

FINANCIAL MARKETS IN APRIL 2015

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In April 2015 the MICEX Index hovered around 1,680 points, growing by slightly more than 1% over the course of the month. For the second month in a row, the major negative factor hampering its growth was the metallurgical industry. As of 24 April, stock market capitalization amounted to Rb 27.47 trillion (or 38.5% of GDP).

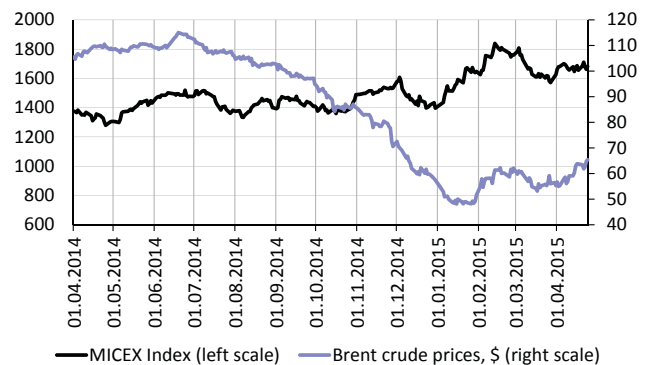
During the period under consideration, Russia's domestic corporate bond market was relatively stable. A number of its key indicators, including the market volume, the market index and investor activity index, showed predominantly positive trends. The weighted average effective yield on bond issues remained high, although one should note that the positive trend displayed by this indicator became more pronounced. The situation with regard to fulfillment, by bond issuers, of their obligations to bondholders remained rather precarious.

The Movement of the Russian Stock Market's Main Structural Indices

As a result of the MICEX Index's lengthy decline in March, on 26 March it dropped below 1,600 points – for the first time since January 2015¹. However, from 27 March onwards the MICEX Index began to rise, and over the next week gained 7%, thus compensating for more than half of its March fall. Then its value became stable at the level around 1680 points, and its growth over the next three weeks amounted to less than 0.1%. Over the second half of March and early April, the average futures prices of Brent crude oil were hovering around \$ 55 per barrel, but later on their index began to grow and in mid-April rose to \$ 60 per barrel. As a result, over the period from 1 through 24 April 2015, the MICEX Index gained 25%, and oil prices – 15.36%.

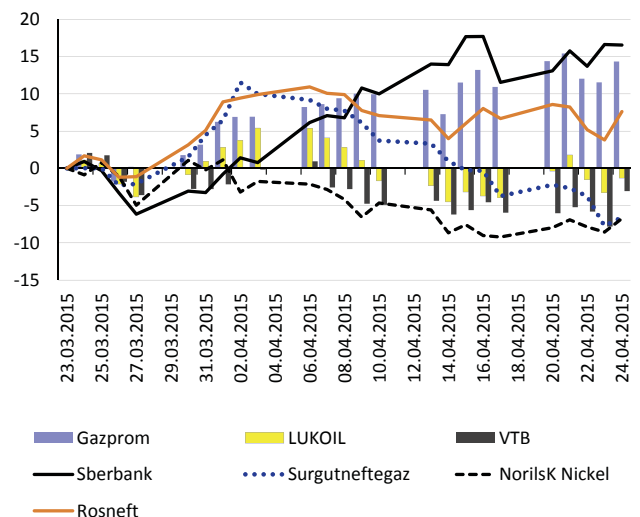
While over March the quotes of practically all highly liquid stocks were demonstrating negative yields, in April their movement became multi-vectored. Some Blue Chip stocks, like shares in *Sberbank* and *Gazprom*, managed to almost fully make up for their March fall by gaining, over the period from 23 March through 24 April, 16.5% and 14.3% respectively. Slightly lower but nevertheless positive yields were displayed by shares in *Rosneft* – 7.6%. Shares in *LUKOIL* and *VTB* lost only a little, while shares in *Norilsk Nickel* and *Surgutneftegaz* lost more than 6%. The quotes of shares in *Norilsk Nickel* are continuing their downward movement for a third consecutive month, having lost a total of 14.4% over the last two-month period – from 24 February through 24 April.

Their downward movement over the course of the spring of 2015 notwithstanding, the annual yield of all major highly liquid stocks turned out to be positive. And, while for shares in *Sberbank* the annual



Source: Quote.rbc.ru., Finam.

