Russian bond market toasts a good year on roa

By IntelliNews Pro December 13, 2016

Participants in the 14th Russian Bond Congress held in St Petersburg on December 8-9 hailed the slow but steady revival and development of the Russian bonds market, with clearer rules of the game in place and promising new options in sight.

“2016 has been a good year for the Russian bond market,” Sergei Lyalin, head of Cbonds, the organiser of the event, said during a panel discussion focused on the current state and prospects of the country’s bond market.

Russia bond market has come back to life and with interest rates hiked dramatically by the Central Bank of Russia (CBR) to 17% following the collapse of the ruble then bonds have been a cost effective way of raising money for Russia’s corporates, preferable to the more traditional banks loans.

In 2016, several major Russian companies have issued bonds, most notably the RUB600bn ($9.8bn) worth of 10-year bonds placed by state-controlled oil giant Rosneft.

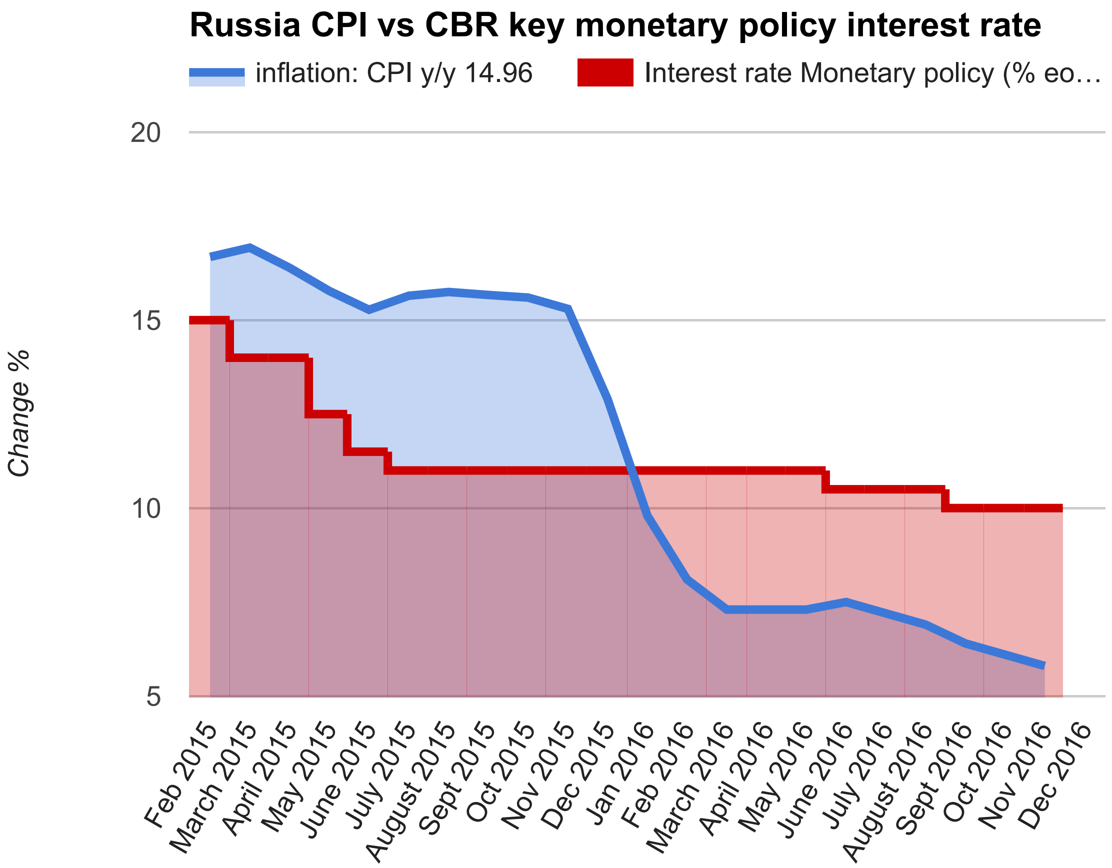
Gazprom placed CHF500mn ($493mn) worth of five-year Eurobonds carrying a 2.75% coupon and its oil-producing subsidiary Gazprom Neft placed RUB15bn ($231mn) of bonds with a 9.4% coupon. Independent oil company Lukoil placed $1bn worth of ten-year Eurobonds carrying a 4.75% coupon.

