

Russian Market Weekly

11-13 January 2012

Last week Russian equities rose by 1.6% in rouble terms, mainly due to the positive news from international markets. Expectations of monetary easing in China, successful placements of government bonds in Italy and Spain and positive macro statistics from Europe all supported the market.

The main Russian news last week:

2011 inflation was 6.1% - a record low level in Russia since the dissolution of the USSR in 1991, according to Rosstat. In addition to the Central Bank of Russia's (CBR) effective policy on interest rates, the biggest influencing factor on inflation was the much better harvest in 2011 compared to 2010, when drought had hit crops hard. Grain production was up by almost 50% in 2011 compared to the previous year. Low inflation allows room for monetary easing and in December, the CBR reduced the refinancing rate by 25bp to 8%. We expect a further reduction in the first half of 2012 as CPI growth should stay low, given that the natural monopoly tariff's increase is to be postponed from the beginning to the middle of the year.

The federal budget was in surplus by 0.8% in 2011, according to Vedomosti, quoting sources in the Ministry of Finance and the Federal Treasury. Higher-than-expected oil prices in 2011 helped to achieve this result. Initially the budget had implied USD 75 bbl, whereas the average Urals crude price in 2011 was actually USD 109 bbl. In 2012, the budget deficit is expected to be 1.5% of GDP based on an average Urals crude price of USD 100-110 bbl, which would thus reduce the deficit. The continuing instability in the Middle East (especially concerning Iran) should support oil prices.

Capital outflows totalled USD 37.8 bn in Q4 2011, according to the CBR. The main reasons for outflows in 2011 were the corporate segment's external debt payments, global economic uncertainty and the withdrawal of capital by investors who were pessimistic about the outcomes of the parliamentary and presidential elections. We believe the situation should improve in 2012, as after the presidential elections in March there will be more political clarity, and because there might be an improvement in the global economic situation in the second half of the year.

The cost to Rostelecom of the 'Election Webcam' project might be as much as USD 1 bn. Only USD 400 mn will be provided to the company by the State. It was Vladimir Putin's idea to increase the transparency of the election process by installing web cameras at Russia's 91 400 polling stations. We see this project as being value-destructive for Rostelecom, as the prospects for the future commercialisation of the system are unclear.

MICEX index*	Week	YTD
Composite	1.6%	4.4%
Large-cap	1.4%	4.0%
Mid-cap	0.7%	4.3%
Small-cap	0.0%	2.9%

MICEX sector index*	Week	YTD
Metals & mining	5.2%	9.4%
Financial services	3.7%	5.4%
Manufacturing	3.4%	5.2%
Telecommunications services	2.1%	5.0%
Consumer goods	1.8%	4.4%
Oil & gas	1.3%	3.9%
Chemicals	-0.1%	0.6%
Power utilities	-1.5%	3.4%

Fixed income and FX	Week	YTD
RUB/USD**	1.94%	1.94%
RUB/EUR**	2.59%	2.59%
IFX-Cbonds*	-0.06%	0.24%

* RUB-denominated indices as at 13 January 2012

** as of 14 January 2012 (the Central of Bank of Russia sets the exchange rates for the next day); as the base date for weekly change calculation we take 31 December 2011 as there was no official exchange rate during the period 1-10 January 2012

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

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