

## RUSSIAN FINANCIAL MARKETS IN DECEMBER 2015

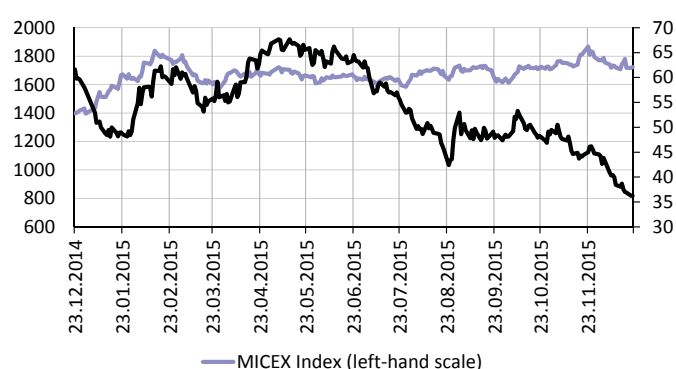
E.Gorbatikov, E.Khudko

December 2015 saw crude oil prices plunge, hitting 2008 lows. This pushed down the MICEX Index (5.7%) and all sector indices (except transport and chemical industries) and Russian blue-chip stocks (except VTB). MICEX average daily turnover and capitalization was down 7.8% and 7.7%, respectively, compared with the previous period under review. Norilsk Nickel removed LUKOIL from the list of top 3 stocks of MICEX daily turnover. Investors continued to withdraw from Russia-focused mutual funds. The Russian corporate bond market slumped amid adverse external conditions, not leading to a seasonal market rally. Nevertheless, the key indicators such as corporate bond market volume and index saw moderately positive dynamics; investors and issuers activity remained at high level. An increase, small though it was, in the weighted average yield rate of bond issuances and worsening of the problem with Russian bonds that default were the key adverse factors.

### The dynamics of the Russian stock market's key structural indices

Brent crude saw its price dive steadily in December 2015, showing positive dynamics only 3 of 18 trading days within the period under review<sup>1</sup>. The price fell overall by 20.4%, sinking by an average of 1.25% a day. On 22 December, crude oil price dropped to \$36.26 per barrel<sup>2</sup>, not seen since 2008 year-end. The decline was similar to a slump by more than 20% in the same year-earlier period. After two months of growth, the MICEX Index was also driven by negative dynamics of slumping oil prices. The Index lost 5.7% during the period under review, down to 1723.4 points on 22 December from 1828.3 on 26 November.

After achieving successful results in November, almost all of the Russian highly liquid companies<sup>3</sup> saw their stock price sink in December. VTB was the only one that stood up (up 1.9%). Sberbank's stock was down 6.3% after holding a 2-month lead in terms of positive dynamics. Magnit's stock lost 11.1%, lowest compared to the other Russian blue-chip stocks. LUKOIL's stock was down 10.5% and Rosneft lost 8.4%, driven by substantially negative dynamics of falling crude oil prices. Norilsk Nickel's stock lost in price for the second consecutive



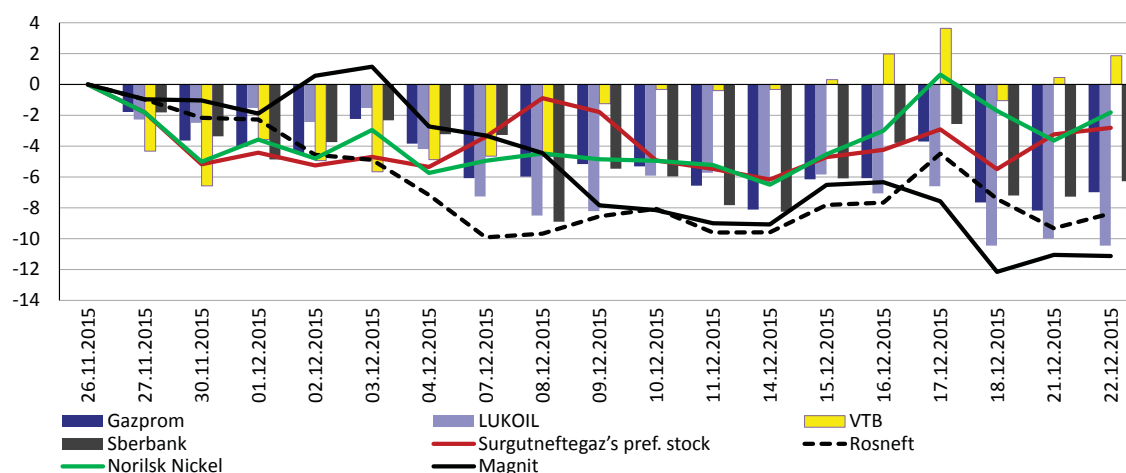
Sources: Quote RBC, Finam.

