

RUSSIA'S FINANCIAL MARKETS IN AUGUST–SEPTEMBER 2015

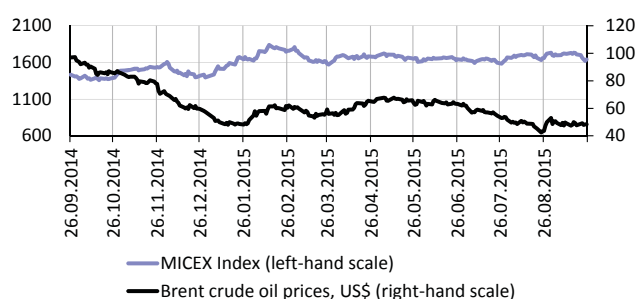
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The period under review (between 31 August 2015 and 25 September 2015) saw moderate downtrend for all of the Russian major stock market indicators: the MICEX Index dropped 5.4%, including all sector indices except the Mechanical Engineering Index, and all blue chips showed downside dynamics. Capital outflow during the month totalled \$238.1m, more than \$1bn on a year-to-date basis. The situation in the Russian corporate bond market remained complex. The key adverse development was driven by the weakening trend in activity of bond issuers and investors; issuers' defaults on obligations to bondholders still remained a problem. Nevertheless, the key market indicators such as the corporate bond market volume and index and the weighted average yield rate of bond issuances showed moderate uptrend dynamics (especially in the financial and technological segments of the market).

The dynamics of basic structural indices in the Russian stock market

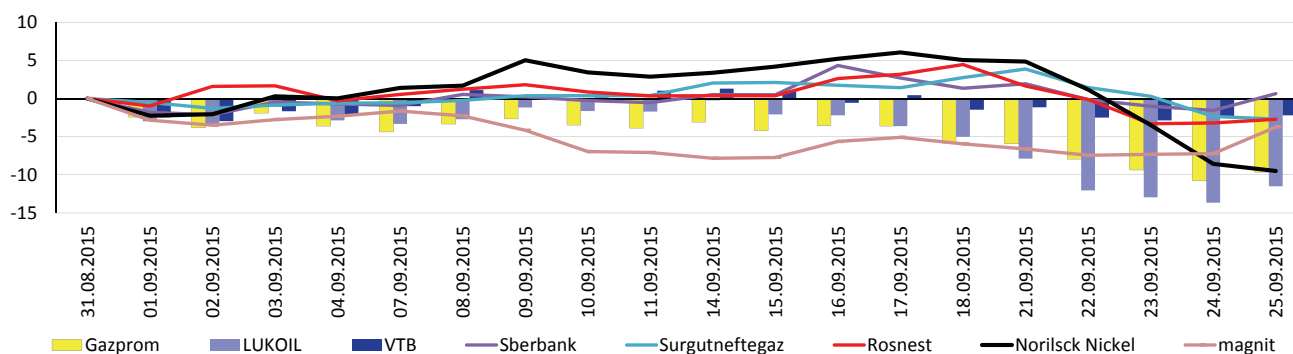
The MICEX Index was quite stable, varying within a range of 1690 to 1733¹ points, throughout the entire first half of the period under review. However, the Index hit the lowest level since the end of July (1621.4 points) after it began to fall for six consecutive trading days without stopping from 18 September. And although the Index gained more than one percent at the last day of the period under review, its total fall-out was 5.4%. Oil prices were highly volatile: half of the trading days (10 of 20) saw the price of Brent oil vary more than 3% within a single trading session (by contrast, only five trading sessions saw similar fluctuations in the previous 20 trading days). On the very first day (31 August) of the period under review the price of crude oil dropped more than 8% (from \$53.0 to \$48.6 per barrel), but despite wild swings the price didn't fall below the said level, ending the period with a total fall of 8.6%.

