

# Russian Equities Weekly

## April 12-16, 2021

	Week	YTD
<b>MSCI Russia 10/40 TR in USD</b>	5.6%	5.1%
<b>MSCI EM index TR in USD</b>	1.4%	4.9%
<b>Excess return</b>	4.2%	0.2%
Due to Russia specific factors*	3.0%	-2.1%
Due to difference in sector structure*	1.2%	2.4%
<b>Key commodities**</b>		
Oil	6.2%	30.0%
Gold	1.9%	-6.0%
<b>FX</b>		
RUB/USD	2.2%	-2.2%
RUB/EUR	0.9%	-0.9%

\* 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 35%; gold producers' weight in the index is 8% (as at the end of March 2021)

Data as of 16 April 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
<b>Upside/downside to fair price</b>	6%

Data as of 16 April 2021

TKB Investment Partners (JSC) calculations

## Industrial production calls for optimism

### Russian equity market dynamics

**Last week, the Russian equity market outperformed the broader emerging market (EM) index by 4.2%.** The relative outperformance was due to both Russia-specific and sector-specific factors:

- **Russia-specific factors (302bp):** The Russian equity market corrected on the back of fears over the impact of sanctions as US president Biden and Russia's president Putin agreed to meet. Despite the new US sanctions put in place on Thursday, which created a slight amount of pressure on local equities, the market returned to its pre-announcement level the following day.
- **Sector-specific factors (115bp):** The Russian market benefited from being overweight in the materials sector, which rose on the back of increasing commodity basket prices, including those of steel, copper, gold and palladium. Moreover, support came from the market's overweight in energy sector, which made gains on the back of higher oil prices.

## Main Russian news

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**The US announced new sanctions against Russia** based on long-discussed claims of cyberattacks, alleged Russian involvement in the 2020 US presidential elections and alleged bounties offered by Russia to Afghan militants. **The new sanction measures include US investors being prohibited from purchasing Russian sovereign debt (OFZ) denominated in roubles and issued after 14 June 2021 on the primary market.** After initially dropping by 2%, the rouble quickly recovered. The Russian equity market also bounced back as **investors judged that the new measures are not as threatening as they sound.** Find more details [here](#).

**Industrial production rose by 1.1% YoY in March after a 3.2% YoY decline in February.** This was mainly due to an acceleration in the manufacturing segment, which rose by 4.2% YoY after a 1.7% YoY decline a month earlier. Although the extraction segment performed better than in the previous month, slowing by 5.6% YoY vs. a 9% YoY decline in February, it still lagged in annual terms. According to the Ministry of Economic Development, growth in the extraction segment was limited mainly by the OPEC+ decision to cut oil output. All other extraction segments, including coal, iron ore and others, grew on an annualised basis.

**Russia's Prime Minister, Mikhail Mishustin, signed a bill to cancel an agreement with the Netherlands on double taxation avoidance.** The existing agreement allows profits to be withdrawn from Russia at an effective rate of 2%-3%. Russia had earlier suggested raising the tax on dividends to 15%, but the Netherlands declined this proposition. Thus, in December last year, Russia started preparing the cancellation bill. **Without the current agreement, Russian companies operating through the Netherlands will have to pay higher taxes from 2022.** The potentially affected companies include Yandex, Svyaznoy and X5 Group. The Netherlands is the last country with which Russia planned to negotiate the tax increase. Earlier Malta, Cyprus and Luxemburg agreed to the same proposition of raising the tax rate to 15%.

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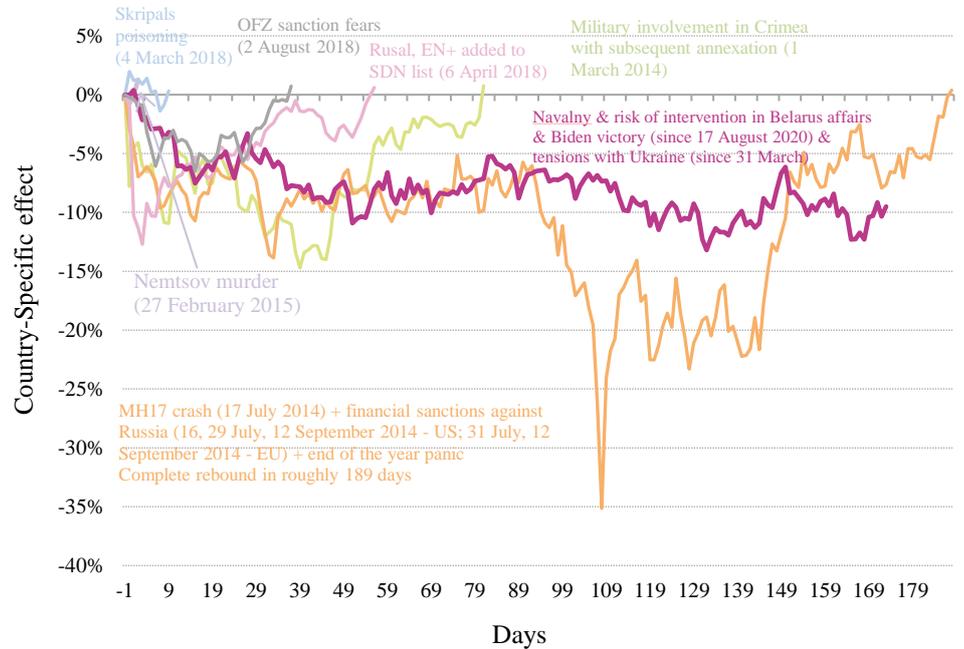
## To watch...

Rosstat is due to post some key macroeconomic figures for March 2021. The Central Bank of Russia (CBR) will hold a monetary policy meeting on Friday.

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Sources: Rosstat, Vedomosti, Bloomberg, TKB Investment Partners (JSC); April 2021

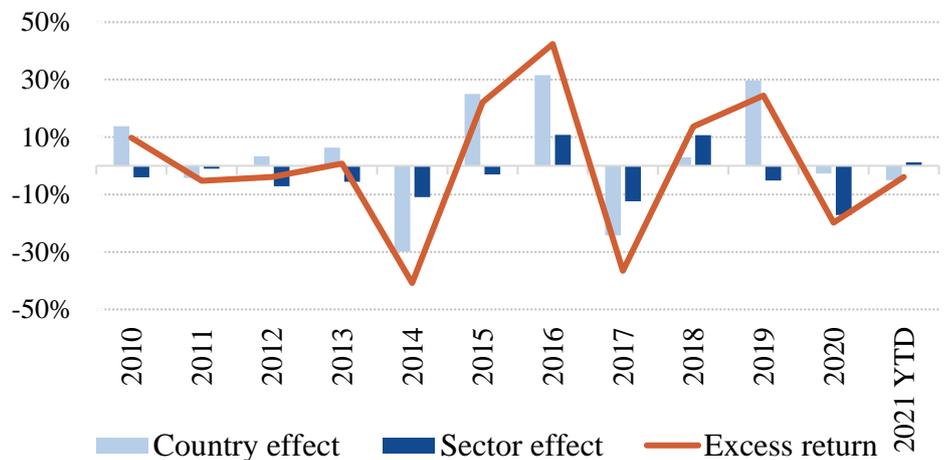
## Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; April 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 16 April 2021

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