Fig. 1. The dynamics of the MICEX Index and Brent futures prices in the period between 23 December 2014 and 22 December 2015

1 The period under review covers 27 November 2015 till 22 December 2015.

2 The data hereinafter refer to MICEX closing data.

3 High liquidity companies hereinafter refer to companies with average daily trade volume above Rb 1bn in the period under review.

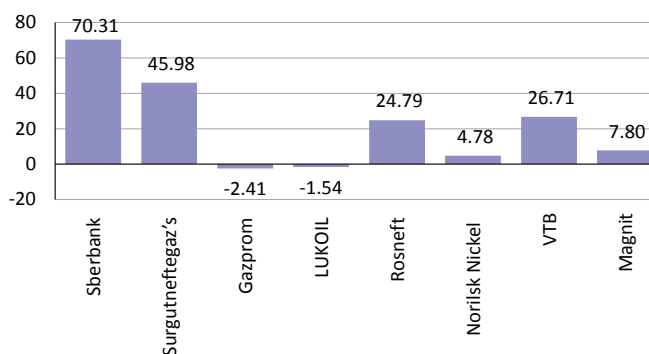


Sources: Quote RBC, author's calculations.

Fig. 2. Growth rates in quotations of Russian highly liquid stocks in the Moscow Exchange in the period between 26 November and 22 December 2015

month (down overall by 5% for the prior two periods under review).

Sberbank's stock took the lead in annual ROE among the Russian blue-chip stocks, showing year-end growth rates of more than 70%. Surgutneftegaz's preferred stock moved up to 2nd from 3rd, delivering an annual ROE of 46.0%. VTB's stock, which outperformed the other blue-chip stocks in annual ROE throughout the prior seven periods under review, moved down to 3rd (up 26.7%). Rosneft's stock delivered almost the same annual ROE (up 24.8%). Gazprom continued to deliver negative annual ROE (down 2.4%). LUKOIL's annual ROE declined too (down 1.54%), because its stock price plunged in December. Norilsk Nickel and Magnit saw their stock price raise a bit at 2015 year-end.

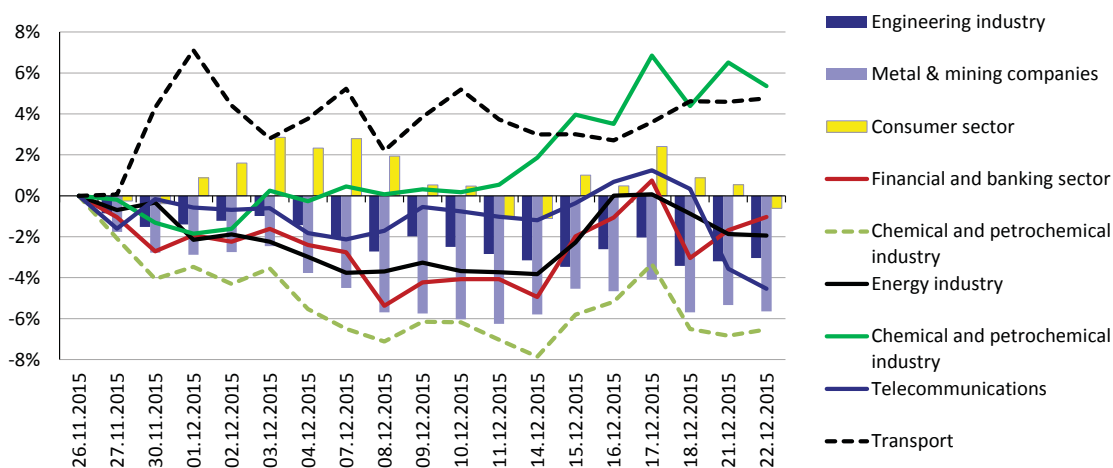


Sources: Quote RBC, authors' calculations.

