

## FINANCIAL MARKETS IN SEPTEMBER 2013

N.Andrievsky, E.Khudko

Crude oil prices advanced late in August 2013 and pushed up the MICEX index by 5.52% during the first decade in September 2013. As of September 26, 2013, the MICEX index advanced by 8.6% since the beginning of the month and reached 1485 points. OJSC Sberbank stocks grew up by 14.39% during 26 days in September, showing maximum growth among blue chips. Stock market (MICEX) capitalization reached Rb 25.09 trillion (40.09% of GDP) by September 26, 2013. Domestic corporate bond market indicators such as market capacity, corporate bond market index, average weighted yield, activity of issuers and investors (especially in the financial segment) showed a positive trend. However, a few technical and real defaults were declared.

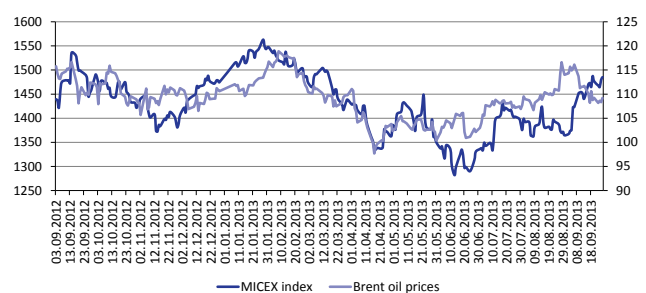
### Dynamics of Russian stock market basic structural indices

Prices of Brent crude oil increased 5.31% (up to \$116.61 per barrel) on August 28, 2013 due to unstable situation in Syria and pushed up the MICEX index by 5.52% in the period of September 6 thru September 9, 2013. Easing of tensions in Syria pushed down oil prices to \$110 per barrel by September 16, 2013. Nevertheless, the MICEX index kept growing, and local maximum value was reached on September 19, 2013 (1487.19 points). The index reached 1485.14 points by September 26, 2013.

Gazprom, Sberbank, and Lukoil stocks were principal growth drivers for the MICEX index in September 2013. Gazprom and Rosneft stocks increased significantly at the beginning of the month. Growth rates of these stocks reached 6.5% and 6.36% respectively by September 5, 2013 since the beginning of the month. Sberbank stocks (as of September 20, 2013) showed a maximum growth of 14.39% since the beginning of the month.

Positive trends for blue chips resulted in 26.8% p.a. of annual yield of Rosneft stocks (in the period of September 27, 2012 thru September 26, 2013). Sberbank stocks demonstrated a yield of 12.88% and 16.5% on common and preferred stocks respectively. Growth in the value of Gazprom shares in September 2013 failed to change negative annual results (annual decline of 7.36%). The value of VTB Bank stocks fell by 2.1% as compared to the beginning of the year, and showed maximum fall in the value (19.57%).

The machine building sectoral index, which increased by 8.58% by September 12, 2013 since the beginning of the month, was leader in growth among sectoral indices. The machine building sectoral index's uptrend was driven basically by OJSC Solers's purchase of UAZ stocks, as well as KAMAZ stocks which raised in response to news of the release of a new make of towing truck and re-election of the Chairman of the Board



Source: RBK Quote.

Fig. 1. Dynamics of the MICEX index and futures Brent oil prices in the period of August 1, 2012 thru September 26, 2013

of Directors. Positive trends in the value of oil-and-gas companies observed by the end of the month resulted in a growth of 7.38% in the sectoral industry by September 26, 2013 since the beginning of the month.

According to the Emerging Portfolio Fund Research (EPFR), Russian-market-oriented funds saw a capital outflow of \$339m in the period of September 1 thru September 25, 2013. At the same time, in the last week of September, Russia-oriented funds saw capital inflow for the first time over the past eight weeks (since mid-July 2013). Russia's stock market (MICEX) capitalization amounted to Rb 25.09 trillion (40.09% of GDP) as of September 26, 2013, having shown an increase of Rb 1.65 trillion (7%) against the value observed on September 2, 2013. However, no significant changes took place in the capitalization structure. In particular, it was only the share of companies operating in the mineral extraction sector and financial sector that increased (by 0.4% and 0.15% respectively) as compared to the beginning of the month, whereas the share of companies specializing in energy production and distribution decreased by 0.38% in the same period.

### Corporate bond market

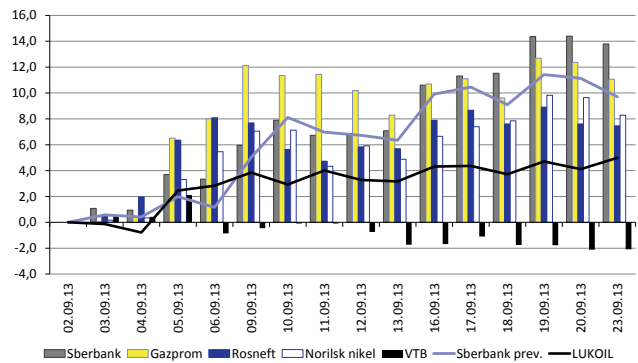
The domestic corporate bond market in Russia (measured by the par value of outstanding securi-