1 The data presented hereinafter represent the MICEX closing data.



Source: Quote RBC, Finam.
Fig. 1. The dynamics of the MICEX Index and futures prices of Brent crude oil in the period between 26 September 2014 and 25 September 2015

Almost all of the blue chips plummeted in the period under review following the growth in stock prices in the previous period under review. Following are the companies that lost most in that period: LUKOIL (down 11.5%), Gazprom (down 9.7%) and Norilsk Nickel (down 9.5%). Despite that Rosneft and Surgutneftegaz saw stable stock prices earlier in the month, they began to fall within the last 10 days of the month,



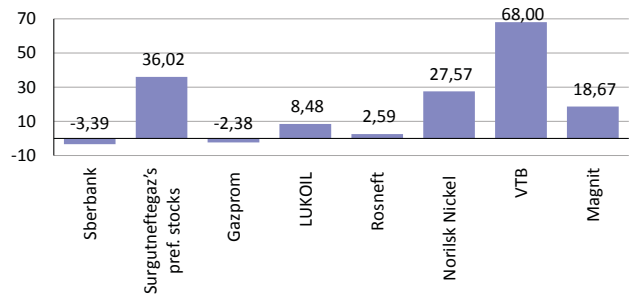
Source: Quote RBC, author's calculations.

Fig. 2. Growth rates in quotations of Russian highly liquid stocks in the Moscow Exchange in the period between 31 August 2015 and 25 September 2015

going into the red as of the end of the period under review. Sberbank was the only highly liquid company whose stock price saw an uptrend in the period under review, up 0.6%.

VTB for the fifth straight month remained the leader in terms of annual ROE, showing again, despite being exposed to negative dynamics in the last month of the period under review, the highest return (up 68.0%) among the rest of blue chips. Surgutneftegaz's preferred stock price was up 36.02% and Norilsk Nickel 27.57%, the same as in the preceding month, thus being ranked respectively 2nd and 3rd in the top-3. Sberbank and Gazprom showed a small negative annual return, the latter was due to the substantial loss in the last month of the period under review.

Unlike the previous period under review, when all sector indices showed uptrend in returns, the only sector index which saw positive dynamics in the period under review was the Mechanical Engineering Index (up 3.3%). The Financial Sector Index saw a zero growth, whereas the rest of the sectors were in the red in the period under review. The Transport Industry Index was down 12.1% basically due to the declined Aeroflot's stock price which fell below the other sector indices. The stock price of oil & gas, chemical and metal & mining companies saw a more moderate decline which was slightly deeper than 5%. The Indices of companies operating in the energy industry, the consumer sector and the telecommunication industry were stable in the period under review, with a total value being slightly higher than 0%. The Moscow Exchange's (MOEX) turnover declined again following the growth in the previous period under review: the MOEX turnover in the period between 31 August and 25 September amounted to Rb 573.7bn, being equal to Rb 28.7bn daily turnover. This is 10.1% less than the daily turnover in the previ-



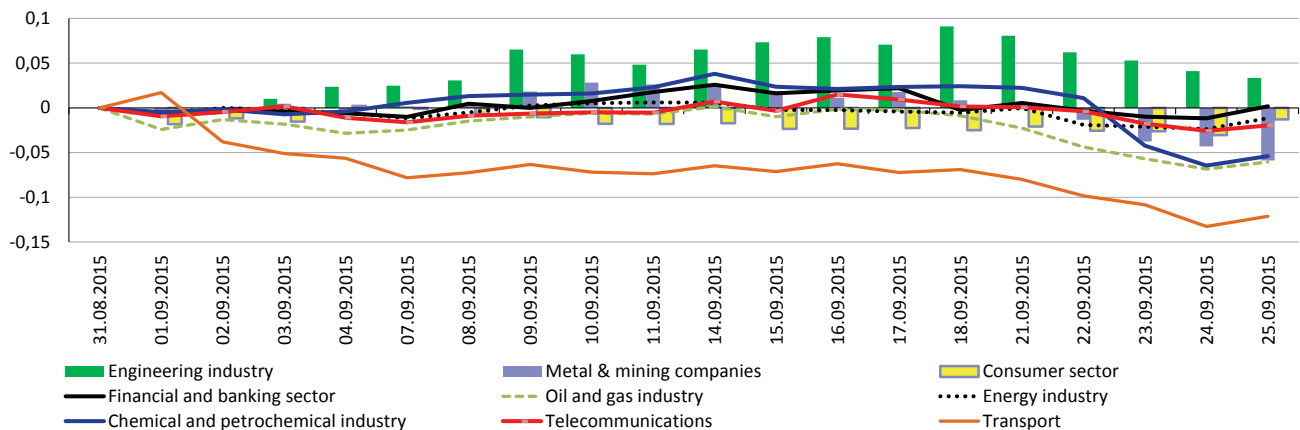
Source: Quote RBC, authors' calculations.

