

October 2009

Key Russia Economic and Market News

Economy

- Troika Dialog sees a favorable macroeconomic environment in 2010. The broker notes that “disinflation is supposed to continue next year, as growth in spending will be contained, while moderate money supply expansion of around 15-20% and moderate growth in nominal wages may result in much lower inflation, which we expect to be well below the consensus forecast.”
- Russian stocks have experienced the longest rally in 11 months as higher oil and metals prices boosted earnings prospects for commodity producers. “Russia appears to be the favorite market for the cash-rich and the more risk-prone investors,” said Peter Westin, chief strategist at Aton Capital.
- Bloomberg reports that Russia’s economy contracted in September at the slowest monthly pace this year, the latest evidence that the world’s biggest energy exporter is moving toward recovery.
- VTB Capital has just released its 2009-2012 growth forecast for the Russian banking sector. It estimates that total mortgages outstanding at the end of 2012 will reach \$82bn or 3.5% of GDP up from the estimated \$30bn at the end of 2009 (40% CAGR)

Currency

- Troika Dialog reports on potential surprises from forex gains as many companies were forced to take forex losses when the ruble fell. They may be able to write back some of these losses if the ruble holds around its current level of R30/\$1.

Stock Market

- The benchmark RTS index remains at around 1,100-1,200 points which is attributed to investors trying to discern the long-term trend.

Private Equity

- Private equity firm TPG Capital and the private equity arm of Russian state bank VTB finalised the purchase of a 35.4% take in Russian hypermarket chain Lenta. A banking industry source said on 7th October that the purchase price was \$115m. According to several sources, TPG acquired between 28.4-30.0% of the company and the bank purchased the rest.
- Scandinavian private equity firm Mint Capital (private equity fund set up in 2001 to make investments in rapidly growing companies in Russia) has acquired a chain of Russian pub restaurants from owner Oleg Tinkov last month.
- Rusnano, VTB and Draper Fisher Jurvetson (DFJ), will jointly set up a Russian venture fund. The fund will initially target \$100m. Rusnano and VTB will each commit \$50m. VTB Capital and DFJ will act as managing partners for the fund, which will focus on nanotechnology innovation in Russia and abroad.

Aurora Investment Advisors Comment

- We recently attended an address by Mr. Putin and Mr. Kudrin, the Minister of Finance, in Moscow. Both were impressive, not only in their delivery, but more in what they said about Russia’s commitment to a market economy, privatization rather than nationalization, enticing investment, diversifying the economy as well as keeping inflation low, addressing negative GDP growth and dealing with the first budget deficit for 10 years.
- Russia’s stock markets have begun to benefit from the interest in emerging markets which began to rally in March. Aurora’s share price has improved as a result, but it is still some way below its trading range before the crisis and the forced selling in the market.
- Confidence is beginning to spill over into the domestic private equity market as we are seeing many more deals cross our desk than a month ago. We expect that towards the end of this year we will see a return of interest in the market from investors in private equity.

Currency Indicators*

| As of 8 th Oct | Price | 1 Week % Change | 1 Month % Change | 3 Months % Change | 6 Months % Change |
|---------------------------|-------|-----------------|------------------|-------------------|-------------------|
| Exchange Rate RUR/US\$ | 29.78 | -0.8% | -5.2% | -5.4% | -10.8% |
| Exchange Rate RUR/€ | 43.82 | -0.2% | -2.8% | -0.1% | -1.9% |
| Exchange Rate RUR/£ | 47.40 | -1.7% | -8.1% | -6.9% | -3.6% |

* Source: Bank of Russia

Key Economic Data**

| Inflation Rate | As of 30/09/2009 | As of 31/08/2009 |
|----------------|------------------|------------------|
| MoM | 0.0% | 0.0% |
| YoY | 10.7% | 11.6% |
| GDP | Q2 2009 | Q1 2009 |
| MoM | N/A | 0.5% |
| YoY | -10.9% | -9.3% |

** Source: Bloomberg and Reuters, Ministry of Economics

As of 8 October 2009

