83	13.88
S&P 500 (USA)	1 430.15	1.49	12.05
FTSE 100 (UK)	5 939.99	2.08	4.43
DAX-30 (Germany)	7 636.23	4.48	23.92
CAC-40 (France)	3 661.40	3.76	11.68
Swiss Market (Switzerland)	6 889.54	2.60	13.12
Nikkei-225 (Japan)	9 940.06	6.12	10.78
Bovespa (Brazil)	61 007.03	5.96	1.44
IPC (Mexico)	43 621.62	4.06	13.06
IPSA (Chile)	4 293.78	3.63	-0.82
Straits Times (Singapore)	3 163.56	5.83	12.96
Seoul Composite (South Korea)	1 980.42	3.61	4.69
ISE National-100 (Turkey)	76 684.74	8.00	38.50
BSE 30 (India)	19 242.00	3.97	19.75
Shanghai Composite (China)	2 153.31	6.21	-7.82
Morgan Stanley Emerging&Frontier Markets Index	823.37	4.68	8.47

* – versus index values as of November 25, 2012.

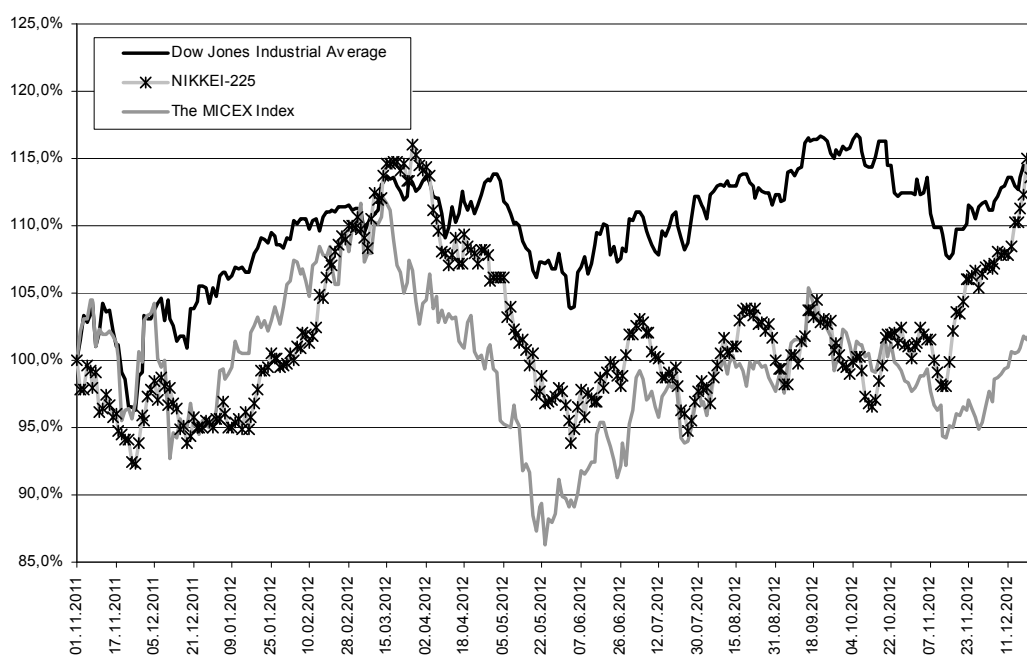
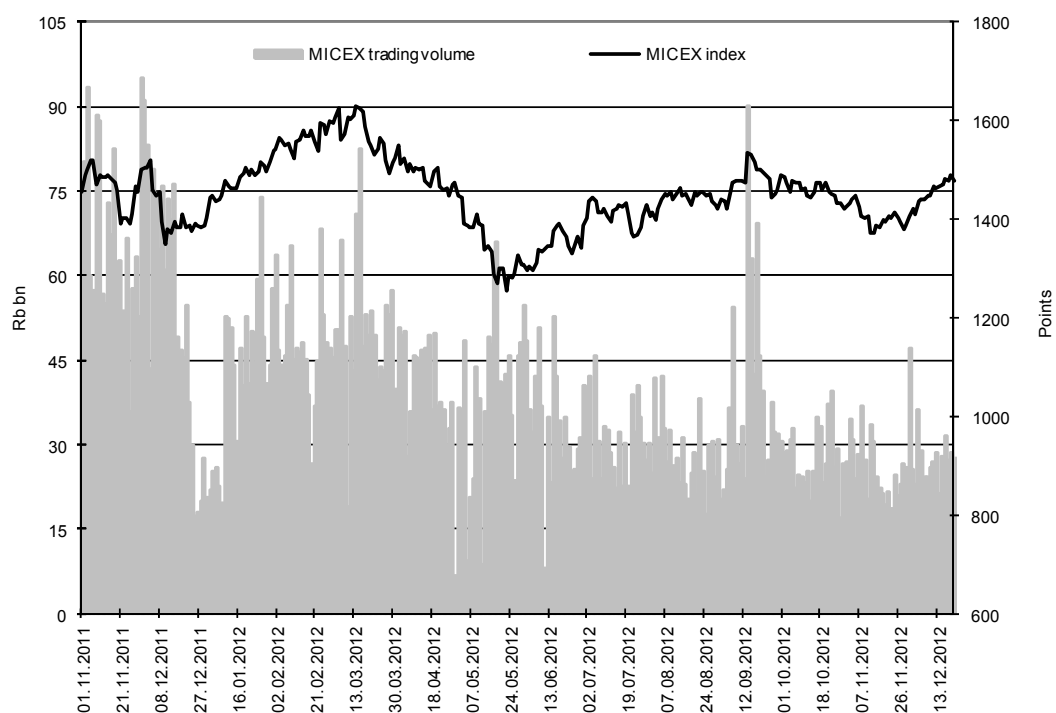


