

# Russian Bond Market

November 14, 2024

# Russian economy: despite the rates

**+3.7%**

in 2023-2024

**GDP growth** is above the G20 level (2.9%)

**1.7% GDP**

in 2024

**Budget deficit** is below the G20 level (5.6%)

**8.5%**

YoY Oct 24

**Inflation** has fallen from a peak of 9.1% YoY (Jul 24)

**21%**

as of Nov '24

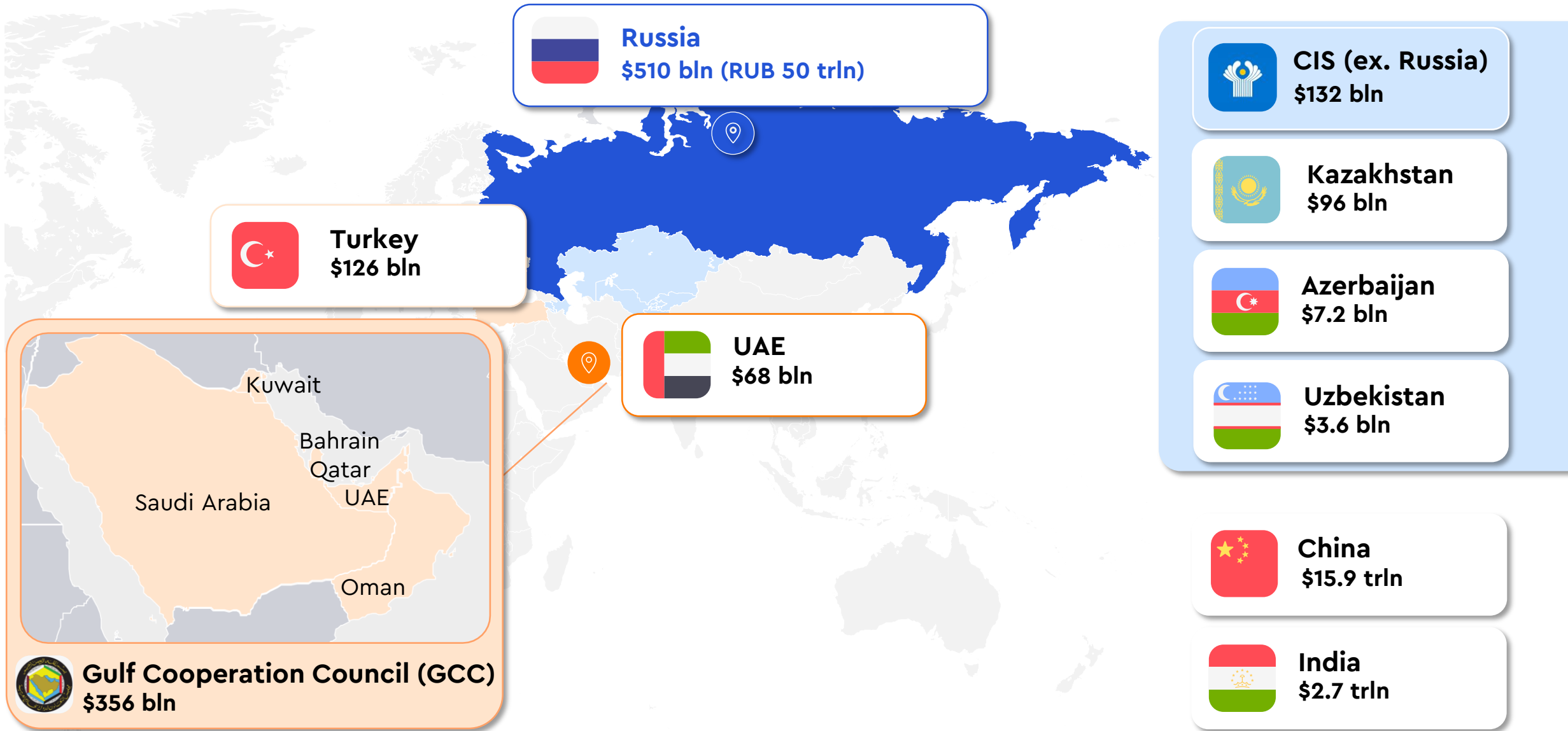
**Key rate** is high due to the **CBR's determination** to achieve low inflation