Fig. 3. Growth rates in the value of highly liquid Russian stocks in the Moscow Exchange in the period between 23 December 2014 and 22 December 2015

The dynamics of the sector indices reflects an overall downtrend in the market. The Transport Sector Index was the only one that managed to deliver positive period-end results (up 4.8%, primarily due to positive dynamics of Aeroflot's stock and Novorossiysk Commercial Seaport's stock) and chemical industry (up 5.4%, largely because Acron's stock were up above 10%). The oil & gas sector delivered the lowest return amongst the other sectors, its index was down 6.5%. The Metal and Mining Sector Index declined for the second consecutive month (down 5.6%). The Finance and Banking Sector Index, which lost nearly 6% in the first eight trading days within the period under review, picked up at the end of the period, showing an overall decline of 1.0%. The Telecommunications, Engineering and Consumer Sector Indices dropped within a range of 5%.

Moscow Exchange's (MOEX) turnover contracted following two months of growth. MOEX total turnover amounted to Rb 603.8bn during 18 trading days

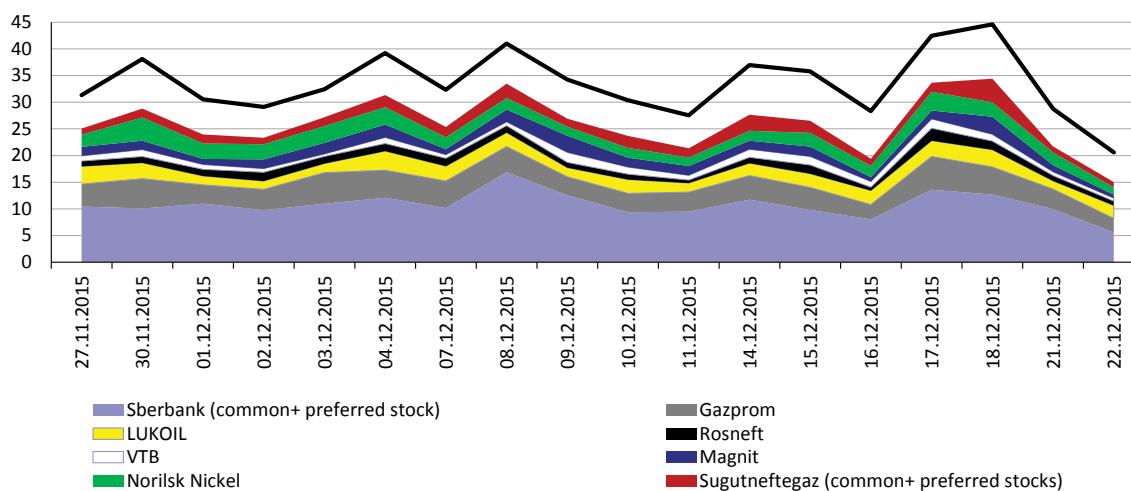


Sources: Quote RBC, author's calculations.

Fig. 4. Daily growth rates in various sector stock indices in the Moscow Exchange in the period between 26 November and 22 December 2015

within the period under review, being equal to the average daily turnover of Rb 33.5bn, at 7.8% below the value seen in the previous period under review and 1.7-fold less than the value seen in the same year-earlier period.

Sberbank's stock accounted for 32.2% of MOEX total turnover, lower than the value seen in the previous period under review. Gazprom's stock lost almost 2%, accounting for 12.9% of MOEX turnover versus 14.8% a month earlier. Norilsk Nickel moved up to 3rd (7.4%), removing LUKOIL (7.3%) from the list of top 3 stocks of MOEX turnover. Magnit, Surgutneftegaz, Rosneft and VTB showed more than Rb 1bn average daily turnover. Note that Tatneft saw its share of MOEX turnover increase considerably (2.2% of MOEX total turnover versus 1.4% in the previous period under review). The top 3 companies accounted for a total of 52.5% of MOEX turnover, and the rest five companies amounted to 25.2%. The foregoing eight blue-chip stocks accounted for more than 3/4 of all MOEX transactions (77.7%), at less than 1% below the value seen in the previous period under review.



Sources: RBK Quote, author's calculations.

