

RUSSIA'S FINANCIAL MARKETS IN OCTOBER 2015

E.Gorbatikov, E.Khudko

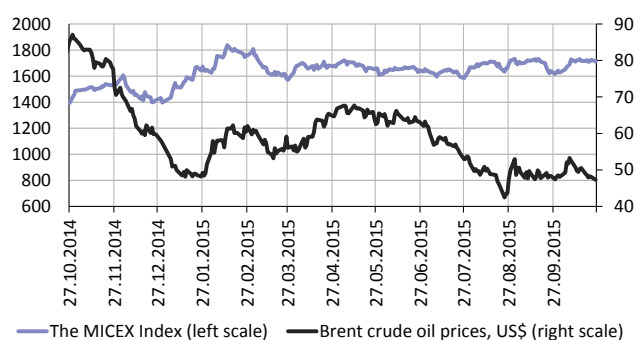
Almost all of the Russian blue-chip stocks and sector indices saw positive dynamics in the period under review (between 28 September 2015 and 26 October 2015). The MICEX Index gained 5.9%. The MICEX average daily turnover reached Rb 35bn, increasing more than 20% compared with the previous month value. Russia-focused mutual funds saw investment inflow for two weeks straight since April 2015. The Russian corporate bond market's key indicators such as the corporate bond market volume and index and the weighted average yield rate of bond issuances saw a moderately positive dynamics. Investors' and issuers' activity in the primary debt market increased visibly. Issuers' defaults on obligations to bondholders still remained a problem.

The dynamics of basic structural indices in the Russian stock market

The MICEX Index in the first week of October saw an uptrend as oil prices went up: on 9 October the Index gained nearly by 7% compared to the value observed earlier in the period under review (to 1728.4 points¹). The Index was relatively stable in the following two weeks despite a decline in oil prices: none of those days saw the closing price vary more than 1%. The final figure was 1712.1 points, higher by 5.9% than the value seen during the period under review (1616.4 points).

Almost all of the blue-chip stocks saw growth in the period under review following a slump in the previous period under review. Sberbank's stock price took the lead, gaining 23.8% and reaching a new year-high stock price at the end of the period under review. Surgutneftegaz's preferred stock price went up more than 10%. Rosneft's stock price in October began to climb sharply and then backtracked a bit, gaining a total of 5.9%. It is only Magnit that saw its stock price fall: a decline of 6.5% in the period under review and nearly 12% over the recent two months.

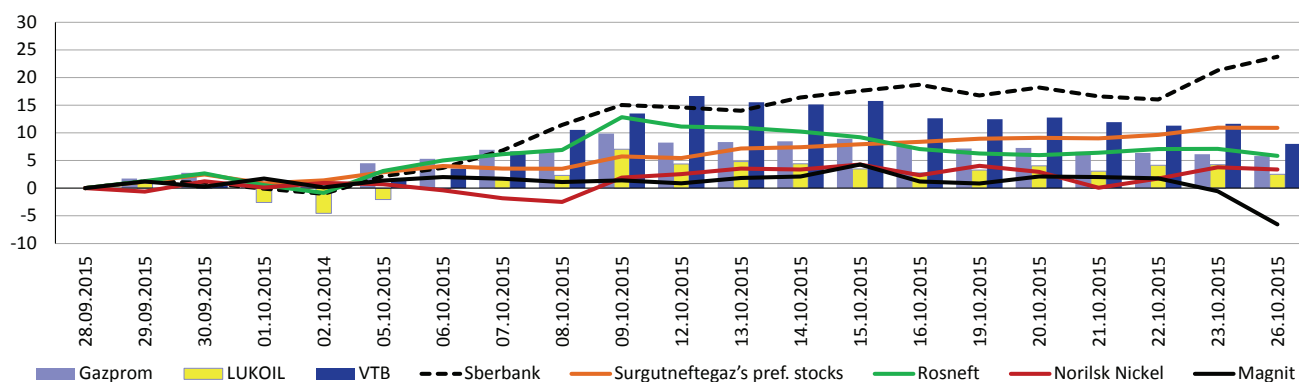
1 The data hereinafter refer to the MICEX closing data.



Source: Quote RBC, Finam.

