

# Russian Equities Weekly

## March 15 - 19, 2021

	Week	YTD
<b>MSCI Russia 10/40 TR in USD</b>	-2.5%	3.3%
<b>MSCI EM index TR in USD</b>	-0.8%	3.8%
<b>Excess return</b>	-1.7%	-0.5%
Due to Russia specific factors*	-0.7%	-1.3%
Due to difference in sector structure*	-1.0%	0.8%
<b>Key commodities**</b>		
Oil	-6.9%	25.3%
Gold	1.8%	-8.1%
<b>FX</b>		
RUB/USD	-1.1%	-0.1%
RUB/EUR	-0.9%	1.8%

\* See details of methodology at the end of the report

\*\* We use Brent Oil and LBMA Gold price data, in USD terms. Energy weight in the MSCI Russia 10/40 is 36%; gold producers' weight in the index is 9% (as at the end of February 2021)

Data as of 19 March 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
<b>Upside/downside to fair price</b>	4%

Data as of 19 March 2021

TKB Investment Partners (JSC) calculations

## Central Bank applies first key rate hike in over two years

### Russian equity market dynamics

**Last week, the Russian equity market underperformed the broader emerging market (EM) index by 1.7%.** The relative underperformance was due to both a Russia-specific factor and differences in the two indices' sector structures:

- **Russia-specific factor:** A new wave of potential sanctions headlines on the back of Biden's interview with ABC News aroused investor concerns. The US leader claimed that there will likely be consequences for alleged Russian interference in the US elections
- **Sector-specific factors:** Overweight in the energy sector detracted from the relative performance as the sector declined as oil prices fell by 7% in USD terms. A further detractor was the overweight in the materials sector, which corrected after earlier growth.

## Main Russian news

**The Central Bank of Russia (CBR) raised its key rate by 25bp to 4.5%.** This was the first key rate increase since the end of 2018. The regulator said inflation in the first quarter of 2021 is higher than expected. **The CBR expects inflation to reach its 4% target only during the first half of 2022.** The CBR noted that external demand is also improving, mainly because of progress on COVID vaccinations and government support measures in several countries. The regulator said **there may be further key rate increases announced at its subsequent monetary policy meetings.**

**Russia's key macroeconomic indicators worsened in February**, due to a slowdown in activity in all the main economic segments. Industrial production slowed due to fall-offs in both the manufacturing and extraction segments. Retail sales also weakened in both the food and non-food segments. Rosstat published real wage growth data for January, which showed an increase of 0.1% YoY.

Key macroeconomic indicators, YoY dynamics

	January 2021	February 2021
<b>Industrial production</b>	-1.9%*	-3.7%
Manufacturing	-0.2%*	-2.4%
Extraction	-7.4%*	-8.9%
<b>Retail sales</b>	-0.1%	-1.3%
Food	-1.0%	-1.1%
Non-food	0.9%	-1.4%
<b>Real wages</b>	0.1%*	Not available

\*Data updated by Rosstat

**Fitch Ratings again upgraded its forecast for Russia's GDP growth in 2021.** The agency now expects **Russia's GDP to increase by 3.3%** instead of the 3% predicted earlier. Its rationale for the upgrade was higher oil prices – **it now forecasts Brent crude to be worth USD 58/bbl on average in 2021 rather than the previously forecast USD 45/bbl.** Fitch expects GDP to grow by 1.5% in the first quarter of 2021, by 5.7% in the second quarter and then by 0.8% in each of the third and fourth quarters. Fitch's 2021 forecast is in tune with that of the Russian Ministry of Finance, which also expects 3.3% growth, i.e., within its predicted range of 3%-4%.

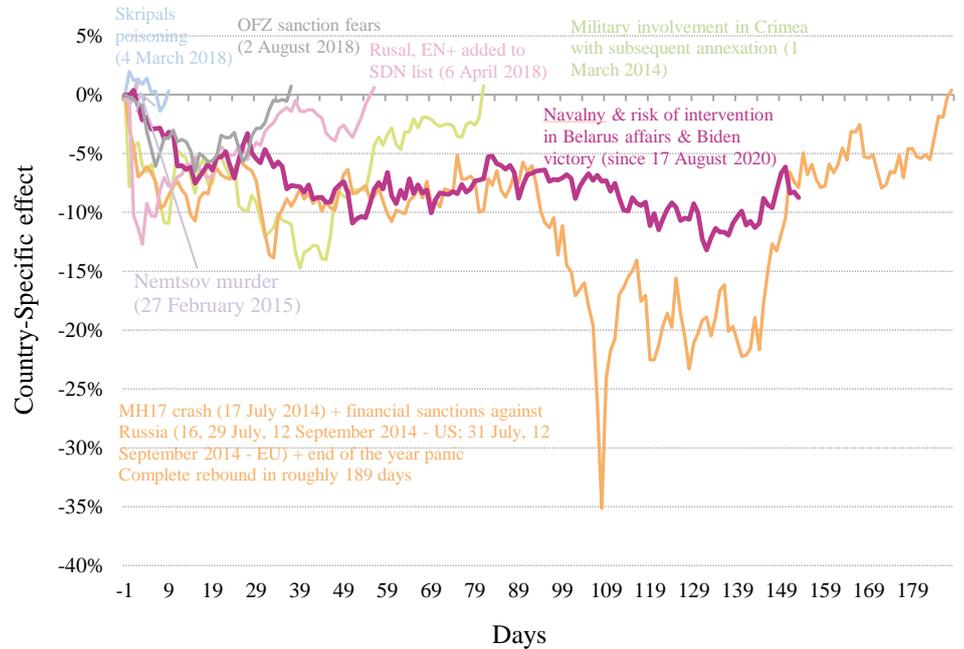
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## To watch...

There is no significant news to follow this week.

Sources: CBR, Vedomosti, Bloomberg, TKB Investment Partners (JSC); March 2021

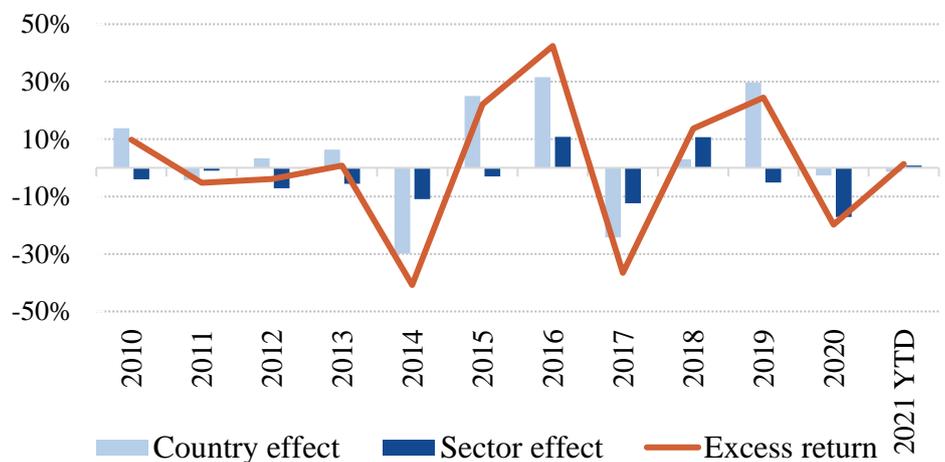
## Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; March 2021

## 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 19 March 2021

## For more information:

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