

# Russian Equities Weekly

## July 19–23, 2021

	Week	YTD
<b>MSCI Russia 10/40 TR in USD</b>	-0.4%	14.3%
<b>MSCI EM index TR in USD</b>	-2.1%	2.8%
<b>Excess return</b>	1.7%	11.5%
Due to Russia specific factors*	0.6%	5.2%
Due to difference in sector structure*	1.0%	6.4%
<b>MSCI EM HDY index TR in USD**</b>	-1.3%	7.9%
<b>Key commodities***</b>		
Oil	-0.1%	44.0%
Gold	-1.4%	-4.7%
<b>FX</b>		
RUB/USD	0.1%	0.1%
RUB/EUR	0.9%	3.6%

\* 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 23 July 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
<b>Upside/downside to fair price</b>	10%

Data as of 23 July 2021

TKB Investment Partners (JSC) calculations

## Largest central bank rate hike for seven years

### Russian equity market dynamics

**Last week, the Russian equity market outperformed the broader emerging market (EM) index by 1.7%.** This was due to both a Russia-specific factor, and the difference in the two indices' sector structures.

- **Russia-specific factor:** The Russian market corrected after previous underperformance. Additionally, the EM index was pressured by investor concerns over China potentially tightening regulation on sectors that have grown well in recent years, including the IT sector. This supported the relative outperformance by the Russian market.
- **Sector-specific factor:** The Russian equity market was supported by its overweight in the materials and energy sectors, which contracted by less than the broader emerging markets.

## Main Russian news

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**The Central Bank of Russia increased its key rate by 100bp to 6.5%.** This was the largest hike since December 2014 and was explained as being a response to high inflation. According to the regulator, **annual inflation is forecast to be around 5.7%-6.2% in 2021, before slowing to 4%-4.5% in 2022 and staying at around 4% beyond that.** The Central Bank expects GDP to grow by 4%-4.5% in 2021. In 2022-2023, GDP is expected to grow by 2%-3% annually. The next monetary policy meeting will be held on 10 September.

**Rosstat reported that industrial production rose by 10.4% YoY in June after 12.3% YoY in May.** The acceleration in industrial production in the second quarter of 2021 amounted to 10.1% YoY. The extraction segment grew by 13.8% YoY in June after 12.6% YoY a month earlier. During the second quarter extraction accelerated by 7.8% YoY. While the manufacturing segment rose in annual terms, it slowed in June in comparison with May: 7.7% YoY vs. 12.1% YoY, respectively. During the second quarter the segment rose by 11.4% YoY.

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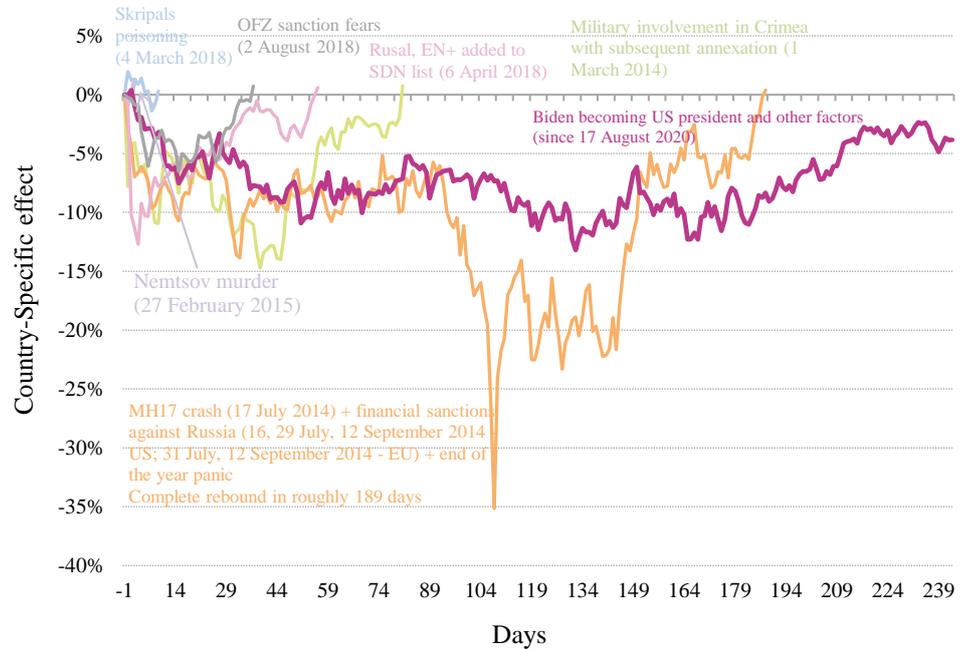
## To watch...

Rosstat is due to post some key macroeconomic figures for June later this week.

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

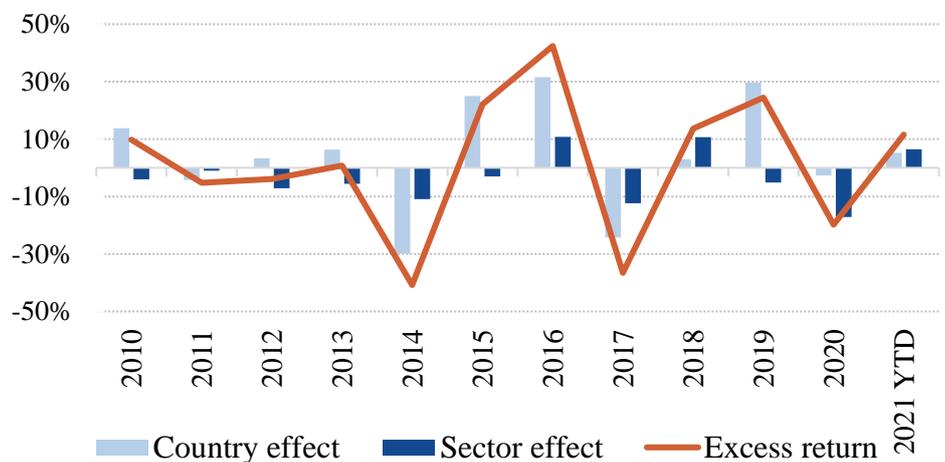
## Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events



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 23 July 2021

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