Fig. 1. The dynamics of the MICEX Index and futures prices of Brent crude oil in the period between 27 October 2014 and 26 October 2015

All of the highly-liquid companies' stocks are facing a yearend growth. VTB's stock for the straight sixth month remained the leader in terms of annual ROE, gaining 88.0% in the past year. Like during the two previous periods under review, the annual ROE top-3 companies included Surgutneftegaz (53.8% up) and Norilsk Nickel (27.8% up). Sberbank's stock shows almost the same ROE (26.6% up) due to a rapid uptrend in October.



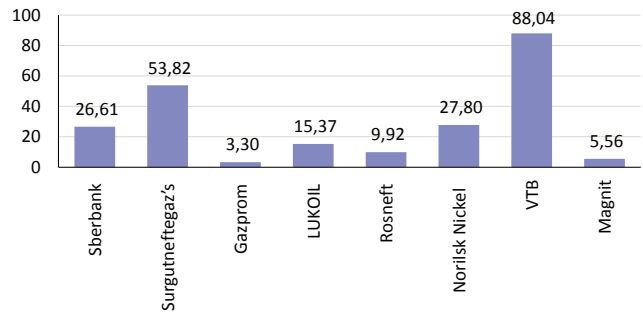
Source: Quote RBC, author's calculations.

Fig. 2. Growth rates in quotations of Russian highly liquid stocks in the Moscow Exchange in the period between 28 September 2015 and 26 October 2015

Unlike the previous period under review which saw a simultaneous decline in the key sector indices, the latest period under review shows positive ROE of almost all of the indices, except for the Chemical & Petrochemical Index (3.1% down). The Transport Index saw the fastest growth among other indices (16.5% up), which fully recovered from the fall in the previous period under review. The key growth driver was (as before) Aeroflot's stock which gained nearly 40% in October. The growth in Sberbank's stock price was responsible for a total growth of 13.5% in the Financial & Banking Index. The Oil Sector Index saw a total increase of more than 5% despite the negative dynamics of oil prices in the second half of October.

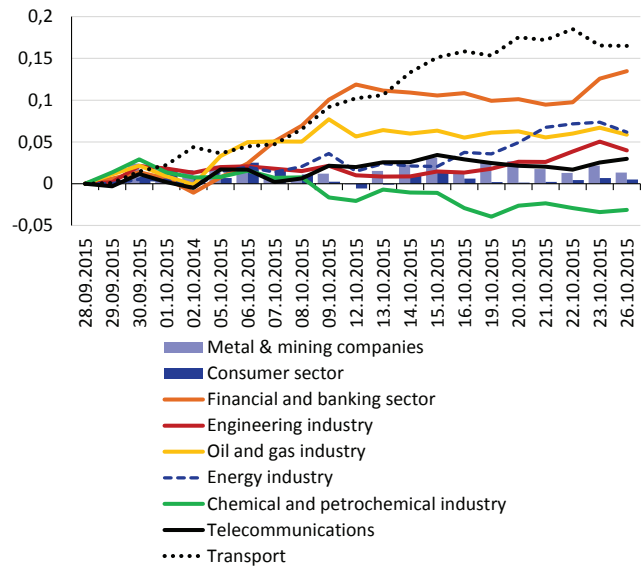
The Moscow Exchange's (MOEX) turnover increased substantially. The MOEX turnover in the period between 28 September 2015 to 26 October 2015 amounted to Rb 734.7bn, being equal to Rb 35.0bn daily turnover. This is higher by 22% over the daily turnover in the previous period under review. Additionally, the average daily turnover in the period under review was higher by 14% over that during the same period a year ago and higher by more than 9% over the value seen in Q3 2015.