**2.9% GDP**

in 2024

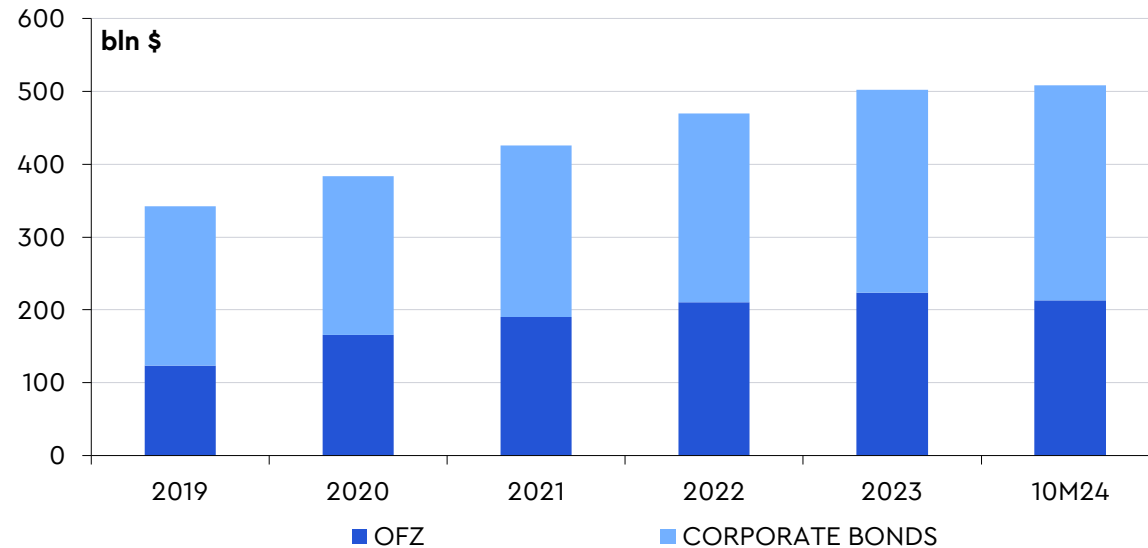
**Current account surplus** is wider than the G20 level (0.4%)

# EM local debt markets

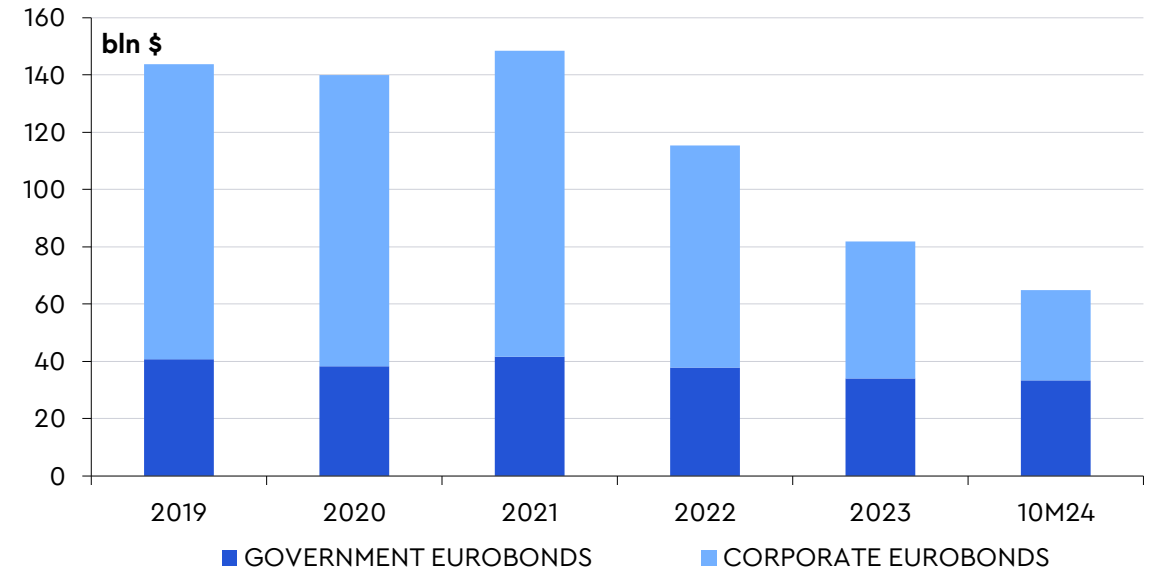


# Local market snapshot

## LOCAL BOND MARKET IS GROWING....



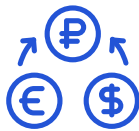
## ... WHILE EUROBOND MARKET IS SHRINKING