Fig. 5. The structure of MOEX turnover in the period between 26 November and 22 December 2015

According to the data released by the Emerging Portfolio Fund Research (EPFR), Russia-focused mutual funds saw investments inflow at the beginning of the period under review (up \$105.6m in the period between 26 November and 2 December 2015). However, the inflow was reduced to zero by \$117.3m outflow within two weeks after, showing a total of \$11.7m period-end investment outflow from Russia-focused mutual funds.

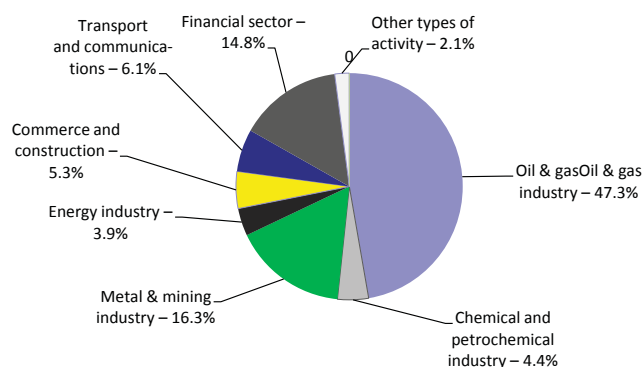
MICEX capitalization as of 22 December 2015 amounted to Rb 27.9 trillion, much less than the amount seen a month earlier (down 7.7% from the end-November value). Major changes to the capitalization structure were accounted for by further decline of the share of metal and mining industry (16.3% of total capitalization versus 17.6% a month earlier, down by more than 3% for the recent three months). The share of chemical industry increased to 4.4% from 3.9%. Other industries saw insignificant changes to their share of MICEX capitalization.

### Corporate bond market

The volume of Russia's domestic corporate bond market (as measured by the par value of outstanding rouble-denominated securities including non-residents' securities) in December kept growing at minimum pace. The end-December value hit a new all-time peak of Rb 7.839.8bn, by 0.7% higher than the end-November value<sup>1</sup>. At the same time, the elapsed period saw an increase in both the number of outstanding bond issuances (1184 rouble-denominated corporate bond issuances were registered versus 1172 end-November issuances) and the number of issuers in the debt segment (402 issuers versus 390 companies a month earlier). Eighteen Russian dollar-denominated bond issuances (worth a total of more than \$4.8bn) and one JPY-denominated bond issuance (note that the issuer has entered into liquidation) remained outstanding.

Despite some decline, investors' activity in the secondary corporate bond market in December was still above its average annual value. For instance, in the period between 24 November and 21 December 2015, MOEX trading volume in rouble-denominated securities amounted to Rb 132.4bn (compared to Rb 142.4bn in the period between 24 October and 23 November 2015). Despite a decrease, the number of transactions was still high enough (28,100) during the period under review (32,600 MOEX transactions were closed in the prior period)<sup>2</sup>.

The Russian Corporate Bond Market Index (IFX-Cbonds) in December continued to grow moderately. The end-December Index was up 3.4 points (or 0.8%) over the prior end-month value. The average weighted yield of cor-



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

Fig. 6. The structure of stock market capitalization by type of economic activity as of 22 December 2015

1 According to the data released by Rusbonds Information Agency.

2 According to the data released by Finam Investment Company.

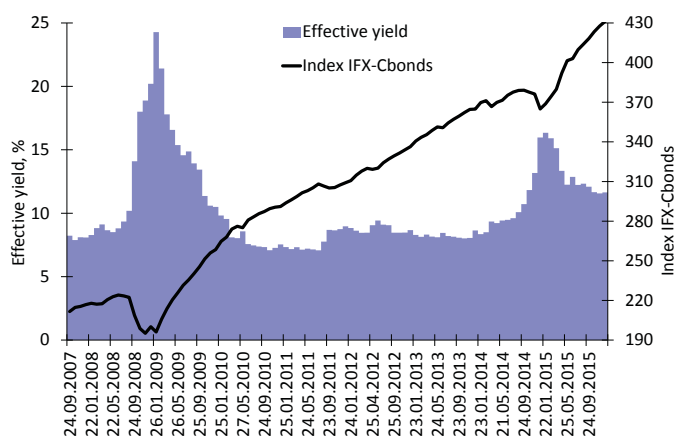
porate bonds followed a reverse trend: it increased to 11.66% at end-December from 11.56% at end-November (*Fig. 7*)<sup>1</sup>. Nevertheless, the corporate bond portfolio duration began to increase unexpectedly following steady decline in the first nine months of 2015, reaching 352 days at end-December, which is 70 days longer than the prior end-month value. Due to insignificant growth in the yield of bonds, these dynamics reflects a considerable increase in the average maturity of securities in the market.