Fig. 1. The Movement of the MICEX Index and Brent Crude Oil Futures Prices During the Period from 1 April 2014 through 24 April 2015



Source: Quote Rbc.ru, the author's calculations.

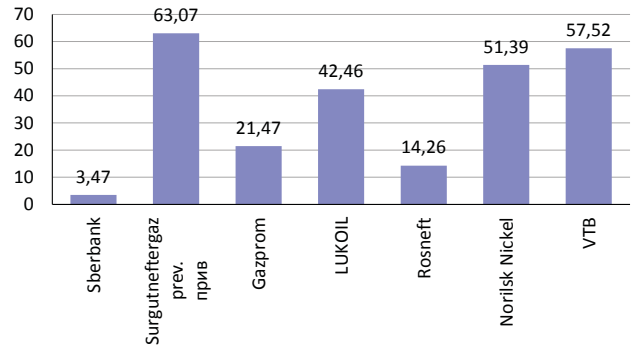
Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange (Over the Period from 23 March through 24 April 2015)

1 Hereinafter, we refer to closing price as of a given date.

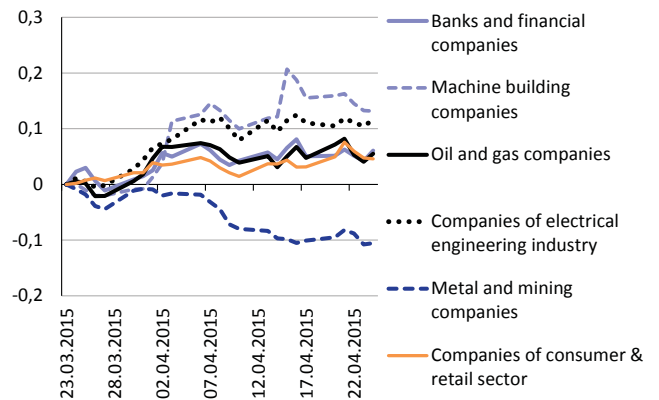
yield amounted to only 3.5%¹, preferred shares in Surgutneftegaz had gained more than 63% over the past year (since 24 April 2014), thus becoming leader in growth amongst Blue Chip stocks. Shares in Norilsk Nickel and VTB follow shortly behind, having gained in per annum terms 51.4% and 57.5% respectively.

Among sectoral indices, nearly all had gained by the month-end results. The leader in growth (13.2%) became the machine-building index, the driver of its growth being shares in JSC United Aircraft Corporation (UAC), which over the period from 24 March through 24 April gained nearly 40%. The energy sector follows closely behind – its index gained 11.6%. The indices of the oil and gas sector and the banking and finance sector demonstrated yields of approximately 4–6%. The only sectoral index that moved downward was that of metallurgy, with a negative yield of –10.5%. One of the reasons for this state of affairs was the significant loss in yield demonstrated by shares in Norilsk Nickel and Severstal.

Over the course of the first 18 business days in April, the trading turnover of the Moscow Exchange amounted to Rb 712.4bn, which corresponds to an average daily trading turnover Rb 39.6bn. This index is 1.6% above the Moscow Exchange’s average daily trading turnover in Q1 2015. Shares in Sberbank once

