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Russia Returns to Bond Market as Ukraine Tensions Ease

By Howard Amos

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Russia's MICEX Index climbed 0.96 percent Wednesday to 1443.21. The ruble, which has fallen steadily in recent weeks, strengthened 0.32 percent against the dollar.

Russia successfully sold 10 billion rubles ($260 million) of government bonds Wednesday, in a sign that easing tensions over Ukraine are restoring a semblance of normality to money markets.

The placement is the first since mid-July, when debt auctions were halted as the downing of a Malaysian passenger jet over eastern Ukraine and the imposition of European Union and U.S. sanctions on Moscow jacked up the cost of borrowing for the Kremlin.

The Finance Ministry sold all of the 10-year OFZ treasury bonds on offer at an average yield of 9.37 percent, according to a statement on the ministry's website. Bond yields peaked at 9.9 percent on Sept. 2.

“Demand for today's local bond auction was strong,” Tom Levinson, a currency strategist at Sberbank CIB in Moscow said in e-mailed comments.

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A fragile cease-fire in Ukraine agreed between separatists militias and Kiev earlier this month appears to be holding, despite reports of outbreaks of fighting. The NATO military alliance said Tuesday that a significant number of Russian troops had pulled out of Ukraine, The Wall Street Journal reported, citing a spokesman for the military alliance.

Testing the Water

Russian companies have preceded the government in a tentative return to the bond markets, with Alfa Bank and state-owned Gazprombank both carrying out successful placements in September.

“The Finance Ministry is testing the water ... despite the fact that the OFZ market has not fully rebounded,” analysts from Raiffeisen Bank wrote in a note to clients Wednesday.

The last time the Finance Ministry conducted a debt placement was on July 16, when it sold five-year OFZ treasury bonds at an average yield of 8.54 percent. Since then, it has cancelled every scheduled auction because of “unfavorable market conditions.”

A similar six-week abstinence from the bond market took place in April as the Kremlin's annexation of the Black Sea region of Crimea raised tensions with the West and pushed up yields.

About a quarter of Russian bonds are held by foreign investors.

The bond auction freezes are not a serious problem for a Russian government that has been buoyed by high average oil prices and a tax windfall from a weak ruble, according to analysts.

Finance Minister Anton Siluanov said on Sept. 11 that the country still plans to place 230 billion rubles ($6 billion) of debt by year-end. So far this year a total of 127 billion rubles have been raised in bond issues.

“It's a sign of normality that they have completed an auction,” said one Moscow banker who requested anonymity because he was not authorized to speak to the media. “But it may not last for long.”

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