Sberbank's share of the MOEX overall turnover increased by more than 5% to 32.1% (against 26.9% in the preceding month). Gazprom and LUKOIL saw their share of the MOEX overall turnover decline a bit, respectively 13.4% against 14.0% and 9.6% against 10.1%. The stocks of another five companies – Rosneft, VTB, Magnit, Norilsk Nickel and Surgutneftegaz – showed the average daily turnover of more than Rb 1bn. Furthermore, an increase in Uralkali's stock turnover is worth noting too: its average daily turno-



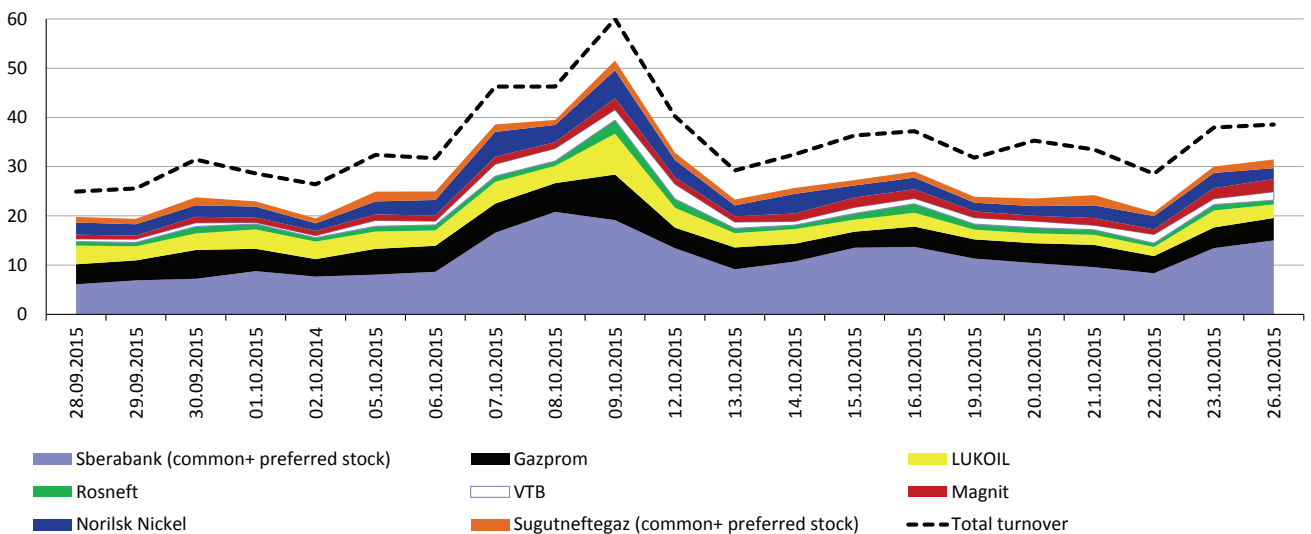
Source: Quote RBC, authors' calculations.

Fig. 3. Growth rates in the value of highly liquid Russian stocks in the Moscow Exchange in the period between 27 October 2014 and 26 October 2015



Source: Quote RBC, author's calculations.

Fig. 4. Daily growth rates in various sector stock indices in the Moscow Exchange in the period between 28 September 2015 and 26 October 2015



Source: RBK Quote, author's calculations.

Fig. 5. The structure of Moscow Exchange trading volumes in the period between 28 September 2015 and 26 October 2015

ver more than doubled from the previous month. The top-3 companies' total share of the MOEX turnover stood at 55.1% (an increase of 4% from the previous month). The share of the next top-5 companies stood at 23.2% (a decline of 1.8% from the previous month). The foregoing is evidence that investors have shifted their interest towards more liquid stocks.

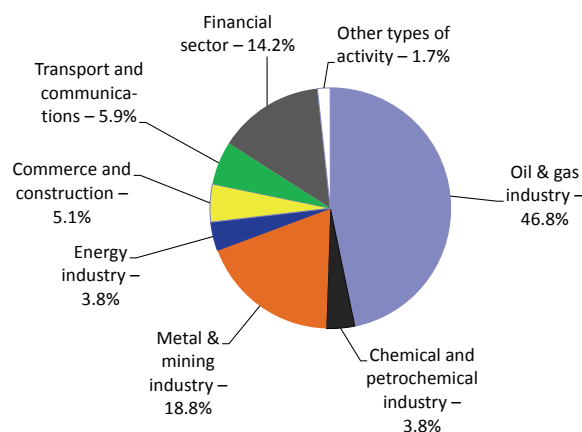
According to the Emerging Portfolio Fund Research (EPFR), the investment outflows in September (a decline of \$16.7m in the last week of September) from Russia-focused mutual funds gave way to an inflow in October: an increase of \$134.5m between 1 October and 14 October. However, the year-to-date total outflow is still more than \$1bn.