Fig. 3. Growth rates in the value of highly liquid Russian stocks in the Moscow Exchange in the period between 26 September 2014 and 25 September 2015

ous period under review and 10.6% less than during the same period a year ago.

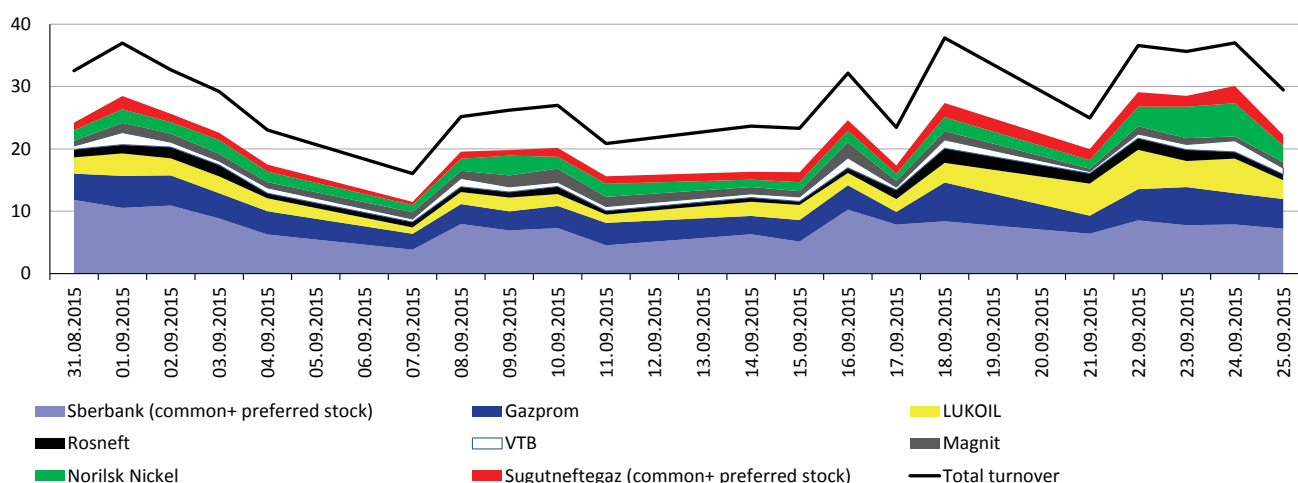
Although Sberbank's share of the MOEX overall turnover kept shrinking (26.9% against 28.6% in the preceding month), Sberbank is still an absolute leader in terms of its share of the MOEX total turnover. In contrast, Gazprom and LUKOIL, 2nd and 3rd in the share of the MOEX turnover, increased their share respectively to 14.0% against 13.5% and 10.1% against 8.6%). Hence the top-3 companies' total share of the MOEX turnover even increased slightly to 51.1% (50.7% in the previous month). The share of the next top-5 companies including Norilsk Nickel, Surgutneftegaz, Magnit, Rosneft, and VTB (in order of descending turnover) remained the same. The foregoing companies accounted for 25.0% of the MOEX turnover. The top-8 most liquid companies accounted for 76.1% of the MOEX turnover, 2% less than in the previous month.

In the last week of the period under review (17–23 September) Russia-focused mutual funds saw investment inflows, according to the Emerging Portfolio Fund Research (EPFR), for the first time after 17 weeks of investment outflow. The weekly investment inflow amounted to \$43m which however



Source: Quote RBC, author's calculations.

Fig. 4. Daily growth rates in various sector stock indices in the Moscow Exchange in the period between 31 August 2015 and 25 September 2015



Source: RBK Quote, author's calculations.

Fig. 5. The structure of Moscow Exchange trading volumes in the period between 31 August 2015 and 25 September 2015

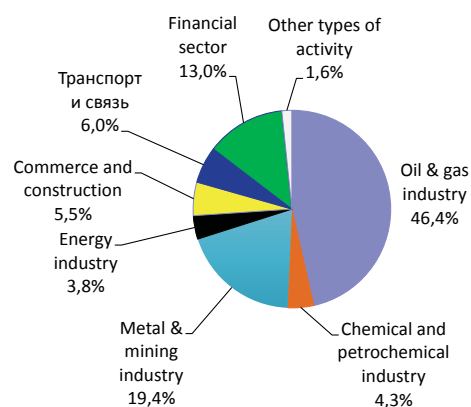
was insufficient to even cover the outflow of the previous week (down \$49.5m). In the last month of the period under review (27 August – 23 September) the total investment out-flow from the foregoing mutual funds amounted to \$238.1m and the YTM outflow was more than \$1bn.

