

Russian Equities Weekly

September 2–6, 2019

	Week	YTD
RTS Total return (TR) in USD	3.7%	32.4%
MOEX index TR in RUB		
Composite	2.1%	24.6%
Blue chip	2.3%	26.9%
Small and mid-cap	0.7%	11.3%
MOEX sector indices TR in RUB		
Oil & Gas	4.3%	19.6%
Financial Services	3.1%	25.0%
Power Utilities	2.0%	25.1%
Consumer Goods	-0.3%	13.2%
Metals & Mining	-0.4%	12.2%
FX		
RUB/USD	1.5%	5.3%
RUB/EUR	1.5%	9.5%

Data as of September 6, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

Another key rate cut: third this year

Russian equity market dynamics

Last week, the Russian equity market outperformed other emerging markets (EM). The RTS gained 3.7% while MSCI EM index rose by 2.4% (all figures in USD terms). While more positive expectations from the upcoming negotiations over the trade conflict between the US and China helped EM, the strengthening rouble and news surrounding Surgutneftegas supported the Russian market.

The oil & gas sector outperformed the market. This was mainly due to Surgutneftegas ordinary and preferred shares, which rose by 21.9% and 10.0%, respectively, and Rosneft shares, which rose by 3.9%, all in rouble terms. Surgutneftegas rose on news that the company had created a separate subsidiary which some investors believe is for buy-back activities using the company's large cash reserves. However, the official purpose of the new subsidiary remains to be disclosed. Rosneft's share price rose on the back of better oil prices.

The metals & mining sector was the worst performer of the week, dragged down mainly by Polyus and Polymetal International. Both companies' share prices fell as gold prices dropped on the back of strong US macroeconomic data.

Main Russian news

Inflation continues to slow. The consumer price index (CPI) slipped to 4.3% YoY as at the end of August from 4.6% YoY at the end of July. Inflation slowed mostly due to a decrease in the services and non-food sectors' annual price growth rates. **For the first time in two years, Rosstat reported monthly deflation.** Deflation was 0.2% MoM in August due to lower prices in the food sector. **The Ministry of Economic Development downgraded its inflation forecast to 3.8% from 4.3% for 2019.** It reduced its 2020 inflation forecast even more dramatically, from 3.8% to 3%.

The Central Bank of Russia (CBR) announced a key rate cut to 7%. It was the third time this year that the CBR has cut the rate by 0.25bp and the move had been expected by the market. The key rate is now back to the 2014 level preceding the Russia-Ukraine conflict, after which the CBR raised the rate in view of the volatility arising from the conflict.

Explaining the latest cut, the CBR cited continuously slowing inflation and low economic growth. **The central bank also lowered its forecast for GDP growth in 2019 to 1.3% from 1.5%.** This was in line with the Ministry of Economic Development's forecast.

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To watch...

Rosstat is due to post the first estimate of Russia's Q2 GDP this week.

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

Quarterly results: actual vs. consensus for EPS

(earnings per share), adjusted, (US dollars) *

Major RTS index constituents	Q3 '18	Q4 '18	Q1 '19	Q2 '19
Lukoil	22.3%	18.8%	-9.6%	32.4%
Gazprom	29.2%	-	1.2%	2.3%
Sberbank	4.5%	14.1%	6.4%	0.5%
Novatek	20.5%	-	-	-0.9%
Tatneft	41.2%	-18.8%	2.0%	-1.3%
Magnit	12.4%	7.8%	-49.5%	-
MTS	13.6%	-46.1%	21.3%	-7.8%
VTB	-90.7%	0.0%	0.0%	-
Alosa	-10.9%	-12.2%	14.3%	-
Severstal	0.0%	-10.7%	-1.9%	-11.2%
NLMK	12.3%	-	238.9%	0.3%
Moscow Exchange	4.2%	10.6%	0.0%	12.8%
Magnitogorsk Iron & Steel	0.0%	-20.0%	18.2%	-83.2%
Phosagro	-8.0%	-41.5%	-20.9%	-

* based on Bloomberg consensus

	Actual figure is better than consensus by more than 5%
	Actual figure is worse than consensus by more than 5%
	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of September 6, 2019

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