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US residents hold 8% of Russian sovereign debt

Geography of holders of Russian sovereign debt

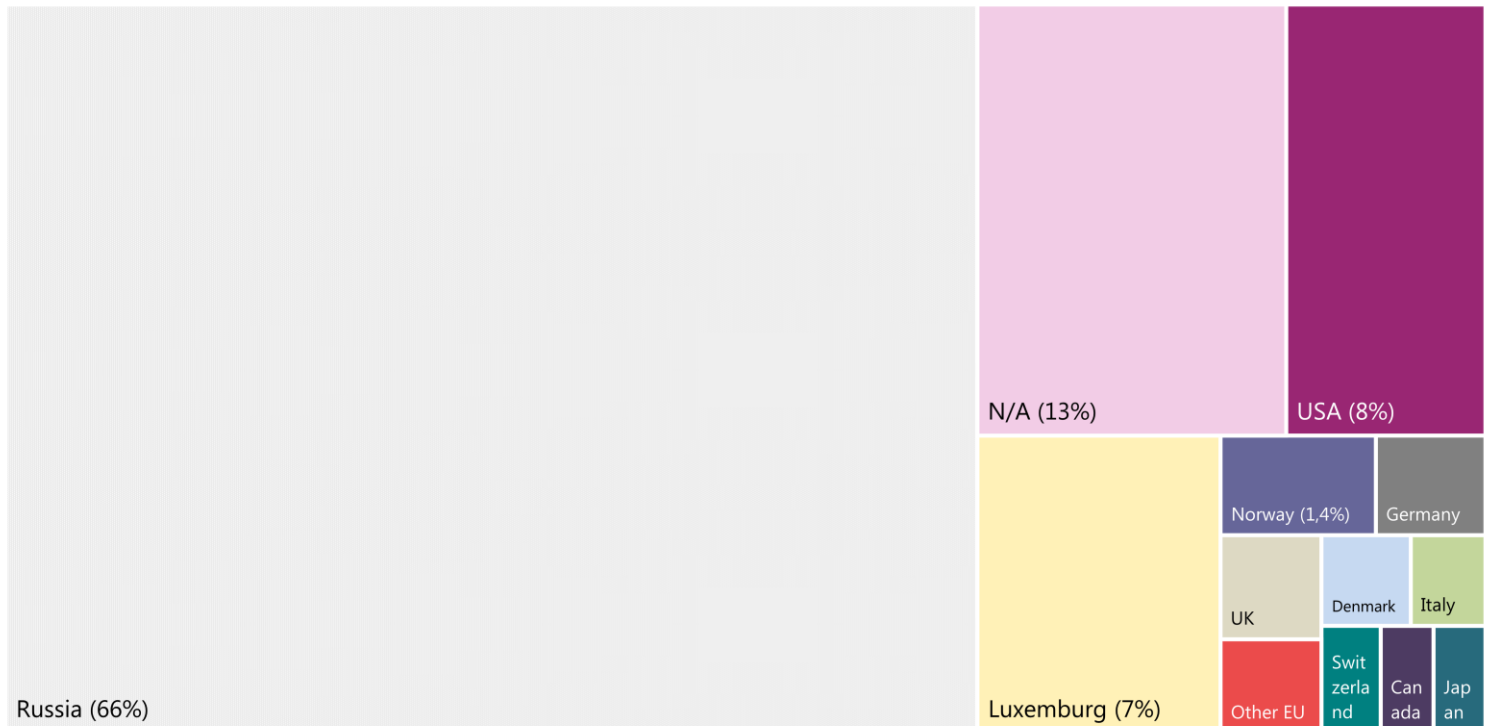
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Introduction of sanctions against purchasers of Russian sovereign debt¹ may reduce the investor base and, respectively, increase the average borrowing costs for the Russian government.

Assuming that the geographic distribution of potential holders of Russian sovereign debt is almost the same as the geographic distribution of current holders, ACRA is of the opinion that the demand for Russian sovereign debt may drop by 8–10% against the level of early 2018 (provided that the interest rate and the exchange rate remain unchanged). Our base case scenario assumes that the debt sanctions will mostly affect the behavior of investors in the USA, and, to a much lesser degree, in other jurisdictions.

Figure 1. Geography of holders of Russian sovereign debt (Federal Loan Bonds (OFZ) + Eurobonds), as of January 1, 2018



Source: IMF, national central banks, Bloomberg, ACRA estimates (see page 3)