Fig. 2. Dynamics of the main USA, Japanese and Russian stock indices (in % to the date 01.11.2011)

Stock market situation development

Within the month, the maximum value of the MICEX index was demonstrated on December 20, having reached 1,488.2 p. (versus 1,446.5 p. in the preceding month). The minimum value of the MICEX index at 1,411.8 p. has been reached on December 4 (against 1,372.2 p. in the preceding month) (See Fig. 3).

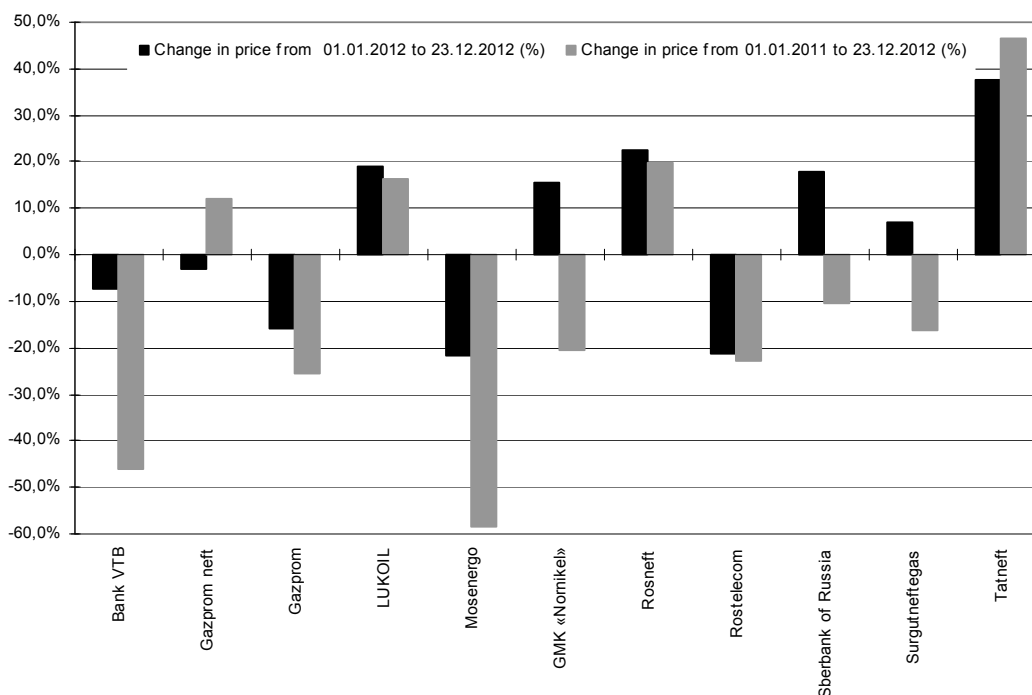


Source: OAO MICEX

Fig. 3. Dynamics of MICEX Index and trading volume

Overall, in the period from November 26 to December 23, 2012, the MICEX index has increased by 4.6% (from December 24, 2011 to December 23, 2012, the MICEX index has increased by 7.4%), and the turnover of auctions included in the MICEX index reached Rb 507.4bn. Average daily activity of investors in the stock market in December has decreased by 3.7% as compared with the previous month.

Since the beginning of the year through December 23, 2012 the leaders in the value growth among the “blue chips” were securities of Tatneft, which value has increased by 37.6, while the leaders of decline, like a month earlier, were Mosenergo securities, downgraded by 21.8% (See Fig. 4).



Source: OAO MICEX

Fig. 4. Dynamics of the Russian Blue Chips

According to the OAO MICEX, on December 23 of this year, five leaders of the domestic market in terms of capitalization were as follows: Gazprom – Rb 3,394bn (against Rb 3,354bn on November 25, 2012), Rosneft – Rb 2,766bn (against Rb 2,556bn), Sberbank of Russia – Rb 2,019bn (against Rb 1,916bn), LUKOIL – Rb 1722bn (against Rb 1,604bn) and GMC Nornikel – Rb 1,085bn (against Rb 893bn).

Futures and Options Market

In FORTS market, the average daily activity of investors from November 26 to December 23, 2012 has decreased by 4% 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 March 15, 2013 were mostly within the range of Rb/\$ 31.1.-31.7, i.e., ruble weakening (by 1.2-3.2%) is expected by market participants as compared with the indicator of December 23, 2012 (to Rb/\$ 30.72), and with the date of execution on June 15, 2013 - within the range of Rb/\$ 31.6–32.1. Prices of recent transactions concluded on futures contracts for Rb/Euro rate with the execution date on March 15, 2013 were mostly in the range of Rb/Euro 40.5–41.4, i.e., a depreciation of the ruble by 0-2.1% is expected as compared with the indicator of December 23, 2012.

