



Russian Equities Weekly

14-18/10/2019: Global interest in Russian market

Last week, the Russian equity market outperformed other emerging markets (EM).

	Week	YTD
RTS total return (TR) in USD	2.0%	35.4%
MOEX index TR in RUB		
Composite	1.7%	24.0%
Blue chip	1.6%	26.1%
Small and mid-cap	2.1%	8.2%
MOEX sector indices TR in RUB		
Consumer Goods	1.9%	3.7%
Financial Services	1.7%	23.3%
Power Utilities	1.7%	24.1%
Metals & Mining	1.3%	10.8%
Oil & Gas	1.1%	22.1%
FX		
RUB/USD	0.7%	8.5%
RUB/EUR	0.0%	11.9%

Russian equity market dynamics

Last week, the Russian equity market outperformed other emerging markets (EM). The RTS gained 2.0%, while the MSCI EM index rose by 1.3% (all figures in USD terms). Strong value characteristics of the Russian market helped to attract international investors. Russia dedicated funds saw inflows of USD 46 million last week compared with USD 535 million and USD 77 million in outflows, respectively, from China and India funds.

The consumer goods sector outperformed the broader market. This was mainly due to Detsky Mir and M Video, whose shares rose by 4.6% and 6.2%, respectively, in rouble terms. Detsky Mir published a strong trading update for 3Q, showing a 19.3% increase in revenue YoY compared with 16.3% YoY in Q2. The company said this was the result of moving towards cheaper products, promotional activities and leveraging private labels. M Video rose despite a lack of market-moving news.

The oil & gas sector was the worst performer of the week, dragged down mainly by Surgutneftegas and Tatneft. The stocks underperformed despite a lack of fundamental news.

Main Russian news

Key macroeconomic indicators were mixed in September. The acceleration of growth in industrial production was mainly due to an improvement in manufacturing, which was enough to compensate for the slowdown in extraction. Retail sales slowed mainly due to the food sector. High growth in the non-food sector was not enough to compensate for this at an aggregate level. Rosstat revised real wage growth for August from 3.0% to 2.4% YoY. The data for September have not yet been released.

Indicator	Growth YoY	
	August 2019	September 2019
Industrial production	2.9%	3.0%
Manufacturing	2.7%	3.2%
Extraction	3.1%	2.5%

Retail sales	0.8%	0.7%
Food	0.6%	0.4%
Non-food	0.9%	1.0%
Real wages	2.4%*	not available

* *Figures revised by Rosstat*

The Ministry of Economic Development reported that Russian economic growth sped up in the third quarter. GDP growth was 1.9% YoY compared with 0.9% YoY in the Q2. The main drivers were the increase in industrial production and good harvests in the agricultural sector. The ministry expects Q4 GDP growth to decline to 1.4-1.5% YoY due to slowing consumer demand. GDP rose by 1.2% YoY during January-September and is expected to reach 1.3% by the end of the year, according to the Ministry of Economic Development forecast.

E. Nabiullina, the governor of the Central Bank of Russia (CBR), said that a more aggressive key rate cut was possible. Earlier this year, the key rate was gradually decreasing by 25bps. However, fresh economic and inflation data suggests the need for a more decisive move. The CBR is due to meet later this week to discuss monetary policy. Afterwards, there will be one more meeting this year in December.

To watch...

The Central Bank of Russia will have its monetary policy meeting this week.

Author: Aleksandra Kuznetsova, Junior Investment Specialist

Sources: Vedomosti, Rosstat, Bloomberg, TKB Investment Partners (JSC); October 2019.

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07-11/10/2019: Emerging markets up

Last week, the Russian equity market outperformed other emerging markets (EM).

	Week	YTD
RTS Total return (TR) in USD	1.8%	32.8%
MOEX index TR in RUB		
Composite	1.0%	22.0%
Blue chip	1.1%	24.1%
Small and mid-cap	-1.1%	6.0%
MOEX sector indices TR in RUB		
Oil & Gas	3.0%	20.8%
Financial Services	1.2%	21.2%
Metals & Mining	0.9%	9.4%
Power Utilities	0.4%	22.0%
Consumer Goods	-4.4%	1.8%
FX		
RUB/USD	0.6%	7.8%
RUB/EUR	0.0%	11.9%

Russian equity market dynamics

Last week, the Russian equity market outperformed other emerging markets (EM). The RTS gained 1.8% while the MSCI EM index rose by 1.5% (all figures in USD terms). The easing of tensions between China and the US increased investors' appetite for risk, which supported emerging markets, including Russia.

The oil & gas sector outperformed the market. This was mainly due to Novatek, Surgutneftegas and Tatneft, whose share price rose by 4.4%, 4.3% and 4.1%, respectively, in rouble terms, despite the lack of fundamental news.

The consumer goods sector was the worst performer of the week, dragged down mainly by Yandex and X5 Group. IT group Yandex lost 16.6% in rouble terms last week after the Presidential Administration discussed the draft law proposed by parliamentary deputy, Anton Gorelkin, which would limit foreign ownership of 'significant information resources' to 20%, on national security grounds. X5 Group contracted in line with the food sector as the market expects weak Q3 2019 figures.

Main Russian news

The World Bank lowered its forecast for Russian economic growth for 2019 to 1% from 1.2%. It was the 4th downgrade this year. The World Bank cited weak trade and investment growth to explain its decision:

- Industrial production growth slowed due to OPEC's oil production limits in the first half of 2019
- A contaminated pipeline incident hit energy production
- Higher VAT slowed retail sector growth.

As a result, the World Bank's Russian GDP forecast this year has gradually fallen from 1.8% to 1%. Its forecast for 2020 is also lower, 1.7%, and for 2021 it remains unchanged at 1.8%, which is below the Ministry of Economic Development's expectations. The Ministry expects GDP in 2019 to be 1.3%, then 1.7% in 2020 and 3.1% in 2021.

The Central Bank of Russia (CBR) plans to reduce its inflation forecast for 2019. The CBR's

Governor, E. Nabiullina, stated that in preparation for the next key rate revision meeting the CBR will publish a revised macroeconomic forecast. According to Nabiullina, with the current inflation trend, monetary policy will possibly loosen up quicker than expected.

To watch...

Rosstat is due to post industrial production and other key macroeconomic figures for September 2019.

Author: Aleksandra Kuznetsova, Junior Investment Specialist

Sources: Vedomosti, Rosstat, Bloomberg, TKB Investment Partners (JSC); October 2019

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