

Russian Equities Weekly

September 7-11, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	0.8%	-13.9%
MSCI EM index TR in USD	-0.7%	-0.4%
Excess return	1.5%	-13.5%
Due to Russia specific factors*	0.4%	-1.2%
Due to difference in sector structure*	1.0%	-12.3%
Key commodities**		
Oil	-5.6%	-41.3%
Gold	1.1%	28.6%
FX		
RUB/USD	0.7%	-17.2%
RUB/EUR	0.9%	-21.5%

* See details of methodology in the end of the report

** Energy weight in the MSCI Russia 10/40 is 32%, Gold producers weight in the index is 11% (weights are as at the end of August 2020)

Data as of 11 September 2020

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	16%

Data as of 11 September 2020
TKB Investment Partners (JSC) calculations

Index sector structure supports Russian market

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging markets (EM) index. The Russian market's relative outperformance was mostly supported by differences in its index's sector structure, which has an **overweight in energy and materials sectors, and no consumer discretionary sector stocks.** Despite the oil price dropping by 5.6%, the EM index's energy sector gained 1.1%. As the energy sector's weight in the MSCI Russia 10/40 index is 32% vs. 6% in MSCI EM index, it had the largest positive impact on the Russian market's relative performance from the sector-specific perspective. Additional support came from the materials sector, which benefited from rising gold prices. The EM consumer discretionary sector declining by 2.9% also contributed to the Russian market's relative performance.

Main Russian news

Rating agency Fitch forecasts that Russia's currency will strengthen against the US dollar in 2021 and 2022. Moreover, the agency expects Russian GDP in 2020 to decline by 4.9% rather than by 5.8% as it previously predicted. Fitch explained that **the improvement in the forecast was informed by recovering consumer demand, increased fiscal support and better oil prices.** Fitch also forecasts inflation in Russia to reach 3.9% by the end of 2020, but believes the Central Bank of Russia has room for a further key rate cut.

The US has increased its imports of Russian petroleum products. According to Vygon Consulting report, US refineries are experiencing a shortage of raw materials due to the ban of supplies of Venezuelan heavy oil. Many refineries in the US cannot run on light oil from Texas and shale fields, so light oils are mixed with heavy ones. According to the US Energy Information Administration (EIA), **in the first half of 2020, Russia was one of the major suppliers of crude oil and petroleum products to the US,** after Canada, Mexico and Saudi Arabia. According to the EIA, more than 70% of imported oil semi-finished products in the US are now purchased from Russia.

We believe this supports our view that any material sanctions are likely to have a dramatic boomerang effect on the US. For more details of our views on this subject, click [here](#).

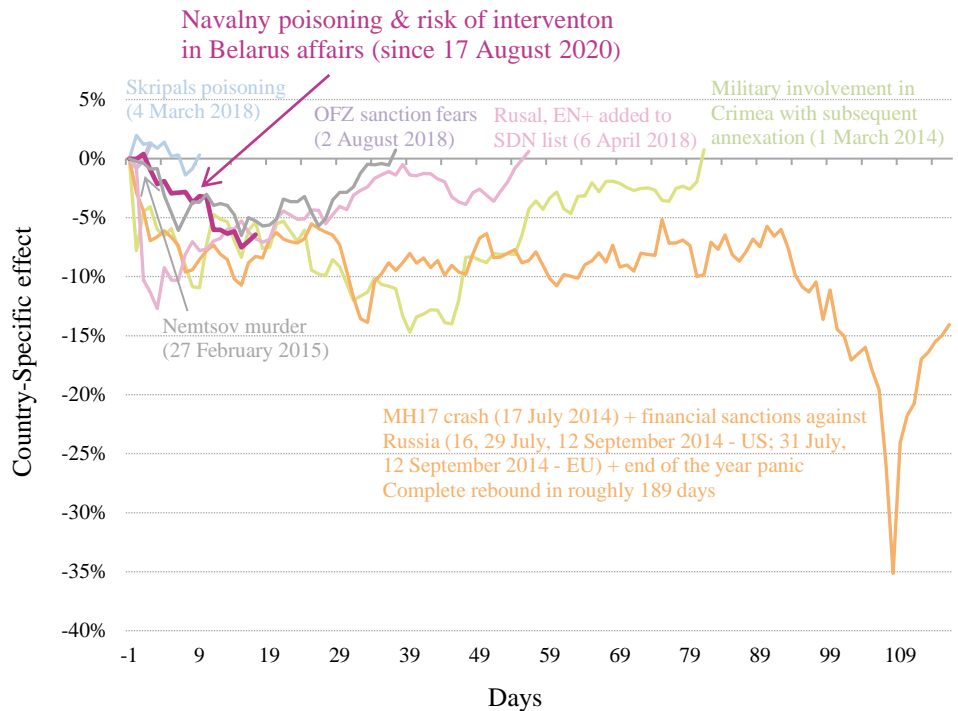
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To watch...

Rosstat is due to post industrial production figures for August 2020 later this week.
The Central Bank of Russia is due to hold its next monetary policy meeting this week.

Sources: Rosstat, Vedomosti, Bloomberg, TKB Investment Partners (JSC); September 2020

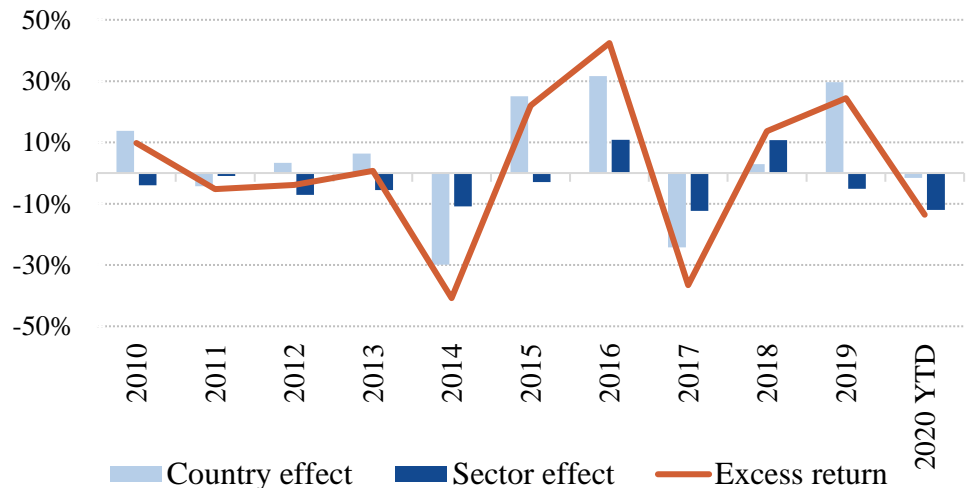
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



Note: The cumulative country-specific effect is demonstrated from the day before the sanctions risk-related event until the effect evaporates. Based on net return figures, in USD terms.
Source: Bloomberg, TKB Investment Partners; September 2020

Country and sector effect for Russia vs. EM excess return

We constructed an index from the EM sector indices with the structure of MSCI Russia 10/40 Index. For example, we took MSCI EM Energy index and weighed it as 35%, MSCI EM Materials index – 35%, etc. Let's call it MSCI EM Russia sector weight (MSCI EM RSW). Excess return due to sector factors is MSCI EM RSW minus MSCI EM. Excess return due to Russia specific factors is MSCI Russia 10/40 minus MSCI EM RSW.



Source: Bloomberg, TKB Investment Partners; data as of 11 September 2020

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