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World Cup Spurs Bond Rally for Steelmakers

By The Moscow Times

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Russia's winning bid to host football's 2018 World Cup is driving the biggest bond rally in five months for its largest steelmakers as the government prepares to spend at least $9.6 billion on stadiums and expand airports and roads.

The yield on dollar bonds due in 2013 from Severstal fell 7 basis points to 5.22 percent, adding to Thursday's 26 basis point decline, the biggest drop since July, according to Bloomberg data. Advances for Evraz Group, the country's second-biggest steelmaker, pushed the yield on its 2015 dollar bonds to the largest three-day drop since May.

Russian borrowing costs relative to U.S. Treasuries fell and the benchmark MICEX Index climbed to the highest level since July 2008 after football's governing body FIFA gave the world's most-watched sporting tournament to the country.

"The World Cup will be very supportive of the bonds of steel names, construction and transportation companies, which will play out over the next three months," said Vladimir Gersamia, who helps manage more than $2 billion at Threadneedle Asset Management in London. "The victory will lead to a huge number of orders that has been lacking domestically."

The win is the third consecutive for an emerging market after South Africa this year and Brazil in 2014.

Russia will spend 300 billion rubles ($9.6 billion) to build the stadiums for the tournament, though the total cost may be as much as $500 billion and cause government borrowing to surge to 15 percent of gross domestic product from 11 percent over the next three to four years, said Chris Weafer, chief strategist at UralSib Financial Corp.

"It's a boost for Russian equities, bonds and the Russian investment case," Weafer said. "The news is very good for steel names, transport and construction companies as it sets down a specific six-year timeline for Russia to complete its infrastructure program."

The program will push Russia to increase joint initiatives with companies through so-called Public Private Partnerships and attract more foreign direct investment, Weafer said.

The expenditure risks causing "high indebtedness" should the government add to its existing program for infrastructure projects in the next five years, said Luis Costa, an emerging-market debt strategist at Citigroup in London.

"Look at the Greeks, the fact they hosted the Olympics boosted their indebtedness, there was a huge chunk of debt from the Olympics," Costa said.

The ruble strengthened 0.6 percent to 31.29 per dollar in Moscow trading, posting it biggest daily gain since Nov. 18. Non-deliverable forwards, which provide a guide to expectations of currency movements and interest rate differentials, show the ruble at 31.46 per dollar in three months.

The price of the country's ruble notes due in August 2016 rose, leaving the yield 1 basis point lower at 7.32 percent.

"The benefits of hosting the World Cup is a perception issue rather than reality," Kingsmill Bond, chief strategist at Troika Dialog, said by phone from London. The spending is a "drop in the ocean" by comparison to Russia's $1.2 trillion economy, he said.

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