

Barclays Axes Russian Foreign Currency Debt Listings

By [The Moscow Times](#)

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LONDON — Barclays will remove Russian foreign currency debt from its global bond indexes, putting it off-limits for many international investors, after Moody's became the second agency to downgrade the country's credit rating to junk.

The move adds to a list of financial headaches for Russia, already hit by currency weakness and a looming recession as it absorbs the double blow of Western sanctions over Ukraine and a halving of world oil prices since last June.

When bonds are excluded from an index, conservative tracker funds are no longer able to buy or hold them, something that can lead to heavy selling and will make it harder for Russia to raise money on international capital markets.

"The downgrade does signal more limited access and higher costs for hard currency borrowings," said Peter Marber, Boston-based head of emerging markets investments

at fund manager Loomis Sayles, who added his team were "active traders" in the market for Russian bonds and would not be forced to sell because of the Barclays move.

An estimated \$2 trillion worldwide is benchmarked against Barclays' Global Aggregate indexes. Adding in sovereign and corporate debt in rubles and hard currency, Russia has a 0.7 percent weight.

Rival index provider JP Morgan did not respond to a request for comment on whether it planned to exclude Russian bonds. It has previously said Russia could be removed from the investment-grade portion of its GBI-EM index for emerging currency bonds, a portion to which around \$5-7 billion in investment fund money is benchmarked.

Index Reshuffle

Barclays will remove 11 Russian bonds, 10 dollar-denominated and one euro-denominated, when it reshuffles its indexes at the end of February, it said in a note late on Monday.

This hard currency sovereign debt will no longer be eligible for the bank's Investment Grade Global and Euro Aggregate indexes, but local currency ruble-denominated bonds — still rated at investment grade — will continue to be eligible for the Global Aggregate.

Moody's cut Russia to Ba1 from Baa3 on Friday, citing the impact of the Ukraine crisis, weak oil prices and the ruble. Last month Standard & Poor's cut its rating to a non-investment grade BB+.

"The markets have priced in the downgrade since Christmas, with spreads only widening a little on the news. The street chatter is Russian credit is trading more with oil prices than country-specific headlines," Marber said.

Yield spreads on Russian debt over U.S. Treasuries, the premium claimed by investors in comparison to safe haven bonds, have widened by around 75 percent over the last six months and stood at around 553 basis points on Tuesday.

On Russian markets, which had been closed for a holiday on Monday, the ruble and shares fell on Tuesday as local investors got their first chance to act on the Moody's downgrade.

On international markets unaffected by the holiday, the ruble recovered some of its poise on Tuesday while Russian sovereign dollar bonds also staged a partial recovery, having sold off on Monday.

Finance Minister Anton Siluanov said on Saturday the Moody's cut would not have a serious additional impact on the capital market as Russia's local currency rating from two other major agencies remained at investment-grade level.

"The exclusion of Russia from certain investment grade indices will inevitably bring some selling pressure, with the key question being exactly how much," said Robert Simpson, emerging market debt portfolio manager at Insight Investment.

For now this was more likely to have an impact on credit than foreign exchange, he said, "but the direction and developments of the Russian economy will continue to add uncertainty."

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