## NEW INSTRUMENTS

### Substitute bonds

**\$24.1** bln  
**71** issues



### Yuan bonds

**111.1** CNY bln  
**32** issues



### Floating coupon bonds

**>\$35** bln  
**>200** issues



### Gold bonds

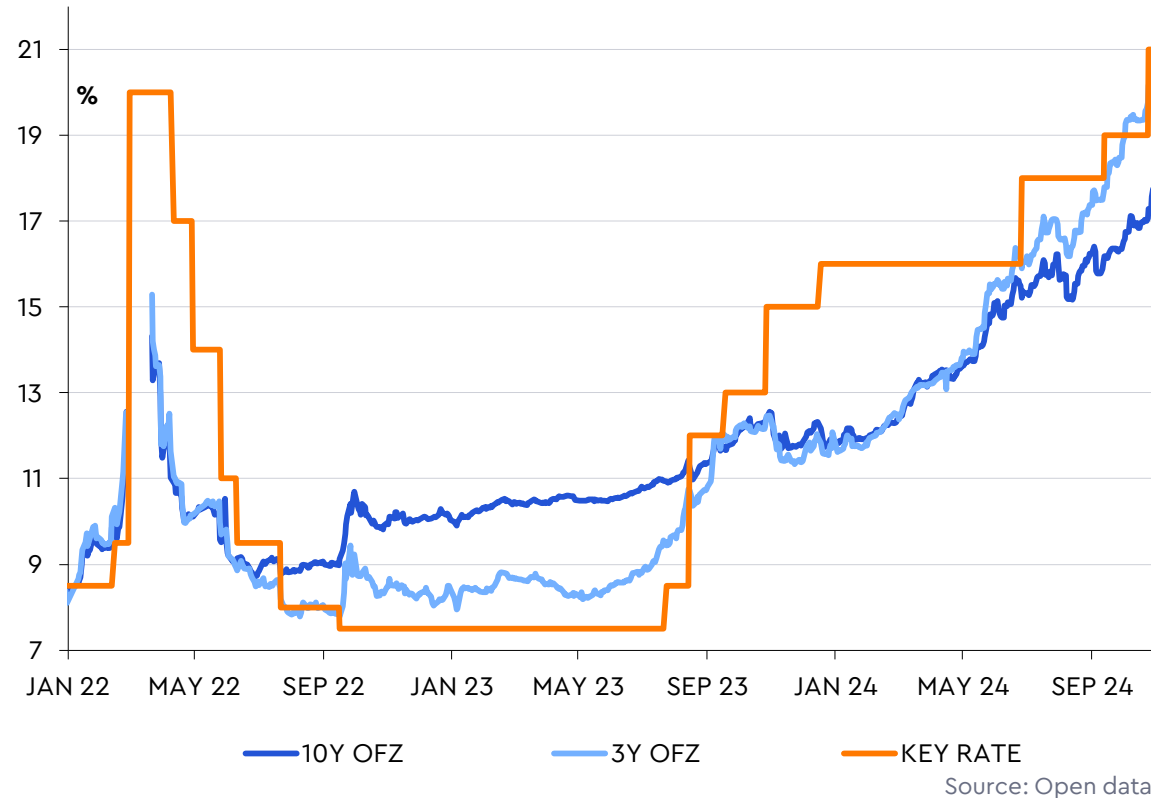
**\$0.5** bln  
**4** issues



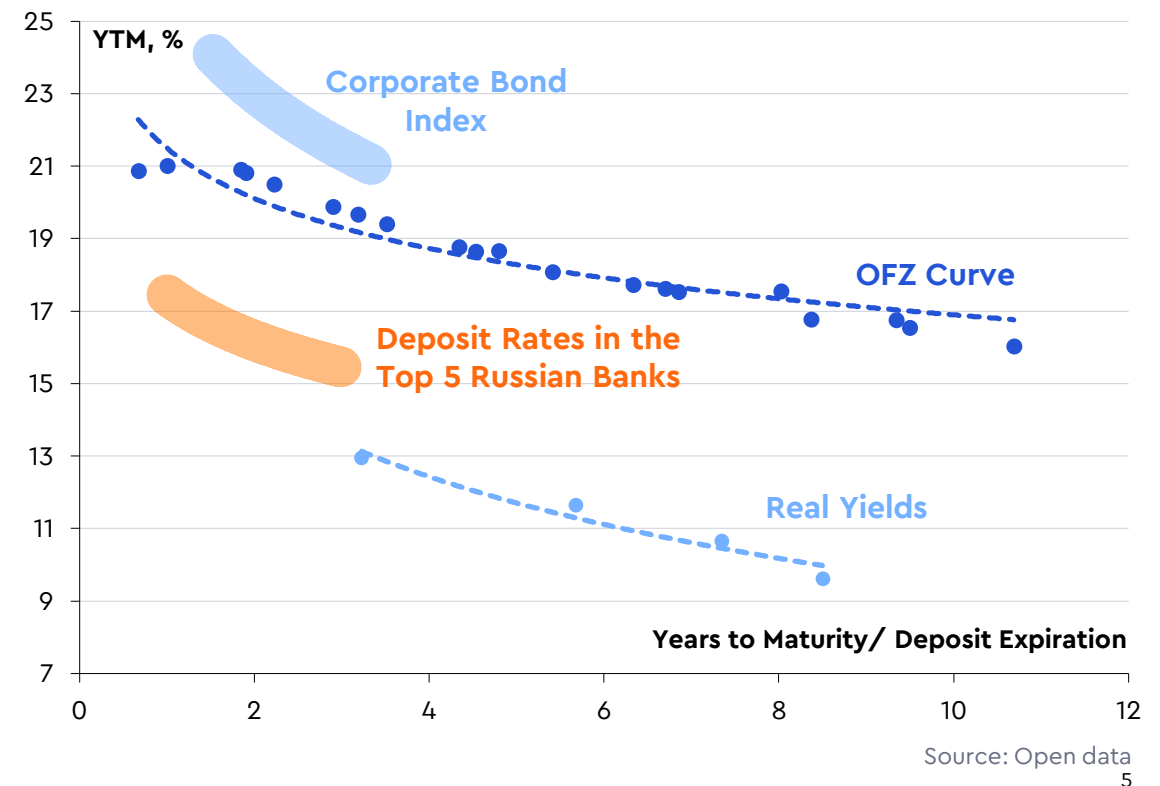
# RUB local rates

- Since mid-2023, the Bank of Russia has hiked the key rate by 13.5 pps to a record level of 21%. The rate has never been so high for so long and could be raised further.
- The tightening of monetary policy was accompanied by a significant increase in OFZ yields. Since mid-2023, yields have risen by 7-12 pps year to date.