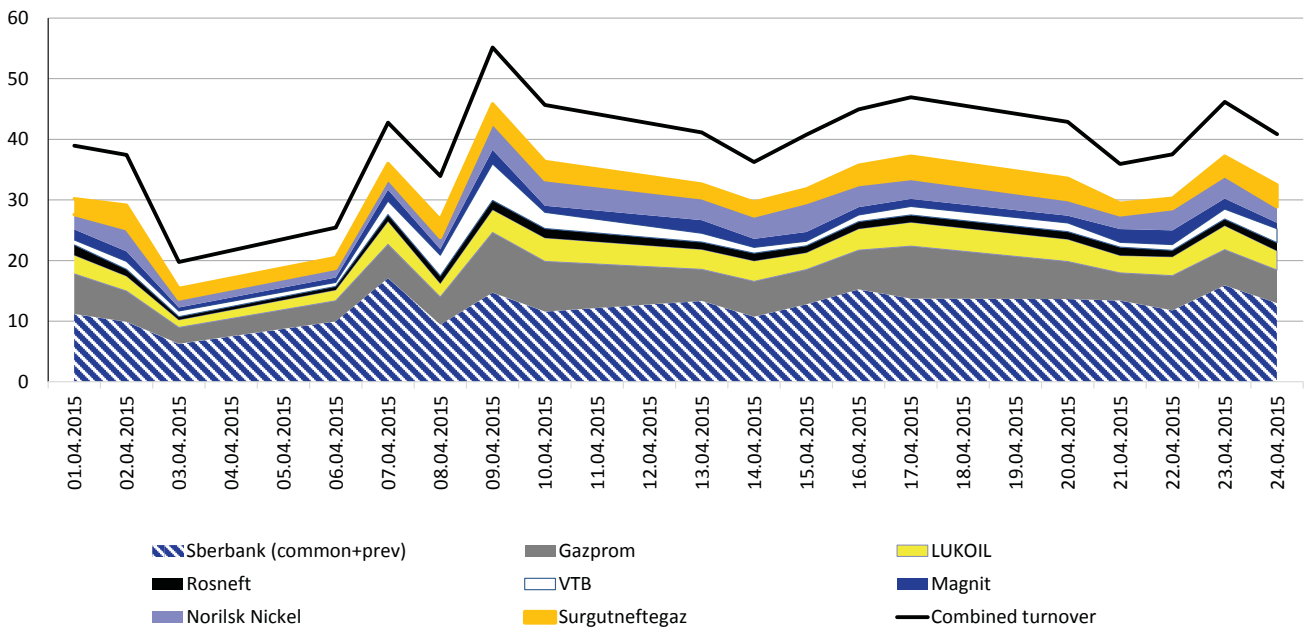


Source: Quote rbc.ru, the author’s calculations.
 Fig. 3. Growth Rates of the Prices of Highly Liquid Shares Traded on Moscow Exchange Over the Period from 24 April 2014 through 24 April 2015

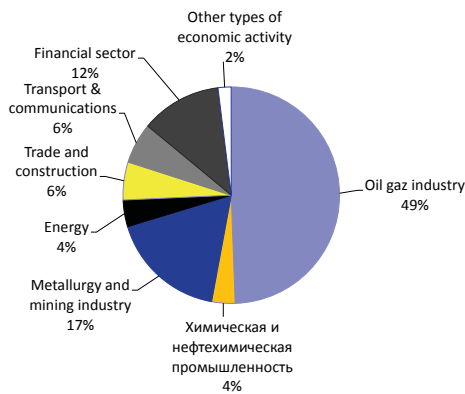


Source: Quote rbc.com, the author’s calculations.
 Fig. 4. Growth rates of Different Sectoral Indices on the Moscow Exchange (Over the Period from 23 March through 24 April 2015)

1 The annual yield on shares is estimated on the basis of their price movement and does not reflect information on dividend payments to shareholders in accordance with the results of year-end shareholder meetings.



Source: Quote rbc.com, the author’s calculations.
 Fig. 5. Structure of the Trading Turnover of the Moscow Exchange (Over the Period 1 through 24 April 2015)



Source: the MICEX's official website; the authors' calculations.
 Fig. 6. Structure of Capitalization of the MICEX Stock Market, by Type of Economic Activity, as of 24 April 2015

again took up the lion's share, accounting for 31.4% of the total trading turnover over the period from 1 through 24 April. Shares in *Gazprom* came second, with their share of 14.8% in the trading turnover. Shares in *Surgutneftegaz*, LUKOIL and *Norilsk Nickel* accounted for more than 5% each. Thus, in April the two companies with the most liquid stocks together accounted for more than 46.2% of the Moscow Exchange's trading turnover, followed by another five companies whose combined volume of trade in shares on the MICEX accounted for 30.8%.

