

# Russian Market Weekly

## 23-27 January 2012

**Last week was the fifth in a row that Russian equities were in positive territory.** The market rose by 1.1% in rouble terms over the week, mainly on the back of positive Russian macro data and international news. The US Federal Reserve announced that it expects to keep rates low until the end of 2014. Oil prices rose following the European Union's decision to place an embargo on Iranian oil and oil products, with Brent crude rising by 1% last week to USD 110.7 per barrel.

### The main Russian news last week:

**Retail sales and investments growth accelerated in December**, rising by 9.5% YoY and 8.9% YoY respectively compared with 8.6% and 7.7% in November. Overall figures for 2011 were strong, with a 7.2% rise in retail sales and investments up 6.2%. The increase in consumer demand was supported by low inflation, declining unemployment and more household loans. Unemployment fell to 6.1% in December 2011 from 6.3% the previous month and compared to 7.2% in December 2010. Inflation was 6.1% in 2011, which was a record low since the dissolution of the USSR in 1991. Household loans rose 35.9% in 2011. The expansion of consumer demand should be further supported by the growing middle class population; low consumer debt, which is less than 10% of GDP; the relatively low penetration of many goods and services; and low income tax rates. Investment growth should be driven by the substantial infrastructure projects, such as the Sochi winter Olympics in 2014, the soccer World Cup in 2018 and others.

**Industrial production growth slowed in December** to 2.5% YoY from 3.9% YoY in November, although the overall 2011 growth rate was strong, at 4.7% YoY. The main slowdown in December occurred in the manufacturing sector. For example, the growth rate of passenger car production declined to 22.9% YoY in December from 24.8% YoY in November. At the start of 2012, we expect to see relatively low industrial production growth rates on the back of continuing capital outflows. Later in the year the situation should improve, as high oil prices should allow the State to stimulate the economy, including increased spending on infrastructure projects.

**Real estate developer Etalon group published strong Q4 operating results**, with new sales rising 14% in square metre terms. New sales rose by 27% over the year as a whole. Etalon Group is one of Russia's largest residential real estate developers, and we believe it has substantial growth potential. The company's sales are expected to double within three to four years, and its business model and technology give it the highest ROIC in the industry, expected to be confirmed at 28% for 2011.

MICEX index*	Week	YTD
Composite	1.1%	7.5%
Large-cap	0.9%	6.7%
Mid-cap	2.6%	10.1%
Small-cap	1.9%	6.4%

MICEX sector index*	Week	YTD
Financial services	5.2%	13.9%
Metals & mining	2.6%	17.1%
Manufacturing	2.1%	7.5%
Telecommunications services	1.6%	6.7%
Consumer goods	1.4%	10.4%
Power utilities	1.4%	7.4%
Oil & gas	-0.4%	6.1%
Chemicals	-0.6%	3.8%

Fixed income and FX	Week	YTD
RUB/USD**	3.05%	6.04%
RUB/EUR**	2.02%	4.74%
IFX-Cbonds*	0.19%	0.62%

\* RUB-denominated indices as at 27 January 2012

\*\* as of 28 January 2012 (the Central of Bank of Russia sets the exchange rates for the next day)

Sources: TKB BNPP IP calculations; MICEX-RTS, Cbonds, Central Bank

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