

# Russian Equities Weekly

## May 31 – June 4, 2021

	Week	YTD
<b>MSCI Russia 10/40 TR in USD</b>	2.7%	16.6%
<b>MSCI EM index TR in USD</b>	1.6%	7.7%
<b>Excess return</b>	1.1%	8.9%
Due to Russia specific factors*	0.3%	3.6%
Due to difference in sector structure*	0.8%	5.3%
<b>MSCI EM HDY index TR in USD**</b>	1.1%	12.3%
<b>Key commodities***</b>		
Oil	5.0%	43.5%
Gold	-0.7%	-0.2%
<b>FX</b>		
RUB/USD	0.6%	1.6%
RUB/EUR	0.8%	2.2%

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

\*\*MSCI Emerging Markets High Dividend Yield Index

\*\*\* We use Brent Oil and LBMA Gold price data, in USD terms. Energy weight in the MSCI Russia 10/40 is 37%; gold producers' weight in the index is 9% (as at the end of May 2021)

Data as of 4 June 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
<b>Upside/downside to fair price</b>	5%

Data as of 4 June 2021

TKB Investment Partners (JSC) calculations

## First segment of Nord Stream 2 pipeline is completed

### Russian equity market dynamics

**Last week, the Russian equity market outperformed the broader emerging market (EM) index by 1.2%.** This was due to both a country-specific factor and the difference in sector structure:

- **Sector-specific factor:** The positive effect came from Russia's overweight in the materials sector, which rose by 5%.
- **Russia-specific factor:** The news that the laying of the first segment of the Nord Stream 2 gas pipeline between Russia and Germany was completed last week provided additional support for the Russian market.

## Main Russian news

### Russia's key macroeconomic indicators largely improved in April.

Industrial production rose, mainly due to an acceleration in the manufacturing segment. Although the extraction segment performed better than in the previous month, it still lagged in annual terms, mainly due to the OPEC+ decision to cut oil output. Retail sales rose significantly in both the food and non-food segments. According to Rosstat, the main reason for such a significant increase in indicators was the low base 12 months earlier, when lockdowns were introduced to halt the spread of Covid. Rosstat published real wage growth data for March, which showed an increase of 1.8% YoY.

Indicator	Growth YoY	
	March 2021	April 2021
<b>Industrial production</b>	2.3% *	7.2%
Manufacturing	5.4% *	14.2%
Extraction	-4.6% *	-1.8%
<b>Retail sales</b>	-3.4%	5.9%
Food	-6.0%	10.2%
Non-food	-0.8%	67.7%
<b>Real wages</b>	1.8%	not available

\*Data updated by Rosstat

**President Vladimir Putin announced that the first segment of the Nord Stream 2 pipeline has been completed.** Meanwhile, the underwater section still needs to be linked to the one on German territory. According to Deputy Prime Minister Alexander Novak, **construction of the second segment, with just 100 kilometres left to build, should be completed by the end of the year.** The pipeline crosses the Baltic Sea between Russia and Germany, and aims to double the existing route's annual volume of gas delivered to Europe. The US strongly opposed the pipeline's construction, but last month the Biden administration decided to waive sanctions against Nord Stream 2 AG – the company in charge of building the new link.

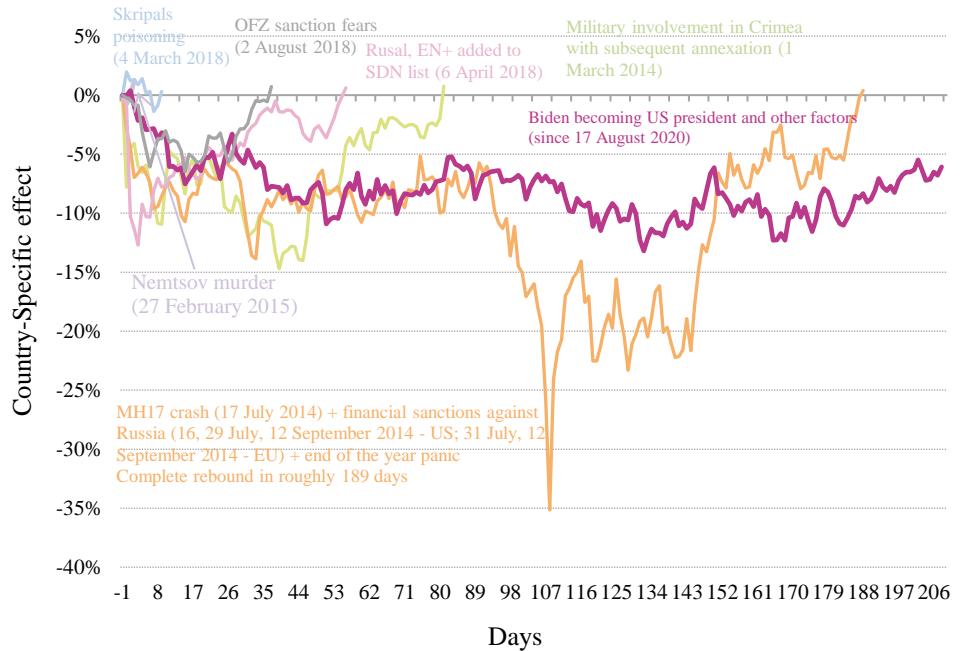
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## To watch...

The Central Bank of Russia monetary policy meeting is due this week.

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

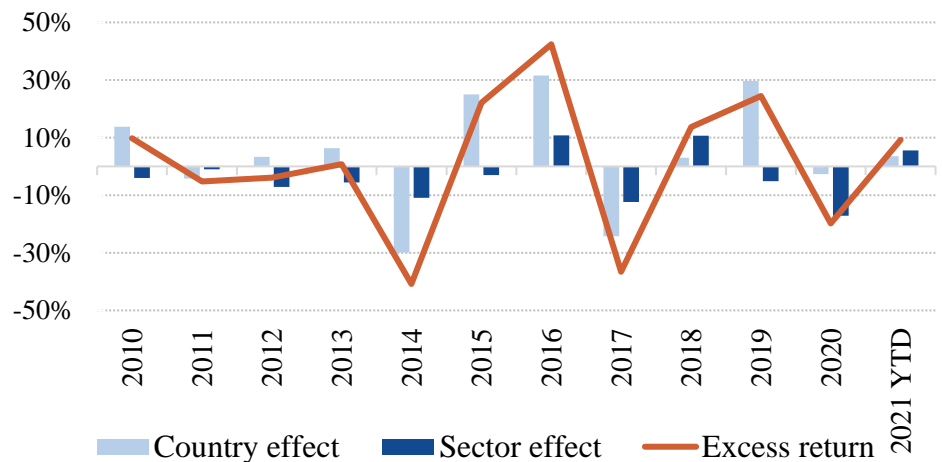
## Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events



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; May 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 4 June 2021

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