According to *Emerging Portfolio Fund Research* (EPFR), in March, the aggregate volume of net outflow of assets from funds oriented to the Russian market amounted to \$ 152.4m, but then the inflow over the first half of April more than made up for that loss, amounting to a total of \$ 166.4m. As of 24 April 2015, MICEX's total capitalization amounted to Rb 27.47 trillion (or 38.5% of GDP), which is 1.5% above that index's value as of the month's beginning. As far as the stock market's capitalization structure by type of economic activity is concerned, the capitalization share of the financial sector and the oil and gas sector increased by 0.65% and 0.68% respectively. On the contrary, the capitalization share of metallurgy and the mineral extraction sector shrank, over the first 24 days of April, by 1.9%. The other sector displayed only slight changes in their respective capitalization shares.

The Corporate Bond Market

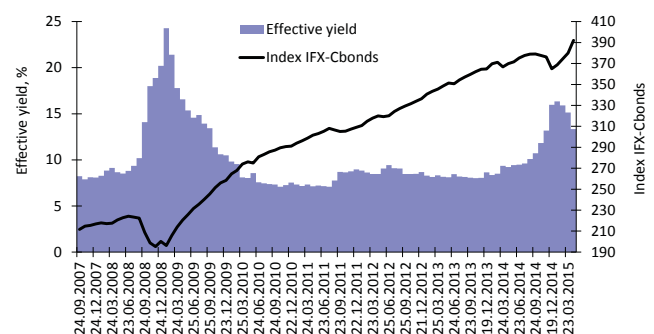
In April, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation, including those issued by RF non-residents) continued to grow, although at a very slow rate. By the end of April, this indicator once again renewed its all-time high by climbing to Rb 7,076.6bn, which, however, was only 0.2% above its value as of the

end of March¹. April saw practically no change either in the number of issued bond loans (1,085 ruble-denominated corporate bond issues vs. 1,083 issues as of the end of March) or in the number of emitters represented in the debt segment (357 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 were circulating on the MICEX.

Having temporarily dropped in March, investment activity on the secondary corporate bond market returned to its monthly average values. Thus, over the period from 24 March through 22 April 2015, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 123.7bn (for reference: over the period from 21 February through 23 March, the monthly trade turnover amounted to Rb 77.4bn). The number of transactions carried out over the period under consideration, in spite of a slight decline, also increased, without surpassing, however, the record high it had set in February, and amounted to 33.0 thousand (vs. 30.0 thousand over the previous period)², a fact that points to special interest in these stocks still being displayed by retail investors.

In April, the IFX-Cbonds index of the Russian corporate bond market continued to be on the rise. By the end of April, this index had risen by an unprecedented 12.3 points (or 3.2%) on the end of the previous month. At the same time, the weighted average effective yield on corporate bonds was also demonstrating a positive trend, having declined from 15.13% in late March to 13.34% towards the end of the period under consideration (Fig. 7)³. After a sharp rise in March, the corporate bond portfolio duration

- 1 According to data released by the Rusbonds information agency.
- 2 According to data released by the Finam company.
- 3 According to data released by the Cbonds company.



Source: According to data released by the Cbonds company.
 Fig. 7. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of Its Weighted Average Effective Yield

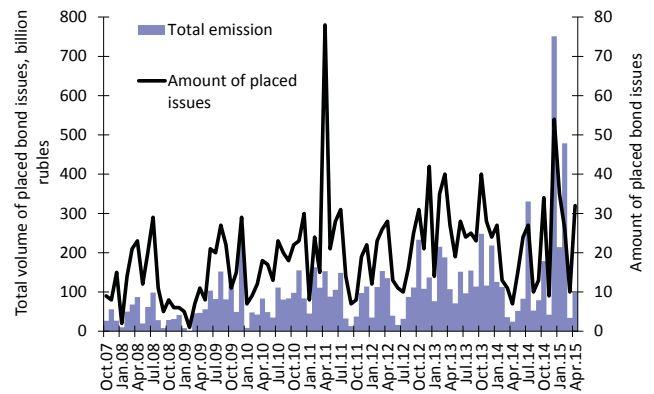
index slightly declined, and as of the end of April amounted to 485 days, which represented a 16-day drop on late March.

In April, international rating agencies confirmed their previous ratings / forecasts of corporate ratings of many Russian issuers of securities; at the same time, the corporate ratings and ratings forecasts of some issuers of securities were upgraded (e.g. JSFC *Sistema*, *ALROSA*, *X5 Retail Group*, *Magnet*, *Miratorg*), although a number of issuers of securities had their corporate ratings downgraded (e.g. *KAMAZ*, *Bank URALSIB* and *Far-Eastern Shipping Company*)¹.