In late November/early December, the Russian financial market was influenced by foreign news.

Special focus should be placed on positive news such as upgraded credit ratings released in early December by international ratings agencies for many of major Russian issuers (in particular Sberbank, Housing Mortgage Lending Agency (HMLA), AtomEnergoProm, Federal Grid Company of Unified Energy System, RusHydro, JSC Transneft, etc.). This was also facilitated by Moody's rating for Russian government bonds, which was upgraded from "negative" to "stable" outlook.

Like in the previous period under review, the dynamics of securities varied largely in most liquid segment of the domestic corporate bond market. The yield of securities issued by companies operating in the financial, industrial and technological sectors was highly volatile. For instance, bond issuances of OOO Megafon Finance (LLC), JSC NLMK and JSC Russian Agricultural Bank saw highest growth in the interest rate (up more than 1 p.p.). At the same time, bond issuances of PAO VTB Bank, JS Financial Company SISTEMA<sup>2</sup> saw a similar decline of the yield. By contrast, volatility of bond issuances of energy companies was not strong during the period under review. At the same time, it is the securities of energy companies and some financial companies that appealed more to investors (especially bonds issued by PAO BINBANK, JSC Gazprombank, PAO OGK-2, PAO RusHydro).

Issuers' activity in terms of seeking new fundraising during the period under review increased considerably despite a complex situation in the financial markets. For instance, in the period between 24 November and 21 December 2015, 17 issuers registered 33 bond issuances with an aggregate par value of Rb 203.0bn (by comparison, 15 bond issuances with an aggregate par value of Rb 76.8bn were registered in the period between 24 October and 23 November 2015)<sup>3</sup>. JSC Mostotrest (eight first-time bond series worth a total of Rb 100bn), JSC First Container Terminal (FCT) (six first-time bond series worth a total of Rb 30bn) and JSC AK BARS Bank (four exchange-traded bond series worth a total of Rb 20bn)<sup>4</sup> issued the largest amount of bonds.



Source: according to the data released by Cbonds Information Agency.

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

1 According to the data released by Cbonds Information Agency.

2 According to the data released by Finam Investment Company.

3 According to the data released by Rusbonds Information Agency.

4 According to the data released by Rusbonds Information Agency.

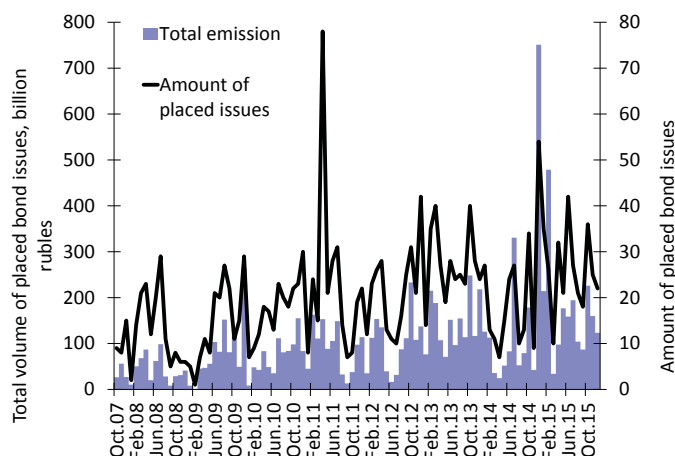
A few other bond programs are expected to register soon; in particular, JSC Ruspolymet is preparing an exchange-traded bonds program worth a total of Rb 15bn.

Investors' activity in the primary market remained high. For instance, in the period between 24 November and 21 December 2015, 16 issuers placed 22 bond issuances worth a total of Rb 123.5bn and one issuer placed a foreign exchange bond issuance worth a total of \$1.75bn, which Russia's Finance Ministry bought using the money from the National Welfare Fund (by comparison, 25 bond issuances with an aggregate par value of Rb 159.8bn were placed in the period between 24 October and 23 November 2015) (Fig. 8). Largest bond issuances were placed by JSC ROSSETI (two exchange-traded bond issuances worth a total of Rb 20bn) and OOO Finance-Avia (LLC) (two bond series worth a total of Rb 20bn)<sup>1</sup>. The bonds, which were placed in the period under review, were mostly exchange-traded bonds. A half of the bond issuances were placed with a 10-year maturity, and two issuers sold their bond with a maturity of 30 and 15 years, respectively.