ties denominated in the national currency, including those issued by non-residents) kept growing in September 2013. By the end of September 2013 the value reached Rb 4 779.0bn, having shown an increase of 1.7% against the value observed by the end of August 2013<sup>1</sup>. The increase in market capacity was related to an increase in the average volume of bond issues, because the number of bonds issues remained unchanged (1002 corporate bond issues registered in the national currency against 1000 issues at the previous month end), whereas the number of bond issuers even declined (346 issuers against 353 companies in August 2013). In addition, there are outstanding 12 USD-denominated bond issues of Russian issuers (a total of more than \$1.8bn), and a JPY-denominated bond issue. It is worth noting that the year 2013 saw a trend towards growth in the number of mortgage-backed bond issues which is most likely to continue in the coming months.

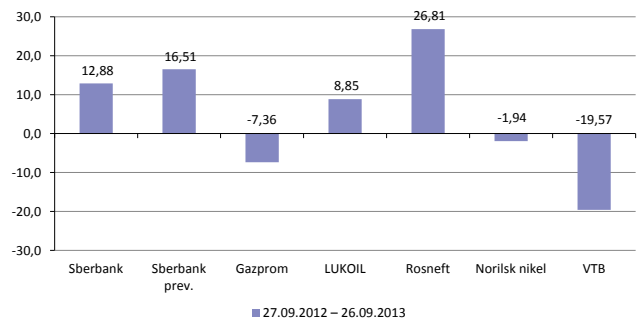
Investment activity in the corporate bond secondary market increased significantly in September 2013 after a long-lasting period of stabilization. For instance, in the period of August 22 thru September 23, total volume of market transactions in the Moscow Stock Market amounted to Rb 152.3bn (to compare, trading volume amounted to Rb 116.1bn in the period of July 22 thru August 21, 2013), and the number of transactions remained almost unchanged over the period under review and amounted to 27,400 (27,000 in the previous period)<sup>2</sup>, being indicative of growth in the number of major transactions.

The Russia corporate bond market index (IFX-Cbonds) kept growing. Its value increased by 2.4 points (or 0.7%) by the end of September 2013 as compared to the value observed at the previous month end. The corporate bond average weighted yield also saw a positive trend, having dropped from 8.15% late in August 2013 to 8.07% by the end of September 2013 (Fig. 6)<sup>3</sup>.

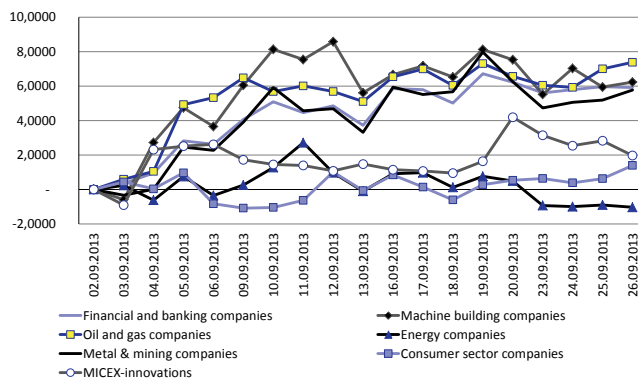
Dynamics of basic indicators are indicative of that the debt market hasn't yet been affected by the problems faced by the Russian economy. Adverse situation in the Eurozone has been exerting additional pressure upon the Russian economy. Therefore, should economic factors keep deteriorating, one may expect a change in the debt market trends. At the same time, it should be noted that no changes in the official inflation forecasts for 2013 (5-6%) and refinancing rate infused more certainty for investors and issuers. The market gained more "confidence" in response to stable forecasts by international rating agencies with regard to ranking of the largest Russian



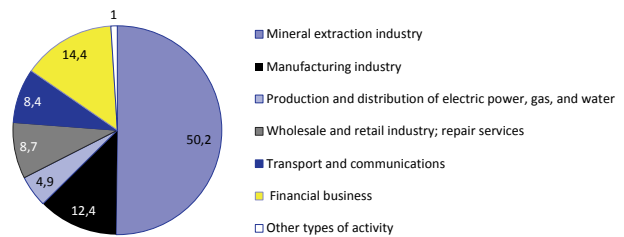
Source: RBK Quote, author's estimates.  
 Fig. 2. Blue chips growth rates in the Moscow Stock Exchange in August 2013 (month to date)



Source: RBK Quote, author's estimates.  
 Fig. 3. Blue chips growth rates in the Moscow Stock Exchange in the period of September 27, 2012 thru September 26, 2013 (% p.a.)



Source: RBK Quote, author's estimates.  
 Fig. 4. Growth rates in various sectoral stock different stock indices at the Moscow Stock Exchange (month to date)



Source: The Moscow Stock Exchange's official website, authors' estimates.  
 Fig. 5. Stock market capitalization structure by type of economic activity

1 According to Rusbonds information agency.  
 2 According to Finam Information Company.  
 3 According to Cbonds Information Agency.

issuers, namely Severstal, Rostelecom, RusHydro, Tatneft, NOVATEK, etc.<sup>1</sup>

The corporate bond portfolio duration value remained unchanged. The duration was 717 days as of the end of September 2013, being six days beyond the value observed as of the previous month end. Relative stabilization of the duration value against insignificant decline of interest rates in the market is indicative of invariance of maturity of flow of payments on bonds and, therefore, maturity of outstanding bond issues in the corporate segment.