Over the period under consideration, the most liquid segment of the corporate bond market saw a continuation of the slow decline in yields. The most significant drop in the interest rate (by more than 2 p.p.) was demonstrated by the following companies: OJSC *AK Bars Bank*, *Vnesheconombank*, OJSC *Gazprombank*, OJSC *Megafon* and OJSC *FGC UES*. However, some of the issues placed by companies operating in the industrial sector were demonstrating a multi-vector movement of their yields (in particular, *VTB Bank*, Russian Agricultural Bank [*Rosselkhozbank*]). In contrast to the situation observed over the previous period, the most significant yield drop among liquid securities was demonstrated by industrial and hi-tech companies (on the average by more than 1 p.p.), while the corresponding movement in the financial and energy segments did not exceed 0.9 p.p.² In April, investors continued to display a strong interest towards major energy operators and financial companies.

Despite the relative stabilization of the situation on the bond market, the market for initial placements of bond issues showed a considerable decline in activity. Thus, over the period from 24 March through 22 April, 12 emitters registered a total of 15 bond issues with a total nominal value of Rb 35.0bn (for reference: in the period from 21 February through 23 March, a total of 70 bond series with a total nominal value of Rb 333.1bn were placed)³. These modest results can be explained by the fact that none of the emitters was a big company, and almost one half of the placed issues were debut bonds. The biggest bond issues were placed by LLC *Integrated EnergoDevelopment-Montazh* [*Metallenergomontazh*], LLC *ZapSib-Transservice*, LLC *TTB Invest Production* and FSUE *Production Association Edward S. Yalamov Urals Optical & Mechanical Plant*.

At the same time, investment activity on both the primary market and the secondary market increased almost to the past few years' monthly average. Thus, over the period from 24 March through 22 April,



Source: According to data released by the Rusbonds company.

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

22 emitters placed 32 ruble-denominated bond loans with a total nominal value of Rb 97.6bn and 1 emitter placed a bond loan denominated in foreign currency with a total nominal value of \$ 153m³ (for reference: in the period from 21 February through 23 March, a total of 10 ruble-denominated bond series with a total nominal value of Rb 34.0bn and 1 bond loan denominated in foreign currency with a total nominal value of \$ 153m were placed) (Fig. 8). Big bond issues were placed by OJSC *Russian Railways*, OJSC *Credit Europe Bank*, and OJSC *JSCB BIN Bank*⁴. Exchange-traded bonds accounted for more than half of all the newly registered bond issues. Many bond emitters managed to attract finance in the form of very long-term loans: three mortgage agents placed 30- and 32-year issues, and another three emitters placed 10-year issues.

In late March and April 2015, the Bank of Russia annulled 3 corporate bond issues of one emitter due to its failure to place even a single security (while not a single bond issue had been annulled in late February and March, although over the previous few periods more than 10 bond issues had been annulled every month because the emitters themselves were revising their plans for attracting external finance)⁵.

Over the period from 24 March through 22 April, 21 emitters were due to redeem 26 bond loans with a total nominal value of Rb 93.9bn. However, 2 emitters were unable to redeem their bond issues in due time, and therefore declared a technical default (over the previous few months, all emitters had been able to meet their financial liabilities in due time). In May 2015, the redemption of 5 issues of ruble-denominated corporate bonds with a total face value of Rb 9.7bn

1 According to data released by the Cbonds company.

2 According to data released by the Finam company.

3 According to data released by the Rusbonds information agency.

4 According to data released by the Rusbonds information agency.

5 According to data released by the Bank of Russia.

and 1 corporate bond issue denominated in USD is expected¹.

The situation with regard to the fulfillment, by emitters, of their obligations to bond holders remains rather uneasy: apart from several technical defaults on the payment of the coupons, on the buyback offers to the current holders of securities before their maturity,

1 According to data released by the Rusbonds information agency.

and on the redemption of a whole bond loan, 2 emitters declared a real default on the payment of the coupons² (the previous period had likewise seen several technical and real defaults)³.

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

3 According to data released by the Rusbonds information agency.