The value of the futures contract for RTS index (based on prices of recent transactions) with the execution date on March 15, 2013 was within 1420–1530 p., i.e., market participants expect a 0-6% decline against the indicator of December 23, 2012. By June 15, 2013 market participants expect the RTS index value to be in the range of 1360-1490 points. Prices of recent transactions in futures contracts for the MICEX index with the date of execution on March 15, 2013 were in the range of 1400-1500 points, i.e., market participants in general expect a decline

of MICEX index in the range of 0–5.2%, as compared with December 23, 2012. By June 15, 2013 market participants expect the MICEX index in the range of 1380-1490 p. Options enjoyed a far less demand, from November 26 to December 23, 2012 their trading turnover made about Rb 235.1bn (versus Rb 3495.6bn in futures). The leaders in terms of trading turnover were the marginal options for futures contracts on the RTS index.

Corporate bonds market

In December the volume of domestic corporate bonds market in Russia (at par value of circulating securities denominated in local currency) has grown again by the same value as in previous month and reached the level of Rb 4 040.3bn, which is by 1.5% more than its value at the end of November¹. As earlier, the growth of the market capacity is mainly based on an increased number of bond issues (881 issues of corporate bonds were offered in national currency against 865 emissions at the end of the previous month), whereas the number of emitters recorded in the debt sector has increased insignificantly (338 emitters against 333 companies in November). 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 December has somewhat increased. Thus, from November 26 to December 21, the total volume of transactions in the MICEX amounted to Rb 129.1bn (for comparison, from October 30 to November 23, the trading turnover was equal to Rb 116.3bn), and the number of transactions within the period under review made 27.500 (against 21.800 in the previous period)².