The MICEX capitalization as of 25 September 2015 amounted to Rb 27.89 trillion (39.1% of GDP), 4.4% less than the cap as of the end of the previous period under review. Although the oil & gas companies' share of the MICEX cap declined by 0.9%, they still account for a half of the total MICEX capitalization. The share of financial companies increased 0.6% after the more than 1% decline in the previous month. The energy sector gained 0.2% of the market cap. Other industries saw insignificant changes in their share of the MICEX capitalization.

Corporate bond market

The volume of Russia's domestic corporate bond market (measured by the par value of outstanding ruble-denominated securities including those issued by non-residents) kept growing, slowly though. By the end of the month the volume hit again the all-time highest, reaching Rb 7691.0bn, 0.5% higher than the value seen as of the end of August¹. Although there were insignificant changes in the market volume in the past period, the number of both outstanding bond issuances (1168 corporate bond issuances denominated in national currency were registered versus 1149 issuances registered as of the end of August) and issuers represented in the debt segment (400 issuers against 375 companies in the previous month). Seventeen dollar-denominated bonds issuances of Russian companies (worth a total of more than \$2.4bn) and one

¹ According to the data provided by Rusbonds Information Agency.



Source: The Moscow Exchange official website, Gaidar Institute's calculations.

Fig. 6. The structure of stock market capitalization by type of economic activity as of 25 September 2015

JPY-denominated bond issuance remained outstanding in the market.

Investors' activity in the secondary corporate bond market in September declined insignificantly, remaining at its annual average level. For instance, the MOEX total trading volume in the period between 27 August and 24 September 2015 amounted to Rb 114.1bn (by contrast, the trading volume in the period between 23 July and 26 August 2015 was equal to Rb 125.9bn). The number of transactions in the period under review declined markedly following the record values of the previous period, to 25,000 (by contrast, 33,000 MOEX transactions were closed in the previous period)².

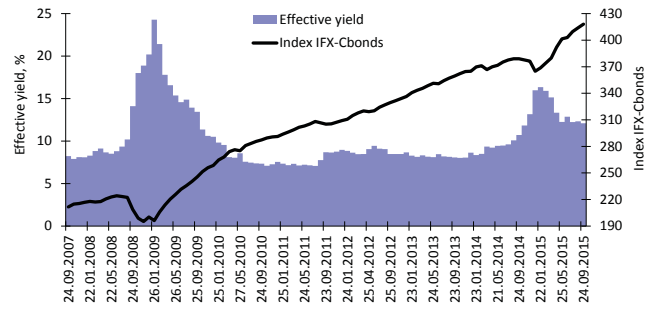
The Russian Corporate Bond Market Index (IFX-Cbonds) in September kept growing steadily. The Index increased 4.3 index points (or 1.0%) by the end of the month compared to the value seen at the previous month's end. The uptrend signs which in August

² According to the data provided by Finam Investment Company.

emerged in the corporate bond average weighted yield saw no further development in September, and the value in the past period returned back to the downward dynamics from 12.33% at the end of August to 12.09% by the end of September (Fig. 7)¹. Nevertheless, the value is still 1 p.p. higher than the central bank base rate. Throughout the first half of the year the corporate bond portfolio duration was getting shorter, being 342 days as of the end of September, 38 days less than that seen as of the end of the previous period.