## DYNAMIC OF 3Y AND 10Y OFZ YIELDS AND CBR KEY RATE



## YIELD COMPARISON FOR DIFFERENT CLASSES OF INSTRUMENTS



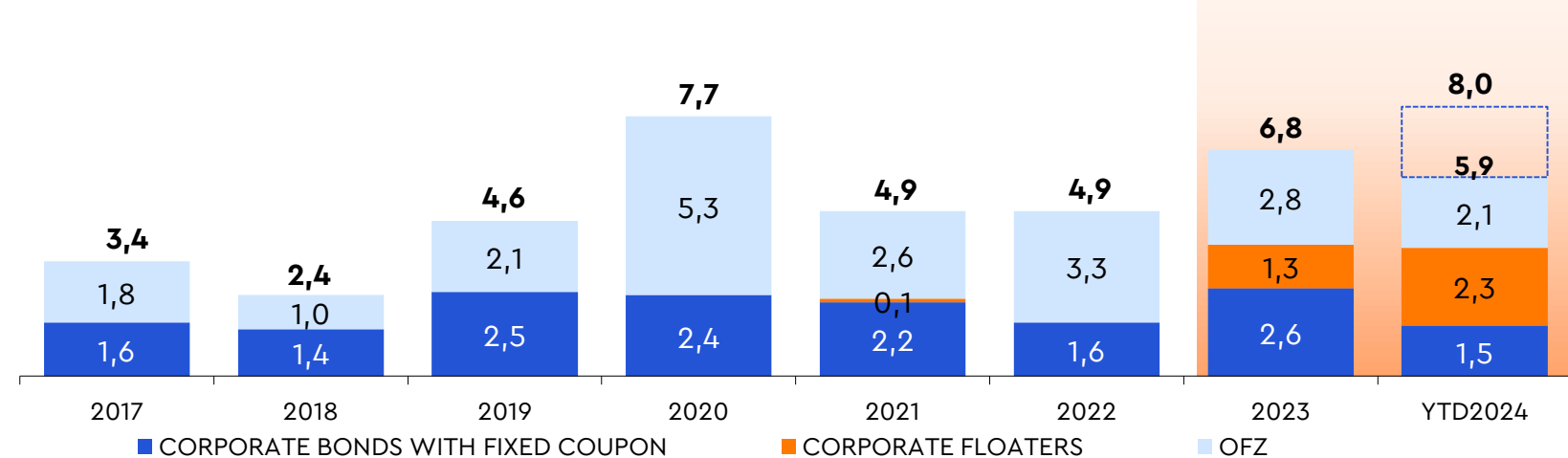
# Primary market developments

## CORPORATE BOND YIELD INDEX (IFX CBONDS)



## VOLUME OF BOND ISSUANCE\*

RUB TRLN



\* market issues only

Source: Cbonds, Open data



Average key rate in 10M24

**17.2%**

**+8 pps vs. 10M23**



Expected bond issuance