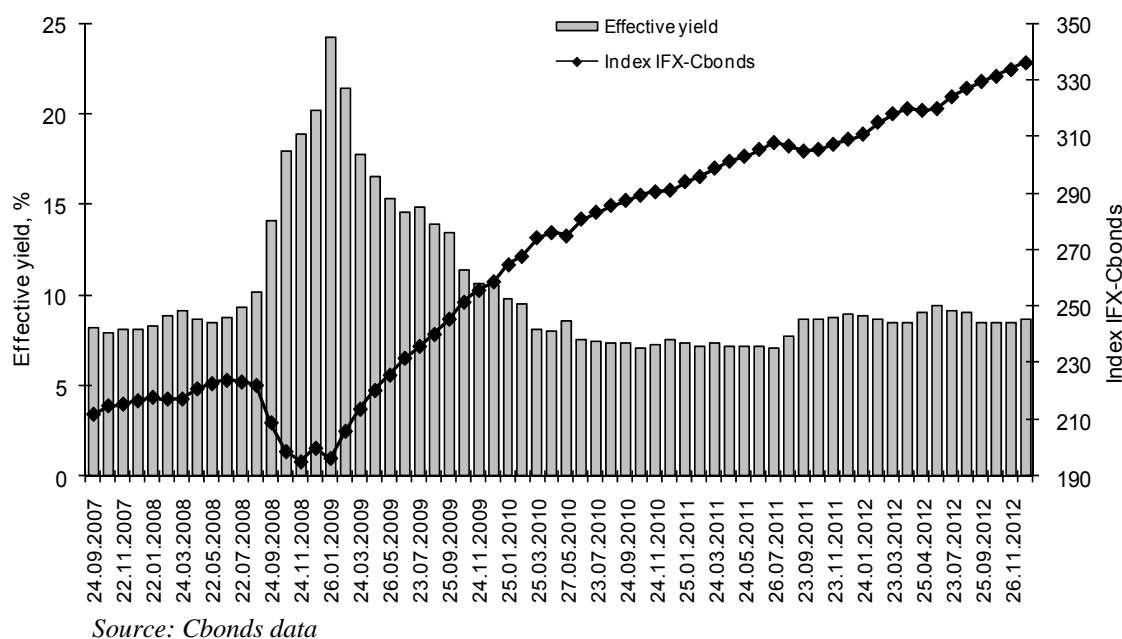
Index of the Russian corporate bond market IFX-Cbonds continued its steady growth trend. By the end of December its value increased by 2.4 points (or 0.7%) as compared with the value of late November. The average weighted yield of corporate bonds after three-month stability has grown from 8.47% in previous month to 8.67% (See *Fig. 5*). Some increase in the yield in the last month of the year is a seasonal factor that has been observed in 2010 and 2011. The market is also affected by negative news background. In addition to the Eurozone problems, the negative impact was provided by a reduced outlook of the UK rating by Standard & Poor's. A growing concern of investors is provoked by the lack of compromise measures of the U.S. government to prevent "fiscal breakdown". In early December, the OECD has lowered its forecast for GDP growth in 2013 almost for all countries - members of the organization³.

The portfolio duration indicator of corporate bonds has unexpectedly grown after a steady declining trend in previous months. At the end of the year duration made 601 days, which is by 54 days more than at the end of previous month.

¹ Rusbonds Information Agency data.

² Finmarket Information Agency data.

³ Cbonds Information Agency data.



