

Russian Equities Weekly

December 14 – 18, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	0.2%	-1.4%
MSCI EM index TR in USD	0.9%	16.1%
Excess return	-0.7%	-17.5%
Due to Russia specific factors*	-1.1%	-1.9%
Due to difference in sector structure*	0.5%	-15.6%
Key commodities**		
Oil	4.5%	-21.7%
Gold	2.0%	24.1%
FX		
RUB/USD	-0.5%	-15.5%
RUB/EUR	-1.8%	-22.9%

* See details of methodology in the end of the report

** Energy weight in the MSCI Russia 10/40 is 34%, Gold producers weight in the index is 9% (weights are as at the end of November 2020)

Data as of 18 December 2020

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	1%

Data as of 18 December 2020
TKB Investment Partners (JSC) calculations

The Central Bank of Russia leaves the key rate at 4.25%

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging markets (EM) index. This was mainly due to the impact from Russia-specific factors. Sanction rhetoric regarding the Navalny case put pressure on the market. Last week Navalny pointed out several FSB officers who, in his opinion, poisoned him. The officers' names also appeared in the investigation materials of CNN and German magazine Der Spiegel.

Main Russian news

Russia's key macroeconomic indicators were mixed in November.

Industrial production improved relative to October figures. This was mainly due to manufacturing segment which accelerated in YoY terms. Extraction slowed in YoY terms, however improved relative to October figures. Retail segment worsened because of slowdown in both food and non-food segments. Rosstat published real wage growth data for October which showed an increase of 0.5% YoY.

Indicator	Growth YoY	
	October 2020	November 2020
Industrial production	-5.5% *	-2.6%
Manufacturing	-3.7% *	1.1%
Extraction	-9.0% *	-7.6%
Retail sales	-1.4% *	-3.1%
Food	-2.6% *	-4.3%
Non-food	0.0% *	-1.7%
Real wages	0.5% *	Not available

*Data revised by Rosstat

The Central Bank of Russia (CBR) left the key rate unchanged at 4.25%.

The decision was widely expected by the market due to inflation acceleration in food and non-food segments. This is the third CBR's decision in a row to leave the rate at this level. The regulator stated that the **inflation at the end of the year will be higher than expected, in range 4.6-4.9%**. Earlier CBR forecasted the range of 3.9-4.2%. The Bank expects inflation to be in 3.5–4.0% range in 2021 and continue to stay around 4% afterwards.

Bloomberg named Russia as the second most economically perspective country in 2021 among the emerging markets. The rating was based on the 11 parameters of economic and financial stability. Agency stated strong external accounts and fiscal balance on the back of undervalued rouble as the reasons for Russia's high score.

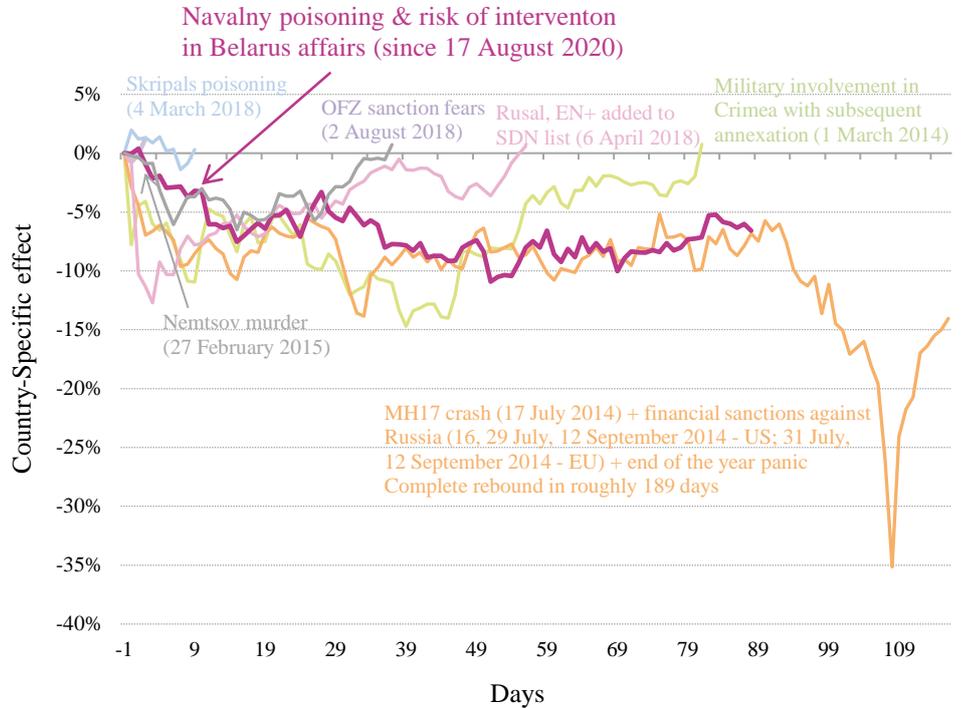
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To watch...

There is no significant news to follow this week

Sources: Rosstat, Moscow Exchange, Vedomosti, Bloomberg, TKB Investment Partners (JSC); December 2020

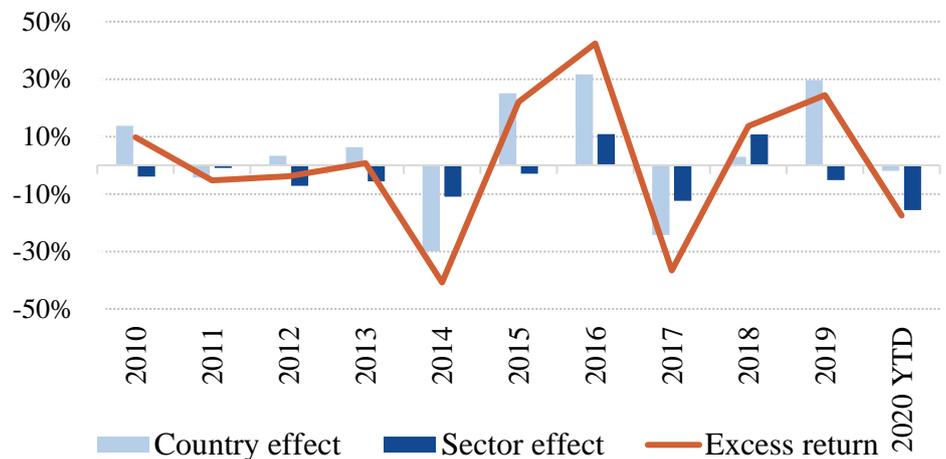
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; December 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 18 December 2020

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