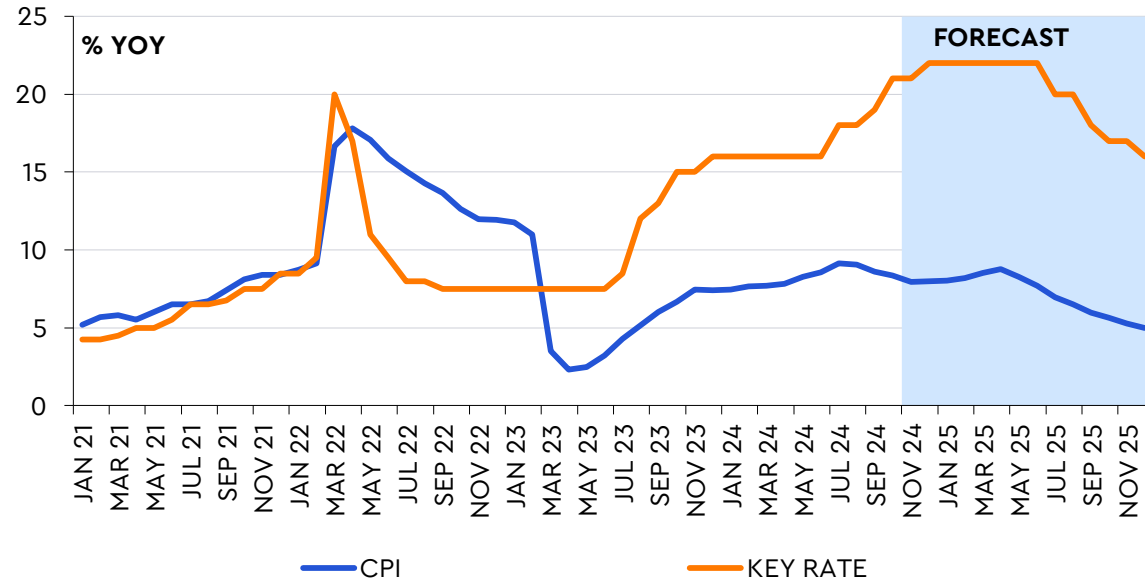
**RUB 8 trln**

**+20-30% YoY**

# Factors impacting RUB yields in 2025

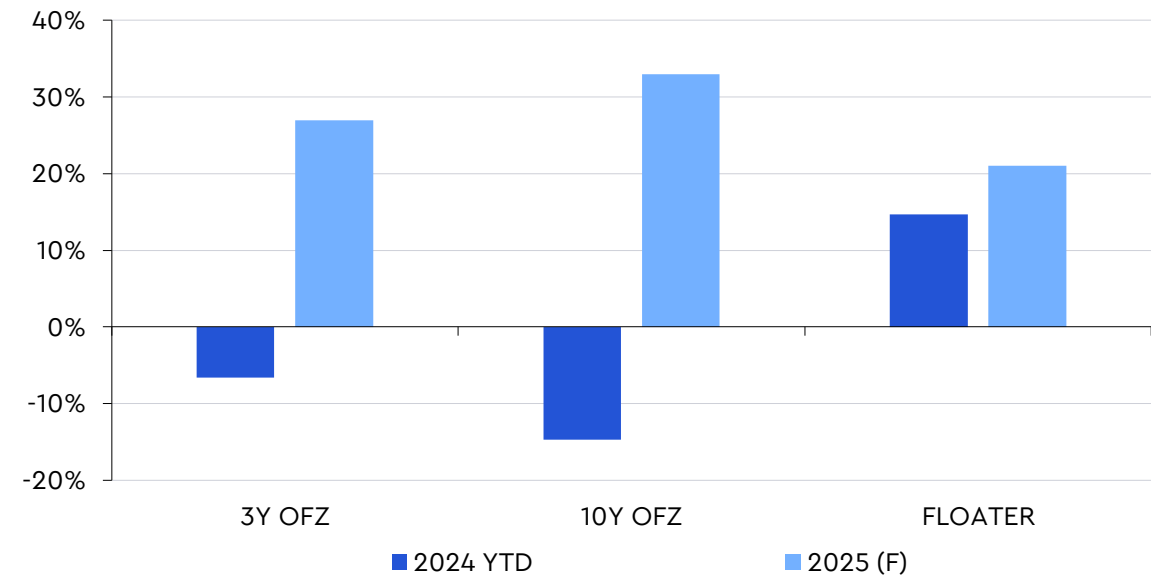
- **Monetary policy:** we expect the key rate to be lowered to 16% in 2025.
- **Minfin borrowings:** rising borrowings might limit OFZ upside potential despite an expected monetary twist.
- **Target level of YTM at end 2025:**
  - **3Y** – 15-16%
  - **10Y** – 14-15%