Source: Cbonds data

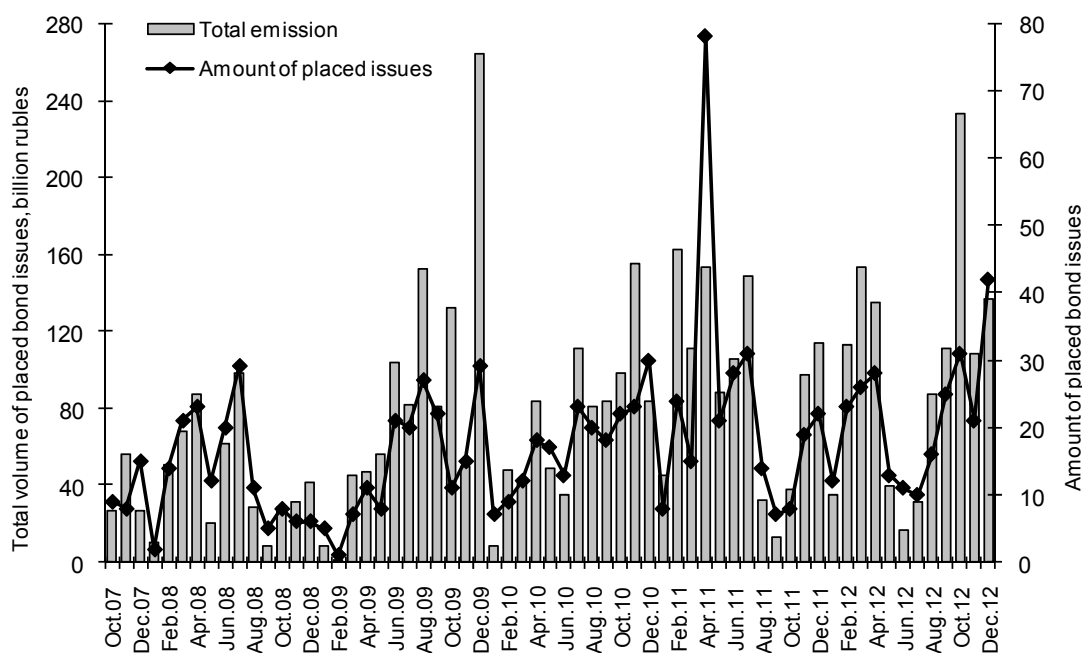
Fig. 5. Dynamics of the Russian corporate bonds market index and average weighted yield

Despite an insignificant growth of weighted average yield in the bond market, the most liquid bond issues were decreasing, which was especially expressed in manufacturing and energy sectors. The yield of high-tech companies⁴ issues remained virtually unchanged over the month. There was no common trend this time in the financial sector: bond yields of some large issuers was volatile. The most severe volatility of various bond issues yields, were demonstrated by securities of "Bank VTB", "MDM Bank", "Credit Bank of Moscow", "Nomos-Bank", "UniCredit Bank".

Issuers' activity in December this year has slightly decreased, although still remained at a high level. Thus, in the period from November 27 to December 21, 17 issuers of registered 33 bond issues for the total value of Rb 148.4bn (for comparison, from October 25 to November 26, there were 68 series of bonds at face value of Rb 305.2bn). Nearly half of registered issues were stock bonds. It should also be said that in December several mortgage bonds were offered by the largest mortgage agents: Mortgage Agent "VTB 24", NOMOS Mortgage Agent, Mortgage Agent "Asian-Pacific Bank" Mortgage Agent "Europe 2012-1".

In the primary market both, issuers and investors have shown even greater activity. From November 27 to December 21 this year, 31 issuers have placed 42 bond issues totaling to Rb 137.1bn (from October 25 to November 26, there were placed 27 issues worth Rb 107.9bn). Such an upsurge of IPOs is based on seasonal factor (See Fig. 6). This month, the exchange bonds made only a quarter of all offered issues. Again, there were placed several long-term loans: three issuers have raised funds for 10 years, one issuer - for 16 years, and mortgage agents placed bonds for maturity period from 30 to 33 years.

⁴ Finmarket Information Agency data.



Source: Rusbonds data

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

In December this year, FFMS of Russia has recognized as invalid two bond issues due to the non-placement of any securities, followed by rejection of state registration in previous months, eight bond issues were recognized invalid)⁵. 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 December there were cancelled securities of "Stock Oil Company" Bashneft".

From November 27 to December 21 of the current year, fourteen emitters were to pay off fifteen issues for the total amount of Rb 66.4bn. However, like a month ago, one emitter failed to fulfill its liabilities to the bondholders in due time and announced a technical default. In January 2013, only four corporate bond issues totaling to Rb 0.5bn are expected to be paid off⁶.

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 for the first time since the crisis onset. Thus, in the period from November 27 to December 21, like in the previous period, all issuers have fulfilled their current liabilities and repaid the nominal value of bonds, and early redemption of the securities on offer were accomplished by all issuers in due time or at least within the framework of a technical default⁷.

⁵ FFMS of Russia data.

⁶ Rusbonds data.

⁷ Cbonds data.