

Putin's turn to China sparks new look at yuan debt

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President Vladimir Putin's turn to China amid the worst standoff with the US since the Cold War is prompting companies to take a fresh look at yuan bonds.

OAO Gazprom, the world's biggest natural-gas producer, is considering issuing yuan-denominated debt, two people with knowledge of the matter said last week. The yield on OAO Gazprombank's one billion yuan (RM524.76 million) bond due in 2017 jumped 75 basis points since Putin's incursion into Crimea, which compares with an average yield drop of five basis points for Dim Sum bonds, Bank of America Merrill Lynch data show.

The standoff in Ukraine means Gazprom probably won't be the last as state-controlled companies take their cue, according to UralSib Asset Management. The US warned Russia last week that more sanctions may be imposed.

"This would be a curtsey in front of China," Alexey Korolenko, who helps oversee about 45 billion rubles (RM4.1 billion) of assets at UralSib Asset Management in Moscow, said by phone on April 11. "There's a new trend of avoiding markets where there's a risk of potential sanctions, so it's very likely that this won't be the only yuan bond issuance."

China is Russia's largest trade partner after the European Union and the only country in the United Nations Security Council not to censure its actions in Crimea. Gazprom's press office declined to comment on the yuan debt plan.

Gas deal

The market will be a "logical extension" of Russian companies' strategy this year, Denis Shulakov, head of capital markets at Gazprombank, said in February. Russian companies sold US\$603 million (RM19.5 billion) of yuan debt last year, according to data compiled by Bloomberg.

The crisis in Ukraine increases the chances Putin will sign a 30-year deal to supply pipeline gas to China next month after more than a decade of false starts, while

investor relations staff are under orders to find more shareholders and lenders in Asia and other emerging markets, according to people with knowledge of the matter.

“Both Japan and China have growing long-term needs for gas and oil,” said Jeremy Brewin, who helps oversee about US\$7.5 billion of bonds as the head of emerging-market debt at ING Investment Management in The Hague. “Russia needs to broaden its client base for both.”

Wise, pragmatic

VTB Group, which issued yuan-denominated debt in October 2012, may sell more bonds if the market environment is “good,” VTB’s press service said by e-mail on April 11. The yield on its 2015 yuan bond has risen 19 basis points to 4.61% since the end of February.

United Co Rusal, the world’s largest aluminum producer, scrapped plans to sell its first yuan bonds in 2011, issuing ruble debt as rising oil prices drove down yields.

Russia’s eastern partners are more constructive, wise and pragmatic than those in Europe and the US, Economy Minister Alexei Ulyukayev said last month. Russia should sign new contracts and agreements in Asia, he said.

Russian mining companies, including OAO GMK Norilsk Nickel, the world’s largest producer of the metal, have said they’re stepping up activities in Asian markets in the last month.

Trade turnover with China grew 1.7% to US\$88.8 billion in 2013 from a year earlier, Federal Customs Service data show.

Expediting ties

“The trend of building closer ties with Asia started well before the Ukraine crisis, but it could expedite this process and broaden contacts,” Dmitry Polevoy, chief economist for Russia at ING Groep NV, said in Moscow on April 11. “Energy exports will likely rise. European growth will be weak while Asia is growing much faster, plus Asia has much deeper financial resources in terms of raising funding and having Asians invest in Russian assets.”

At the same time, selling debt in yuan makes sense “only” for Russian companies with revenue in the Chinese currency, Polevoy said.

The yuan has weakened 2.5% against the dollar this year, the fifth-worst performance of 24 emerging markets tracked by Bloomberg. The ruble is the second-worst with an 8.7% retreat.

Russia’s benchmark ruble bonds due February 2027 declined, leaving the yield up 28 basis points at 9.28% by 10:36am today in Moscow. The yield premium investors demand to hold Russia’s dollar bonds over Treasuries rose one basis point to 284, according to JPMorgan Chase & Co indexes.

“If trade and financial sanctions are imposed, a part of Russian exports can be transferred to Asian markets, with their main demand being for energy resources,” Artem Arkhipov, chief economist for Russia at ZAO UniCredit Bank in Moscow, said by e-mail on April 11. “A deeper partnership with Asian countries will allow Russia to use its geographic position to a larger extent.”

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