## INFLATION AND KEY RATE DYNAMIC FORECAST



Source: Open data

## 2024 YTD AND 2025F TOTAL RETURN FOR OFZ

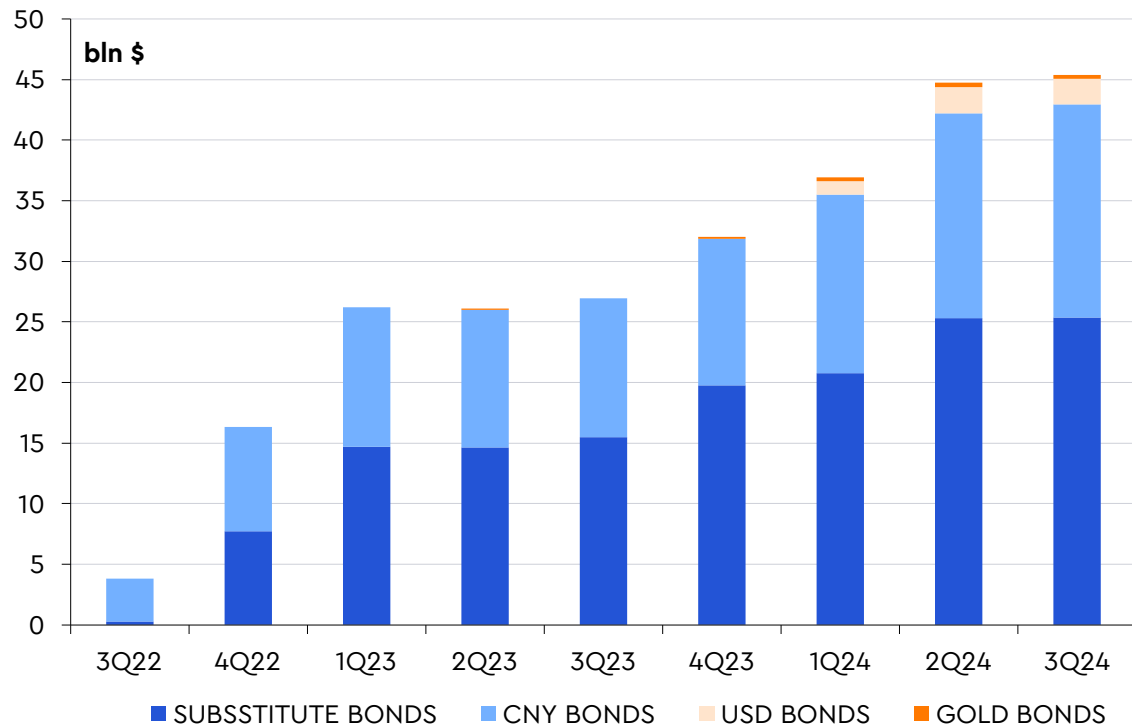


Source: Open data

# FX instruments on the Russian market

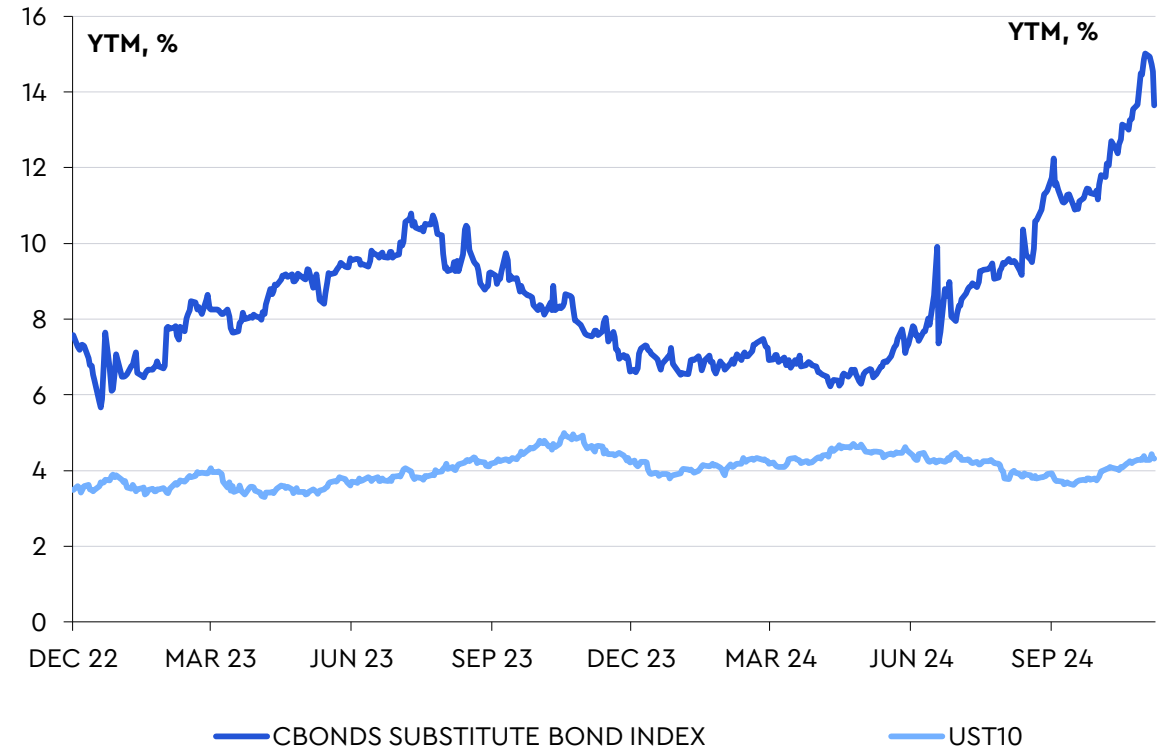
- A set of new instruments appeared on the local market – quasi-FX instruments represented by substitute, yuan, dollar and gold bonds.
