

Russian Market Weekly

12-16 December 2011

Last week Russian equities declined by 0.9%, in rouble terms, although there was a rather volatile start to the week. Russian equities declined on Monday due to pressure from international markets on the back of the disappointing result of the EU summit. Over the rest of the week, the market managed to recover most of Monday's losses, partly helped by the positive signals given out in Prime Minister Putin's traditional television chat show on Thursday. Mr Putin mentioned that ex-Minister of Finance, Alexei Kudrin, remains on his team and should be valuable in the future government. He also floated the idea of bringing back governor elections.

The other main news last week:

Industrial production accelerated to 3.9% YoY in November (3.6% in October). This was close to the market consensus of 4%. The acceleration was mainly due to material production, where growth rates rose from -0.3% YoY in October to 1.3% YoY in November. Manufacturing production growth slowed slightly to 4.9% YoY, from 5.7% YoY in October. It is likely that manufacturing growth rates will decline further but we do not expect them to drop below 4% in the coming months. Overall we expect industrial production growth of 4.5% in 2012, backed by relatively high oil prices. We expect Urals crude to be around USD 90-100 bbl, which should allow federal budget spending to stimulate the economy.

In January-November the federal budget surplus was 2.8% of GDP, according to the Ministry of Finance. However, we expect the surplus to be lower across the whole of 2011 due to typically higher federal budget spending in December.

Russia's entry to the WTO was approved at the WTO Ministerial Conference. The

Russian Parliament should make a decision to ratify the accession before mid-June 2012. We foresee WTO accession increasing the overall efficiency of the economy, as uncompetitive manufacturers will be forced out of the market or face re-structuring, which would free up labour and other resources. An efficiency increase should improve the long-term growth prospects for earnings in the corporate segment, which should be supportive for Russian equities. It should also prove supportive for Russian equities over the short term on the back of improved market sentiment.

MICEX index*	Week	YTD
Composite	-0.9%	-18.0%
Large-cap	-0.8%	-17.0%
Mid-cap	-2.2%	-29.2%
Small-cap	-1.7%	-39.5%

MICEX sector index*	Week	YTD
Telecommunications Services	-0.1%	-13.5%
Power Utilities	-0.1%	-37.0%
Manufacturing	-1.2%	-37.7%
Financial Services	-1.4%	-29.9%
Oil & Gas	-1.5%	-2.9%
Chemicals	-2.2%	8.5%
Consumer Goods	-2.6%	-34.5%
Metals & Mining	-5.2%	-46.4%

Fixed income and FX	Week	YTD
RUB/USD**	-0.63%	-4.07%
RUB/EUR**	1.50%	-2.56%
IFX-Cbonds*	0.46%	5.86%

* RUB-denominated indices as at 16 December 2011

** as of 17 December 2011 (the Central Bank of Russia sets the exchange rates for the next day)

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

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