The MICEX capitalization as of 26 October 2015 amounted to Rb 28.75 trillion (40.3% of GDP), an increase of 3.1% over that seen as of the end of previous period under review. The financial companies' share of the MICEX cap increased more than 1.2%, whereas the share of steel companies declined by more than 0.6%, chemical companies by 0.5%, trade and construction companies by 0.4%. The oil & gas industry (an increase of 0.3% from the previous period under review) accounted for 46.8% of the MICEX cap, the biggest share among other industries. Other industries saw insignificant changes in their share of the MICEX capitalization.

Corporate bond market

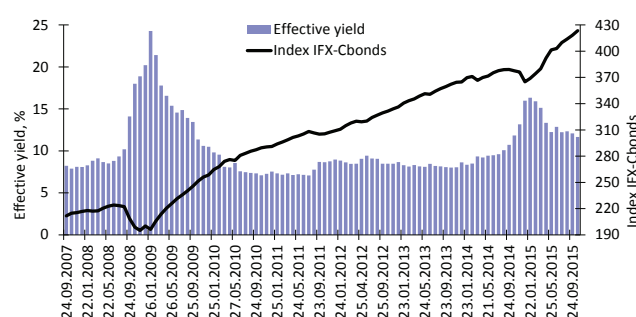
The volume of Russia's domestic corporate bond market (measured by the par value of outstanding ruble-denominated securities including those issued by non-residents) kept growing in October. By the end of the month the volume hit a new all-time highest, reaching Rb 7711.9bn, higher by 0.3% over the value seen as of the end of September¹. The elapsed period saw no changes in number of both outstanding bond issuances (1167 corporate bond issuances denominated in national currency were registered versus 1168 issuances as of the end of September) and issuers in the debt segment (399 issuers against 400 companies in the previous month). Eighteen dollar-denominated bonds issuances of Russian companies (worth a total of more than \$4.8bn) and one JPY-denominated bond issuance remained outstanding in the market.

Investors' activity in the secondary corporate bond market in October remained at its average annual level. For instance, the MOEX total trading volume in the period between 25 September 2015 and 23 October 2015 amounted to Rb 122.1bn (by contrast, the trading volume in the period between 27 August 2015



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

Fig. 6. The structure of stock market capitalization by type of economic activity as of 26 October 2015



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

and 24 September 2015 was equal to Rb 114.1bn). Furthermore, 34,400 transactions were closed in the period under review, making a record since February 2015 (by contrast, 25,200 MOEX transactions were closed in the previous period)².

The Russian Corporate Bond Market Index (IFX-Cbonds) in October kept growing steadily. The Index increased 5.2 points (or 1.2%) the end of the month compared to the value seen at the previous month's end. The average weighted yield of corporate bonds continued to decline since September. In the end, the value dropped from 12.09% at the end of September to 11.66% by the end of October (Fig. 7).³ However, the value is still higher by 0.5 p.p. over the central bank base rate. Throughout the first half of the year the corporate bond portfolio duration continued to see the negative dynamics developed during the second half of the year, being 311 days as of the end of October, which is less by 31 days over the value seen

1 According to the data provided by Rusbonds Information Agency.

2 According to the data provided by Finam Investment Company.

3 According to the data provided by Cbonds Information Agency.

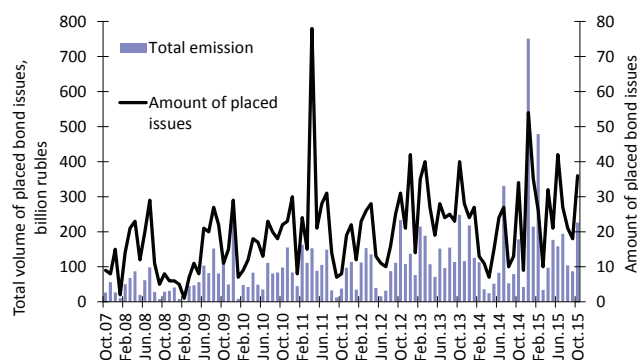
as of the end of previous month. This is primarily reflected by a shorter average maturity of securities in the market.