- Their market share has already risen to 13% and is expected to increase.
- Local FX yields have decoupled from conventional benchmarks and are mostly being driven by local factors.

## MARKET VOLUME OF QUASI-FX INSTRUMENTS



Source: Cbonds

## SUBSTITUTE BOND INDEX AND UST DYNAMIC



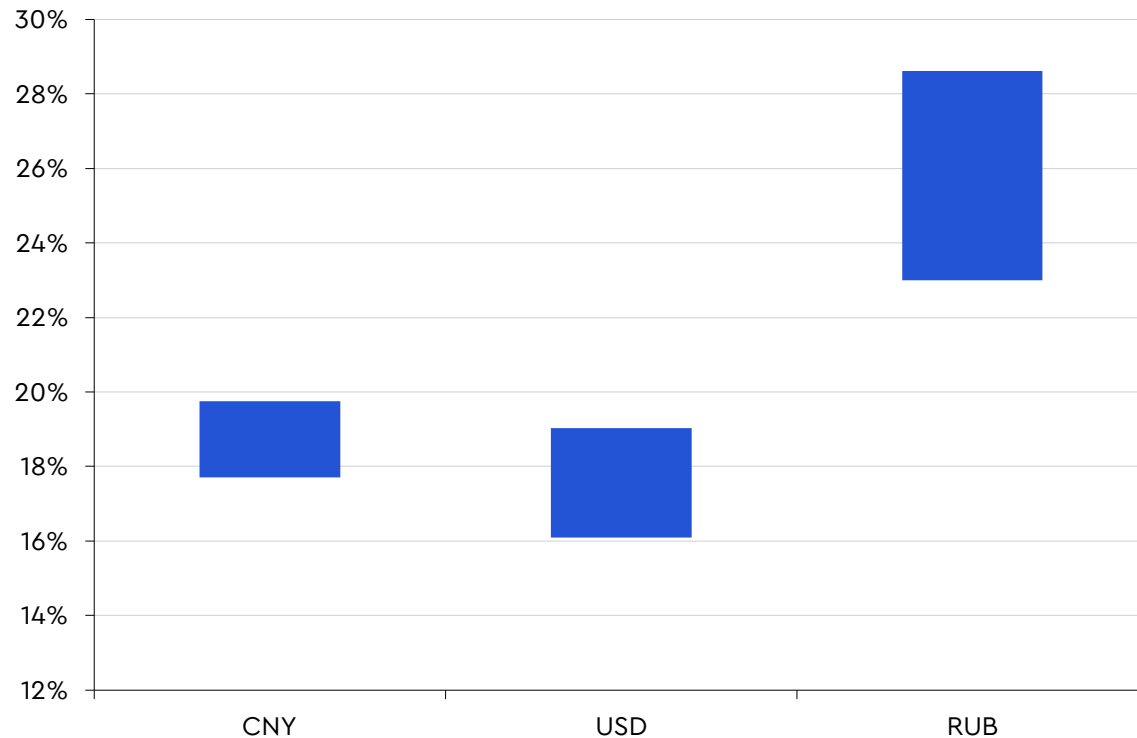
Source: Cbonds  
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# High yields on FX instruments compete with RUB rates

