

Russian Market Weekly

26 December 2011

Last week Russian equities declined by 0.5% in rouble terms, although there was no distinct trend. Investor activities sentiment was influenced by the coming Christmas and New Year holidays. At the beginning of the week the Russian market was nervous due to uncertainty from global markets following the death of the North Korea leader Kim Jong-il. However, the following day the Russian market experienced positive dynamics on the back of improved housing data in the US and the successful placement of Spanish government bonds.

The main Russian news last week:

The Central Bank of the Russian Federation cut the official bank rate by 0.25% to 8%. The low levels of inflation had created favourable conditions for the bank to do so. For example, consumer prices rose by 0.3% from the beginning of December as of December 19, whereas they rose by 0.7% over the same period last year. During the first half of 2012, low inflation is very likely since the increase of natural monopoly tariff rates has been put off until the middle of 2012, which makes further monetary easing possible. However, it should be noted that the probable increase in government spending during the pre-election period may stimulate an increase in inflation at the beginning of 2012.

Retail turnover rose by 8.6% (YoY), while investments grew by 7.7% (YoY) in November. Fast retail sales growth was supported by unemployment falling to 6.3% in November from 6.4% the previous month, and by real wages growth accelerating to 7.1% from 5% in October. High investment growth mainly related to housing, which grew robustly by 11.4% YoY in November compared to 6.9% YoY in October. In our view, the high growth rates of consumption and investment will be sustained over the near term: the increase in social expenditure during the pre-election period should stimulate retail sales growth, and many infrastructure projects should positively influence investment activity.

Konstantin Nemnov, Director, Fixed Income, TKB BNP Paribas Investment Partners

MICEX index*	Week	YTD
Composite	-0.5%	-18.5%
Large-cap	-0.5%	-17.5%
Mid-cap	-1.4%	-30.2%
Small-cap	-3.2%	-41.5%

MICEX sector index*	Week	YTD
Chemicals	1.9%	10.6%
Oil & Gas	0.5%	-2.5%
Financial Services	-1.7%	-31.1%
Telecommunications Services	-1.9%	-15.1%
Manufacturing	-2.0%	-38.9%
Consumer Goods	-2.2%	-36.0%
Metals & Mining	-3.1%	-48.1%
Power Utilities	-4.9%	-40.1%

Fixed income and FX	Week	YTD
RUB/USD**	1.64%	-2.50%
RUB/EUR**	1.24%	-1.35%
IFX-Cbonds*	0.02%	5.88%

* RUB-denominated indices as at 23 December 2011

** as of 24 December 2011 (the Central of Bank of Russia sets the exchange rates for the next day)

Sources: TKB BNPP IP calculations; MICEX, Cbonds, Bank of Russia

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