The Bank of Russia in December cancelled three corporate bond issuances, including two first-time issuances, on the ground that not a single bond has been issued<sup>2</sup> (none of the corporate bond issuances were cancelled on the same grounds in November). The bonds were not issued due to poor market conditions.

In the period between 24 November and 21 December 2015, all of the 19 issuers redeemed their 23 bond issuances with an aggregate par value of Rb 90.7bn (during the same period of November, a single issuer failed to meet its obligations in due time and was declared in technical default on two bond issuances). Twelve corporate bond issuances worth a total of Rb 40.0bn are due to mature in January 2016<sup>3</sup>.

However, the problem with bonds that default was still persisting. Apart from a few technical defaults on bonds issued by companies of various sectors, which failed to redeem their bond on the put date, three banks (their banking license was revoked during the period under review) and a transport company were declared in actual default<sup>4</sup> on various types of commitments (a few technical and actual defaults on paying the coupon yield and on the put date were announced in the same period a month earlier)<sup>5</sup>.



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

Fig. 8. The IPO dynamics of corporate bonds denominated in Russian roubles

1 According to the data released by Rusbonds Information Agency.

2 According to the data released by the Bank of Russia.

3 According to the data released by Rusbonds Information Agency.

4 That is, a bond issuer is unable to repay to bondholders even during the grace period.

5 According to the data released by Rusbonds Information Agency.



## RUSSIA'S STATE BUDGET IN JANUARY–NOVEMBER 2015

T.Tishchenko

According to the data released by the Federal Treasury, by the period-end for January–November 2015 the federal budget revenues as a share of GDP have reached their high of 18.0% of GDP during eleven months of the current year. Prior to that, the lowest indicator for the federal budget revenues as a share of GDP was registered as of the period-end for January–May and January–August – 19.0% of GDP.

For January–October 2015, the budget revenues of the enlarged government as a share of GDP also declined by 0.5 p.p. of GDP (to 35.9% of GDP) against ten months of 2014. Meanwhile, revenues of the consolidated budget of the subjects of the Russian Federation for the same period of the current year went up by 0.4 p.p. of GDP to 12.6% of GDP against the corresponding period last year.

The President of Russia held a meeting with the members of the Government where they discussed issues of implementation of the Presidential Address to the Federal Assembly. At the meeting, vice-prime minister Igor Shuvalov made public the task to search for additional measures aimed at increasing the revenue base of the federal budget by amending the system of administration of fiscal and customs payments and in the sphere of alcoholic products turnover<sup>1</sup>.

### The preliminary estimates of the federal budget execution in January–November 2015

By the period-end for January–November 2015, the federal budget revenues constituted 18.0% of GDP (Rb 12,173.8 bn) down 1.7 p.p. of GDP compared to the same period of 2014 (Table 1). In absolute terms, contraction was to the tune of Rb 777.0bn or 6.0%. Oil and gas receipts as of the period-end for eleven months of 2015 fell by 2.2 p.p. of GDP to 8.0% of GDP

1 <http://kremlin.ru/events/president/news/50898>

Table 1

#### MAIN PARAMETERS OF THE FEDERAL BUDGET FOR JANUARY–NOVEMBER 2014–2015

	January–November 2015		January–November 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. GDP
Revenues, of which:	12173.8	18.0	12950.8	19.7	-777.0	-1.7
Oil and gas revenues	5411.0	8.0	6718.8	10.2	-1307.8	-2.2
Non-oil and gas revenues	6762.8	10.0	6232.0	9.5	530.8	0.5
Expenditures, of which:	13131.2	19.4	11677.5	17.8	1453.7	1.6
Interest	523.0	0.8	377.9	0.6	145.1	0.2
Non-interest	12608.2	18.6	11299.6	17.2	1308.6	1.4
Surplus (deficit) of the federal budget	-957.4	-1.4	1273.3	1.9	-2230.7	-3.3
Non-oil and gas deficit	-6368.4	-9.4	-5445.5	-8.3	-922.9	-1.1
GDP estimates	67805		65535			

Sources: Federal treasury, Finance Ministry, Gaidar Institute calculations.