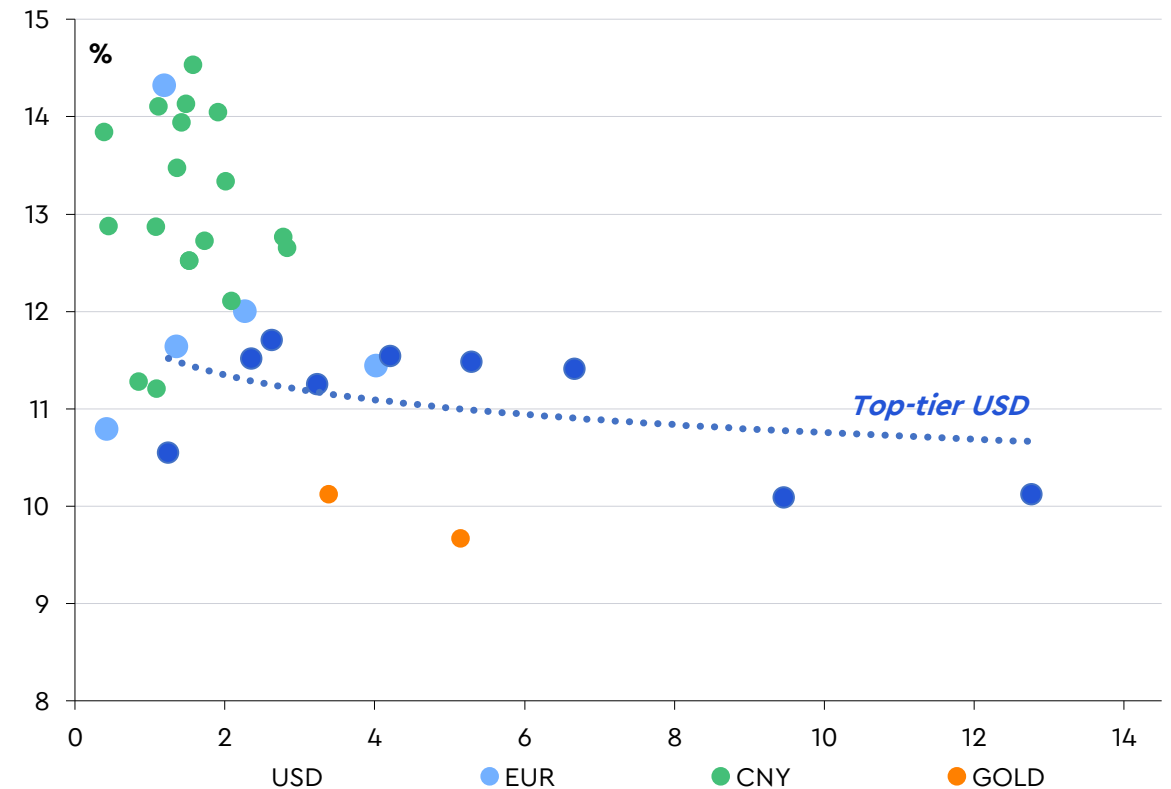
- The USD yields of the highest-quality borrowers locally offer 11-13%, which we see as inconsistent.
- High FX rates compete with high RUB rates. Under our current estimates, RUB instruments can generate an even higher TR for local investors.

EXPECTED TR ON FX INSTRUMENTS MATURING IN 2027-2028



Source: Open data

YIELD MAP OF QUASI-FX INSTRUMENTS



Source: Cbonds

Thank you!