Non-corporate issuers were also active. The Moscow Region issued its first bonds since December 2008, placing RUB25bn ($386mn) worth of seven year bonds with a 9.65% coupon.

Not all the participants shared Lyalin’s optimism, though.

“This year has been very difficult,” said Irina Komarova, senior vice president and board member at BinBank. “But we have seen more consistent and clear rules of the game offered [by the CBR].”

“It’s not just the lowering of the key interest rate,” added Denis Shulakov, first vice president, head of the capital markets division at Gazprombank, referring to a string of rate cuts since 2014 “The policy of the central bank has become predictable.”



The predictability of the regulator’s policies has apparently been one of the key growth drivers in the bond industry. The corporate bond segment, for instance, is estimated to have grown by 8.5% to RUB87.5 trillion ($1.4 trillion) in 2016.

“The speed of growth isn’t stunning, but it is ahead of inflation,” Lyalin commented. “The very fac that the market is continuing to grow is already an achievement.”

Still, the lion’s share of bonds issued in Russia has so far been accounted for by government securities, while growth in the corporate segment has been limited due to several factors.

Cut off from the international capital markets by sanctions the Russian Ministry of Finance has been issuing more of its OFZ treasury bonds to fund a budget deficit expected to end this year at 3.7% of GDP or about RUB2.5 trillion. The 2016 budget allows for some RUB300bn of bond issues this year, but the Ministry of Finance recently increased this cap to RUB500bn. And the Duma has pencilled in a whopping RUB1 trillion of bond in the budget for 2017.

One of the issues making corporate bonds less attractive for investors is insufficient transparency, noted Denis Tulinov, head of debt financing and investment products at BinBank.

“Before proper regulations are adopted at a legislative level, the number of investors [in corporate bonds] will remain limited,” added Alexei Kuznetsov, chairman of the board at BK Region.

Among the most recent trends have been an improvement in quality of commercial bonds, with Rosselkhozbank’s perpetual bonds offered as an example, and an increase in the average duration of bonds from 1.7 years in 2015 to 2.5 years in 2016.

Another trend has been an increase in the proportion of non-resident bond buyers to 27% of the total outstanding made possible but the financial reforms to the market connecting it to the global system four years ago.

“Sanctions or no sanctions, interest on bonds offered in Russia is still very attractive,” Lyalin commented.

“Foreign investors are interested in ruble-denominated, fixed-income products,” added Anna Kuznetsova, managing director for the securities market at the Moscow Stock Exchange.

“Currently, there are few foreign investors in the corporate bond segment,” she added. “But wher they begin to buy bonds actively, it will give the market a major boost.”

Looking into the future, the industry's expectations are moderately optimistic.

"A surplus of ruble liquidity is expected in the market," said Kuznetsova. "That means that companies that haven't been in the market since 2008-2009 could issue bonds."

Meanwhile, the arrival of private individuals as investors in bonds could also make a significant difference.

"There is no other way than attracting money sitting in private individuals' bank accounts," said Yelena Chaikovskaya, head of the financial markets development department at the CBR. "Interest rates for traditional bank products have been declining and people are looking for alternative options."

According to Chaikovskaya, a decision to scrap the income tax on profits made by private individuals on the bond market, has already been made and is likely to bring in extra cash to the sector.

As Western sanctions, which were slapped on Russia over the annexation of Crimea two years ago, remain in place, new opportunities are more likely to be found elsewhere, with China being the top priority at this point.

"The reason for the turn to the East is obvious," said Chaikovskaya. "It's the sanctions, due to which credit in the West is no longer available."

Next year, the first issuance or Russian state bonds denominated in yuans is expected.

"The issuance of yuan-denominated bonds in Russia is important both in the short-term and long term," said Gao Yan, president of the Bank of China.

