

# Russian Equities YTD

## January 3–11, 2019

	YTD
<b>RTS Total return (TR) in USD</b>	7.8%
<b>MOEX index TR in RUB</b>	
Composite	3.4%
Blue chip	3.8%
Small and mid-cap	2.5%
<b>MOEX sector indices TR in RUB</b>	
Financial Services	4.4%
Power Utilities	3.3%
Metals & Mining	2.8%
Consumer Goods	2.5%
Oil & Gas	2.0%
<b>FX</b>	
RUB/USD	4.0%
RUB/EUR	3.2%

Data as of January 11, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

## Better than others

### Russian equity market dynamics

**The Russian equity market rose strongly over the first two weeks of the year, outperforming both the MSCI EM index (+3.7% in USD) and the MSCI World index (+4% in USD).** Higher oil prices and the possibility of sanctions easing in the near term helped Russian equities to outperform their peers.

- **Brent oil rose by 12.5%** in US dollar terms on the news that Saudi Arabia had cut its oil production to 10.2 million barrels per day, which is below the 10.31 million barrels per day level agreed at the OPEC+ meeting in December 2018. In addition, there are signs that drilling activity in the US has started to decline, which industry experts believe is due to oil prices being close to the production breakeven level for some of the shale oil fields.
- **Over the coming months, the US could remove Rusal and EN+ from the specially designated nationals and blocked persons (SDN) sanctions list.** In December, the US Office of Foreign Assets Control (OFAC) announced it could implement this move in 30 days. In early January, Steven Mnuchin, Secretary of the Treasury, addressed the Congress to explain the reasons for the easing of sanctions as there is some opposition to this idea among member of Democratic party. The ambassadors to the US of UK, Germany, France, Austria, Italy and Sweden, as well as representatives of the EU, submitted a letter to key Democrats in support of lifting sanctions from Rusal and EN+.

**Financial services sector took the lead while oil and gas sector lagged others.** It looks like investors decided to behave in a contrarian way as in 2018 there was an opposite dynamics of these two sectors.

## Main Russian news

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**Russian inflation was 4.3% in 2018 vs. 2.5% in 2017.** The main reasons for inflation accelerating were: **1) The weaker rouble** pushing up the prices of imported goods. Both the US dollar and the euro rose against the rouble, by 21% and 15% respectively. Imported goods remain a significant part of Russian consumption. The imports-to-GDP ratio was 21% for the first nine months of 2018. **2) Higher soft commodities prices** on the global market. Wheat prices jumped by 24% in US dollar terms in 2018 vs. a rise of 6% in 2017. **3) Weaker harvests:** Agricultural output fell by 0.8% YoY over the period from January to November 2018 after having grown by 3.1% YoY over the same period of 2017.

	2018	2017
<b>Inflation</b>	4.3%	2.5%
Food products	4.7%	1.1%
Non-food products	4.1%	2.8%
Services	3.9%	4.4%

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## To watch...

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This week Sberbank will publish its 2018 financial results according to Russian accounting standards.

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

## Quarterly results: Actual vs. consensus for EPS, adjusted (US dollars) \*

Major RTS index constituents	Q1 '18	Q2 '18	Q3 '18
Lukoil	9%	1%	22.3%
Gazprom	9%	-12.3%	29.2%
Sberbank	12%	-4%	4.5%
Novatek	13%	6%	20.5%
Tatneft	8%	33.7%	41.2%
Magnit	-12%	-19%	12.4%
MTS	-8%	-8%	13.6%
VTB	170%	7%	-90.7%
Alrosa	64%	13%	-10.9%
Severstal	-14%	14%	0.0%
NLMK	-4%	14%	12.3%
Moscow Exchange	-7%	-8%	4.2%
Magnitogorsk Iron & Steel	-22%	6%	0.0%
Phosagro	-31%	-45%	-8.0%

\* based on Bloomberg consensus

<span style="background-color: #92d050; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	Actual figure is better than consensus by more than 5%
<span style="background-color: #e67e22; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	Actual figure is worse than consensus by more than 5%
<span style="background-color: #f1c40f; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of January 15, 2019

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