Media contact

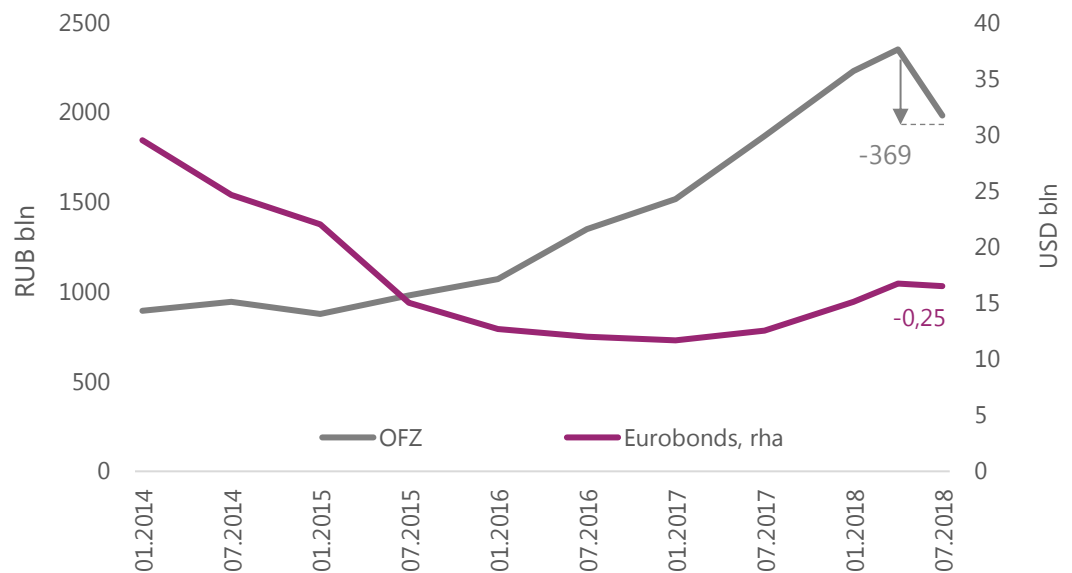
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In addition to US investors, the Government Pension Fund of Norway (GPF) may also withdraw its investments from the Russian bonds that correlate with the oil and gas market (in early 2018, the fund's share in the Russian sovereign debt was 1.4%). We are of the opinion that GPF, like the bulk of US investors, will stop purchasing new bond issues and sell some non-matured bonds, while holding others to mature. The reason is further revaluation of the emerging market risks on the back of growing interest rates in developed countries and the effects of trade wars.

¹ The Bill introduced in the US Senate in early August, contains the following paragraph: "...prescribe regulations prohibiting United States persons from engaging in transactions with, providing financing for, or in any other way dealing in Russian sovereign debt issued on or after the date that is 180 days after such date of enactment..."

The external demand for Russian sovereign bonds has declined on previous sanctions imposed in April 2018. By early July, the volume of OFZ and Eurobonds held by non-residents shrunk by 5.4%² or RUB 383.3 bln (in the absence of redemptions)³. Bonds sold by non-residents to residents comprise 4% of the sovereign debt portfolio. Ruble denominated OFZ were sold most actively.

Figure 2. Par value of Russian sovereign debt securities held by non-residents



Source: Bank of Russia

Similar volumes were probably sold in August 7–15, after the new sanctions bill was published. The zero-coupon yield rates offered by OFZ with the duration of four to seven years (the non-residents' share in those securities is the most substantial⁴) grew by 0.7 p.p., which is close to the peak surge (by 0.5–0.6 p. p.) seen in April.

By our estimates, a 8–12% drop in the demand for all types of debt (on the part of non-residents mainly) in the long term will drive the equilibrium interest rates on government borrowings up by 0.5–0.8 p. p.

² Currency revaluation estimations: at the exchange rate fixed at the level as of January 1, 2018.

³ According to the Bank of Russia' table "Russian external debt repayment schedule as of April 1, 2018: principal debt."

⁴ See the Bank of Russia' report "Financial market risks review No.3", June 2018; according to NSD data.

How the geography of Russian sovereign debt holders was assessed

In the absence of any public data from the RF Ministry of Finance on the Russian sovereign debt holders, in its estimations ACRA used counter data from national central banks (aggregated by IMF in its Coordinated Portfolio Investment Survey or obtained from statistical books), ministries and state-owned funds, as well as data on holders (aggregated by Bloomberg). Such data does not allow us to differentiate country risks by debt currency (between OFZ and Eurobonds), but rather to differentiate them partially by holder's sector and securities' maturity.

The following rules were applied to aggregate the available data:

1. In case data sources contradict each other, the priority is given to the source that stands higher in Table 1.
2. In addition to undistributed debt, the "N/A" category also includes debt holders residing in those countries (excluding EU members) where central banks do not publish relevant data and where the estimated aggregate Russian sovereign debt does not exceed USD 400 mln. The total share of such holders in the category is less than 3 p.p.
3. Amounts reflected as par value were converted in the market value, assuming that they correlate similarly as five-year OFZ on the date of interest.
4. Estimations based on Bloomberg data on the date of interest were obtained using the four-month interval around the date of interest (two months on each side of the date).

Table 1. Data sources for non-resident investments into Russian sovereign debt

Source	Description	Countries
Bank of Russia	Statistics on portfolio and other foreign investments. Par values indicated.	Russia, non-residents in aggregate
Coordinated Portfolio Investment Survey, IMF	The survey includes polling entities by national central banks. Questionnaires and data handling approaches are unified. Market values indicated.	Austria, Belgium, Germany, Italy, Latvia, Slovenia, USA, France
National central banks	Data is non-standardized. Par values indicated (in some cases).	UK, Denmark, Luxemburg
GPF of Norway	Data reflects only GPF investments and not all residents of Norway. Data as of early 2018 only. Market values indicated.	Norway
U.S. Department of the Treasury	Data is similar to the data in the Coordinated Portfolio Investment Survey by IMF, but more detailed and published earlier. Market values indicated.	USA
Bloomberg	Data broken down by country where an entity is headquartered. Market values indicated as of different dates for each holder.	Austria, Bermuda Islands, Denmark, Ireland, Canada, Cyprus, China, Netherlands, Sweden, Switzerland, Japan

Source: ACRA

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