

Russian Equities Weekly

July 5–9, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	-1.4%	16.1%
MSCI EM index TR in USD	-2.6%	3.2%
Excess return	1.2%	12.9%
Due to Russia specific factors*	0.7%	6.5%
Due to difference in sector structure*	0.5%	6.3%
MSCI EM HDY index TR in USD**	-1.7%	7.8%
Key commodities***		
Oil	-0.2%	49.0%
Gold	1.1%	-4.3%
FX		
RUB/USD	-1.8%	-0.7%
RUB/EUR	-1.7%	1.8%

* 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 36%; gold producers' weight in the index is 8% (as at the end of June 2021)

Data as of 9 July 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	11%

Data as of 9 July 2021

TKB Investment Partners (JSC) calculations

Inflation continues to accelerate

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 Russia-specific factor, and the difference in the indices' structure.

- Russia-specific factor: Market followed the correction trend as geopolitical concerns continued to ease.
- Sector-specific factor: The Russian equity market gained support from the overweight in the materials sector, which outperformed the broader EM market. Additionally, Russia benefited from being underweight in the consumer discretionary sector, which declined by 5% over the week.

Main Russian news

Russian inflation accelerated in June. The consumer price index (CPI) rose to 6.5% YoY at the end of June from 6.0% YoY at the end of May. This is the highest level of inflation since August 2016 and it concerned all three main segments. Food inflation rose to 7.9% YoY from 7.4% YoY in May and non-food inflation increased to 7.0% YoY from 6.7% YoY. Services inflation rose from 3.3% YoY last month to 4.0% YoY in June. According to the official forecast, the Central Bank of Russia (CBR) expects inflation to be in range of 4.7%-5.2% as at the end of 2021.

The Ministry of Finance announced that all the preparations to transition the National Welfare Fund (NWF) to a new structure are complete. According to the Ministry, US dollar-denominated funds are being excluded from the NWF structure. The current structure includes 5.0% of funds denominated in pound sterling, 39.7% in euros and 30.4% in Chinese yuan. Additionally, the Japanese yen now amounts to 4.7% of the fund reserves and gold, 20.2%. **As of 1 June 2021 the NWF total reached USD 189.4 billion or 12.1% of GDP.**

Rating agency Fitch confirmed Russia's credit rating at BBB with a stable forecast. The agency claims that the sanction risks from the US remain. However, Fitch said that widespread restrictions on the Russian financial or energy sectors, which could potentially affect the fundamental credit parameters of the country, are unlikely. The agency said **the current credit rating reflects Russia's strong macroeconomic policies, its stable level of external fiscal balance and the lowest level among all its peers of public debt relative to the country's GDP.**

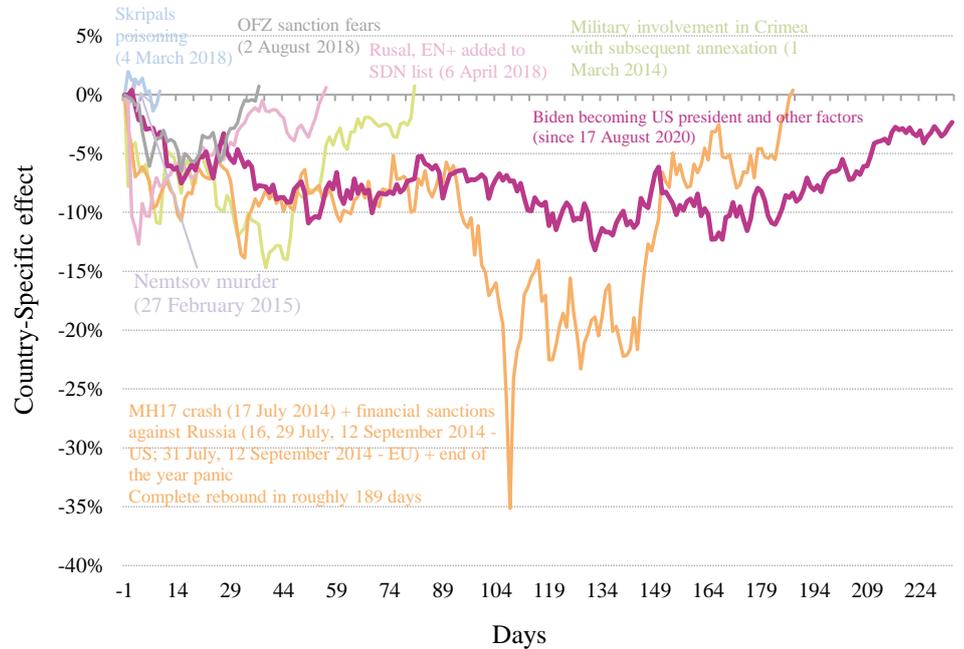
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To watch...

There is no significant news due this week.

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

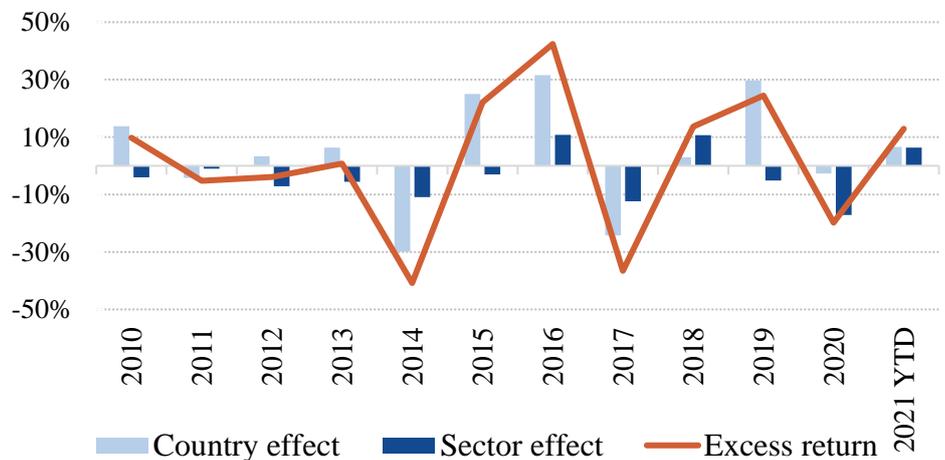
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events



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, July 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 9 July 2021

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