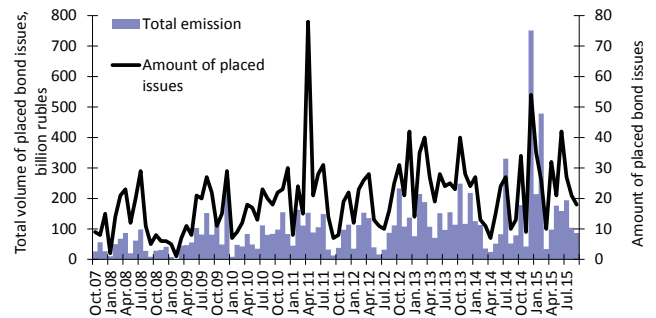
All in all, the most liquid segment of the corporate bond market saw a uniform downtrend dynamics in the bond yield rates. Like in the previous period, securities of financial segment issuers were distinguished by high volatility. For instance, bond issuances of the following companies saw most of the interest rate decrease (more than 1 p.p.): AO Alfa-Bank, ПАО Bank ZENIT (PJSC), Bank for Development and Foreign Economic Affairs and AO Russian Agricultural Bank (JSC). OAO Magnitogorsk Iron and Steel Works (OJSC) showed the highest growth in the bond yield, not higher than 1 p.p. though. Overall, the financial and technological segments of the market saw the most marked downtrend in the yield of their securities (down by an average of 0.6 p.p.) and the production and the energy sectors showed a more moderate downtrend (down by an average of about 0.3 p.p.)². Securities of financial and energy companies, especially the bonds issued by Bank for Development and Foreign Economic Affairs (Vnesheconombank) and Binbank, were of higher demand by investors.

Issuers' activity in terms of seeking new fundraising still remained low in the period under review. For instance, in the period between 27 August and 24 September 13 issuers registered 19 bond issuances with an aggregate par value of Rb 66.2bn (by contrast, 11 ruble-denominated bond issuances of Rb 51.2bn and one ruble-denominated bond issuance at a par value of \$60m were registered in the period between 23 July and 26 August 2015)³. Three issuers – OOO KM Mortgage Agent (LLC), OAO State Transport Leasing Company (OJSC) and OOO Rossium Concern (LLC) – accounted for the highest value of bond issuances. However, registered bond issuances can increase in number in the short-term period, because as early as at the end of August-September issuers approved large scale exchange-traded bond programs at OAO Sberbank of Russia (OJSC), OAO Polyus Gold (OJSC), Joint-Stock Financial Corporation SISTEMA, AO



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

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



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

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

Raiffeisen Bank, as well as a few programs worth up to Rb 50bn.

Investors' activity in the primary market decreased too, falling below its average annual level. For instance, 16 issuers placed 18 bond issuances with a total value of Rb 86.9bn in the period between 27 August and 24 September (by contrast, 21 ruble-denominated bond issuances with an aggregate par value of Rb 104.0bn and one currency bond issuance with a par value of \$200m were placed in the period between 23 July and 26 August 2015) (Fig. 8). The largest bond issuances were placed by Vnesheconombank, PAO Rosbank (PJSC) and OOO SUEK-Finance (LLC)⁴. Two thirds of the bonds placed in the period under review were exchange-traded bonds. Relatively low volumes of IPOs is partly explained by the fact that relatively small bond issuers with each issuance worth about Rb 3–4bn entered the market in the period under review. This is why most of the placed issuances are characterized by short maturities (the longest maturity was 10 years).

The Bank of Russia in September cancelled 13 corporate bond on the grounds that not a single security was placed (none of the corporate bond issuances was cancelled in August on the same grounds, whereas a

1 According to the data provided by Cbonds Information Agency.

2 According to the data provided by Finam Investment Company.

3 According to the data provided by Rusbonds Information Agency.

4 According to the data provided by Rusbonds Information Agency.

record number of 32 corporate bond issuances were cancelled in July)¹. It should be noted that most of the cancelled issuances were first-time security issuances. The quantity of cancelled issuances suggests that companies amid the current market conditions are not sure that placement of their securities may be successful and still waiting for better conditions to enter the market.

In the period between 27 August and 24 September, 16 issuers were to redeem their bonds with an aggregate par value of Rb 66.0bn. However, one issuer failed to meet its obligations in due time and announced a technical default (in the previous same period, all of the bond issuers met their obligations in due time).

¹ According to the data provided by Cbonds Information Agency.

Ninety eight corporate bond issuances worth a total of Rb 550.6bn are due for maturity in October 2015².

However, issuers' failure to meet obligations to bondholders was still a problem. Utair Finance (Limited Liability Company) declared again actual defaults³ apart from a few technical defaults, failing to redeem bond issuances on put date and a few coupon payments (a few technical and actual defaults on coupon yield payment and redemption of the par value were announced in the previous same period)⁴.

² According to the data provided by Rusbonds Information Agency.

³ In other words, when a bond issuer is unable to repay to bondholders even during the grace period

⁴ According to the data provided by Rusbonds Information Agency.