International rating agencies' forecast for Russian issuers was mixed: it was downgraded primarily for financial companies; in particular, Uralsib, Binbank, Vostochny Express Bank, Nota Bank) and unchanged for many production companies and retail chains (NOVATEK, ALROSA (JSC), MOESK, Tele2 Russia), or it was even upgraded (Acron, Lenta).

The most liquid segment of the domestic corporate bond market saw an overall flat decline in the yield of securities in the period under review. The securities of issuers of the financial and production segment were highly volatile. For instance, the OAO Bashneft (PJS Oil Company), ROSBANK (PJSC), Gazprombank (JSC) saw the lowest decline (by more than 2 p.p.) in the interest rate. Furthermore, it should be noted that no similar growth occurred among liquid securities. Overall, the lowest decline in the yield was seen in the securities issued in the technological and production segments of the market (a decline by an average of 0.7 and 0.6 p.p., respectively), and a more moderate fall was in the energy and financial segments (about 0.4 p.p.)¹. The securities of financial and production companies saw a higher-than-usual demand, especially for the bonds issued by OAO Russian Railways (JSC) and PAO Bank VTB (PJSC).

Issuers' activity in terms of seeking new fundraising increased markedly. For instance, in the period between 25 September 2015 and 23 October 2015 16 issuers registered 24 bond issuances with an aggregate par value of Rb 106.0bn (by contrast, 19 bond series at Rb 66.2bn were registered in the period between 27 August 2015 and 24 September 2015)². Three issuers – OAO SMP Bank (JSC), OOO Finance-Avia (LLC) and OAO Tatfondbank (JSC)³ – accounted for the biggest volume of bond issuances. Furthermore, it should be noted that in the elapsed period OOO Zapadno-Sibirsky Fuel and Petrochemical Refinery (LLC) registered a bond issuance at \$1.75bn (but not more than Rb 157.5bn). The specifics of this issuance is that the raised money will be allocated from the Russian National Wellbeing Fund in order to finance the ZapSib-2 Project.

Investors' activity in the primary market increased too, the highest locally over the recent six months. For instance, 29 issuers placed 36 bond issuances at a total of Rb 226.0bn in the period between 25 September



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

2015 and 23 October 2015 (by contrast, 18 bond issuances with an aggregate par value of Rb 86.9bn were placed in the period between 27 August 2015 and 24 September 2015) (Fig. 8). The largest bond issuances were placed by PAO VimpeCom (PJSC), OAO Russian Railways (JSC), PAO Megafon (PJSC), ZAO O1 Properties Finance and Freight One (JSC)⁴. More than a half of bonds placed in the period under review were exchange-traded bonds, as well as a few first-time bond issuances were placed. Many issuers managed to raise funds with a long maturity: two mortgage agents issued bonds with a maturity of 30 to 32 years, Russian Railways did the same with a maturity of almost 20 years, and nine issuers issued bonds with a maturity of 10 years.

The Bank of Russia in September cancelled 15 corporate bond issuances on the grounds that not a single security was placed (13 bond issuances were cancelled on the same grounds in September)⁵, of which 13 issuances belong to a major issuer – Enel Russia (PSJC). The presented statistics of cancelled bond issuances is evidence that issuers postpone fundraising in the debt market due to poor market conditions.

In the period between 25 September 2015 and 23 October 2015, all of the 24 companies redeemed in due time their bonds at an aggregate par value of Rb 156.0bn (in the previous period one issuer failed to meet its obligations in due time and announced a technical default). Thirty eight corporate bond issuances at a total of Rb 192.8bn⁶ are due in November 2015.

1 According to the data provided by Finam Investment Company.

2 According to the data provided by Rusbonds Information Agency.

3 According to the data provided by Rusbonds Information Agency.

4 According to the data provided by Rusbonds Information Agency.

5 According to the data provided by the Bank of Russia.

6 According to the data provided by Rusbonds Information Agency.

However, issuers' failure to meet obligations to bondholders was still a problem. Utair Finance (Limited Liability Company) declared again actual defaults¹ 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)².

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

2 According to the data provided by Rusbonds Information Agency.