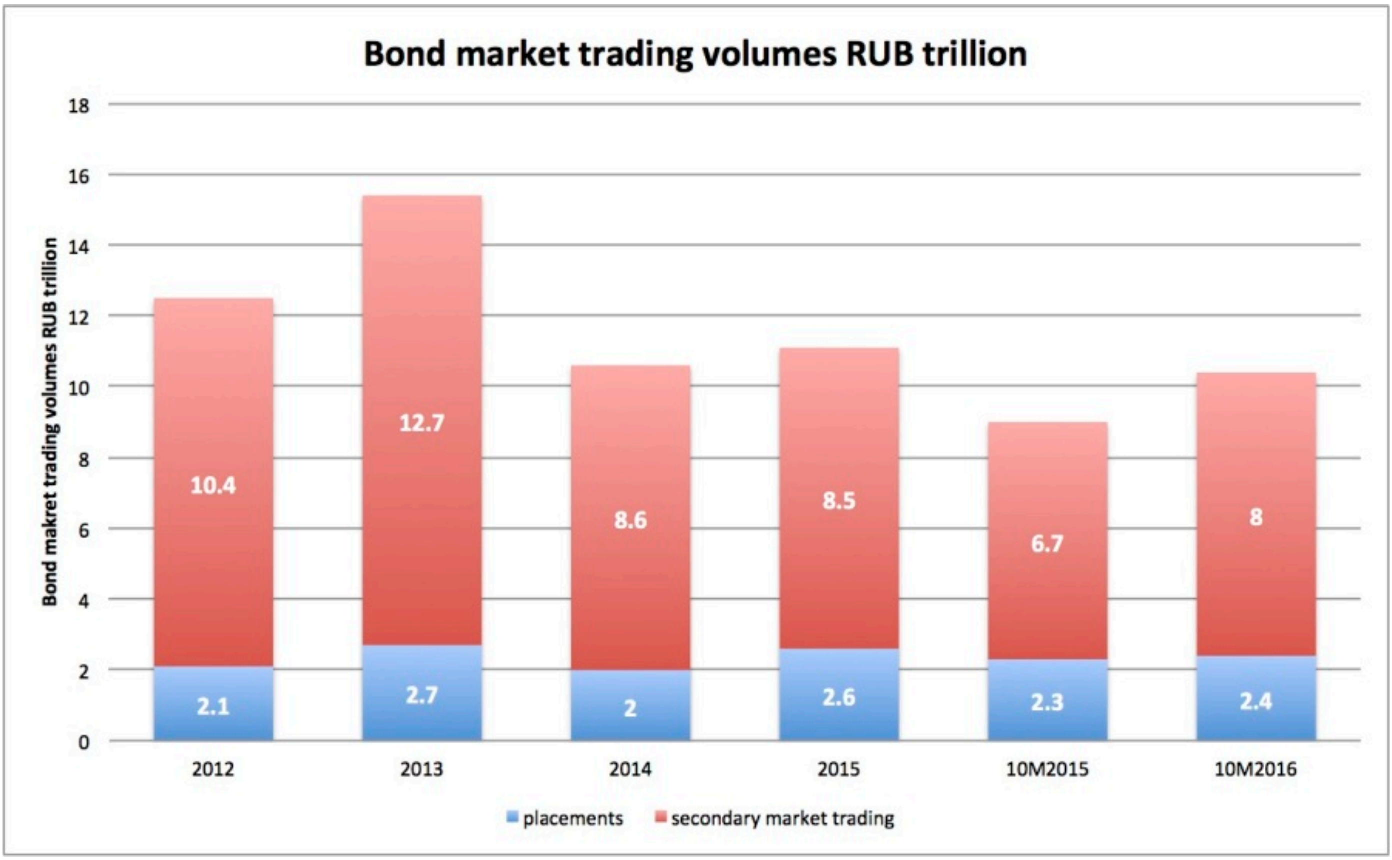
"It will be an unprecedented project," added Gazprombank's Shulakov.

During one of the final panel discussions of the conference, participants tried to make bold forecasts about what the bond market will be like 15 years from now.

“Over the last 15 years, nothing has changed in the bond market – globally and in Russia, alike,” said Lyalin. “Technology and processes haven’t changed, only the volumes have. So, [15 years from now], little is likely to change in the bond market,” he added.

“In 2000, for instance, nothing similar to the [public ledger of all Bitcoin transactions] blockchain existed,” said Nikolai Kashcheyev, director of the analytical department at Promsvyazbank.

“I wouldn’t rule out that a classic bond market and something new, crowdfunding-based, will exist in the future,” he concluded.



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