Like in the previous month, financial corporate issuers experienced most volatile movements. For instance, OJSC AK BARS BANK (series 04) and OJSC Petrocommerce Bank (series 05) saw highest fall in bond yield (more than 1 p.p.), whereas OJSC Bank Zenit bonds (series 08) showed a significant growth (more than 2 p.p.). Such yield movements were related to more intensive investment activity in the financial market: trading turnover on certain bond issues of large financial companies such as AK BARS, ALFA-BANK, ZENIT, Credit Europe Bank, NOMOS BANK) exceeded Rb 1bn over the period under review. Energy companies saw a significant fall in their bond yield, a insignificant downtrend was observed in the production and high-tech sectors (no more than 0.1 p.p. on average)<sup>2</sup>.

Positive market trends persisting over the last few months were pushed up by activity of Russian issuers in terms of bond issue registration. For instance, 10 issuers registered 36 ruble bond issues at an aggregate par value of Rb 341.3bn in the period of August 22 thru September 23, 2013 (to compare, 69 ruble bond issues at a total of Rb 279.5bn were registered in the period of July 22 thru August 21, 2013). However, the major part of the registered issues (19 series of listed bonds at a total of Rb 235bn) was accounted for by a single issuer, OJSC Bank VTB. Listed bonds accounted for more than 2/3 of the registered issues.

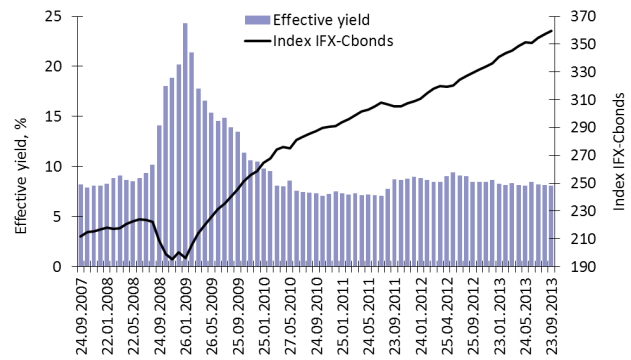
Unlike the secondary market, investment activity in the primary market slowed down a bit in September 2013 as compared to the previous period, but remained at a fairly high level. For instance, 19 issuers placed 23 bonds at an aggregate par value of Rb 113.8bn in the period of August 22 thru September 23, 2013, (to compare, 25 series of bonds at Rb 154.65bn were placed within a period of July 22 thru August 21, 2013) (Fig. 7). Two mortgage agents managed to obtain financing for a period close to 35 years.

Unlike the recent few months, the Bank of Russia Financial Markets Service declared void 15 issues of bonds in September 2013 for non-placement of a single bond<sup>3</sup>.

1 According to Cbonds Information Agency.

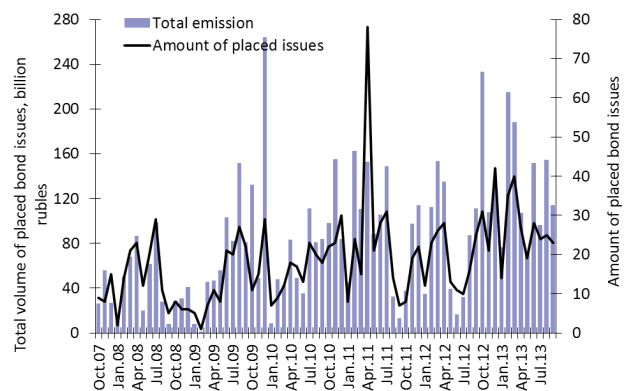
2 According to Finam Investment Company.

3 According to the Bank of Russia Financial Markets Service.



Source: according to Cbonds Information Agency.

Fig. 6. Dynamics of the Russian corporate bond market index and average weighted yield



Source: according to Rusbonds information agency.

Fig. 7. Dynamics of initial public offerings of corporate bonds denominated in the national currency

It is a negative signal for market players. Eighteen issuers were to redeem their debt at an aggregate par value of Rb 70.3bn in the period of August 22 thru September 23, 2013. However, two issuers failed to redeem their debt on the date of maturity (one issuer declared a technical default in the preceding period). Twenty issues of corporate bonds at a total of Rb 81.8bn are expected to be redeemed in October 2013<sup>4</sup>.

Two issuers declared real default<sup>5</sup> on coupon yield payment in the period of August 22 thru September 23, 2013 (one issuer did the same in the corresponding period in the previous year). Like in the previous months, no real defaults took place in the redemption of par value of bond issues and early redemption of securities on put date<sup>6</sup>.

4 According to Rusbonds information agency.

5 It means that the issuer was unable to pay to bondholders even shortly after a regular scheduled due date, the so-called grace period.

6 According to Rusbonds company.