

Russian Equities Weekly

October 18 – 22, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	0.0%	32.2%
MSCI EM index TR in USD	0.7%	2.0%
Excess return	-0.8%	30.3%
Due to Russia-specific factors*	1.3%	17.4%
Due to difference in sector structure*	-2.1%	12.9%
MSCI EM HDY index TR in USD**	0.0%	8.2%
Key commodities***		
Oil	0.1%	66.1%
Gold	2.0%	-4.2%
FX		
RUB/USD	0.6%	5.0%
RUB/EUR	0.0%	9.9%

* See details of methodology at the end of the report

**MSCI Emerging Markets High Dividend Yield Index

*** We use Brent Oil and LBMA Gold, in USD terms. Energy weight in the MSCI Russia 10/40 is 41%; gold producers' weight in the index is 8% (as at the end of September 2021)

Data as of 22 October 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	7%

Data as of 22 October 2021
TKB Investment Partners (JSC) calculations

Key rate rises by 75bp to 7.5%

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging market (EM) index by 0.8%. This was due to the difference in sector structures of the two indices, mainly the overweight in energy and materials. These sectors fell by 2.8% and 2.2% in the EM index, respectively. Russia-specific factors partially offset the impact from the sector-specific factors. These mainly concerned greater investor optimism over stronger Russia-EU energy cooperation in the face of the energy crisis in Europe.

Main Russian news

The Central Bank of Russia unexpectedly raised its key rate by 75bp to 7.50%. The market had expected a 25-50bp increase. The bank noted that inflation continued to exceed its forecast substantially and now it is **expected to be at 7.4-7.9% at the end of 2021.** Based on the CBR's latest forecast, inflation will edge down to 4.0-4.5% in 2022 and remain at close to 4% later. CBR Governor E. Nabiullina said that **the new forecast suggested the average key rate would be at 7.3-8.3% in 2022, and at 5.5-6.5% in 2023.**

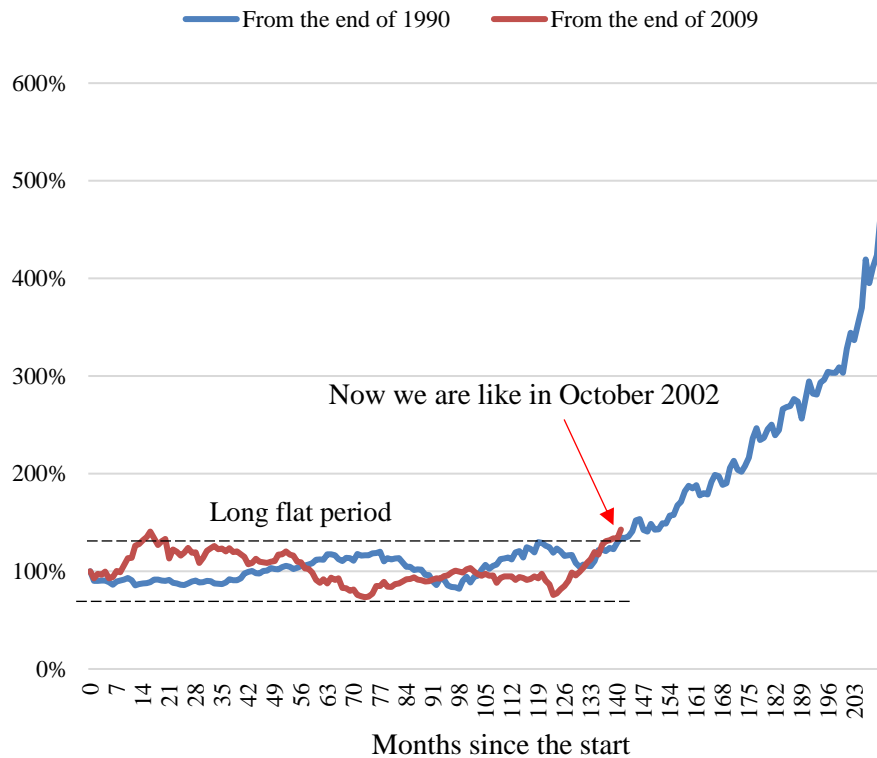
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To watch...

Rosstat is due to publish industrial production figures

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

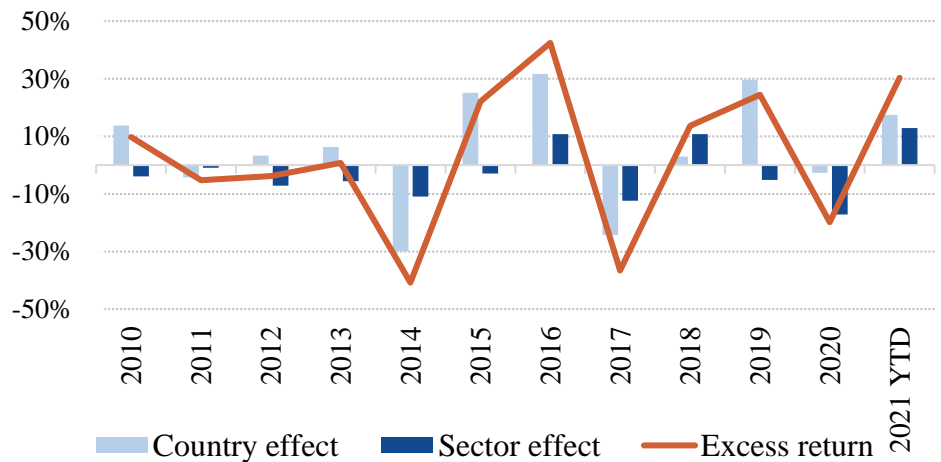
Possible long-term growth in commodity prices Bloomberg commodity spot index (in USD)



Source: Bloomberg, TKB Investment Partners, October 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 the MSCI EM Energy and weighed it at 35%, MSCI EM Materials – 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 22 October 2021

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