

November 2009

Key Russia Economic and Market News

Economy

- On 30th October, Vladimir Putin said that the Government would cut its support for banks because the worst was over for the sector and will more than halve the funds aimed to support banks in 2010 to 100 billion roubles (\$3.4 billion)
- On 20th October, Russia's Deputy Minister of the Economy said that gross domestic product grew 0.6% in Q3 from the previous three months. The annual decline eased to 9.4%, according to the Ministry, compared with a 10.9% contraction in Q2.
- On 12th November, the FT reported that "prospects for Moscow look good with oil prices back near \$80 a barrel, Russian equities surging, incipient signs of economic recovery, and the rouble strengthening so fast".

Currency

- Investors' trust in a strong rouble stimulated the Russian bond market in Q3. When the first signs of a strengthening rouble started appearing in May, the volume of corporate bond deals arranged in June-August more than doubled, compared to the March-May period.
- Bloomberg reports on 20th October, the rouble added 0.6% to 29.1393 per dollar, and was heading for its strongest close since Dec. 26, 2008.
- A rise in oil prices is bound to strengthen the domestic currency and the strengthening of the rouble is positive news for investors: high-yielding assets combined with a \$/rouble decrease translates to extra profit.

Stock Market

- According to Bloomberg, Russia's Micex Index gained 0.8% to 1375.84 on 20th October, the highest level in almost two months.
- "Although the Moscow RTS market has risen 130% this year, it must be remembered that the market was priced for Armageddon in January 2009 and valuations were at all-time lows. Compared with its peer group, Russia at ten times forward earnings and a price-to-book of approximately 1.1 times Russia compares favourably", according to Michael Hanson-Lawson, managing director of Russia private equity specialist East Capital in Hong Kong.

Private Equity

- Russia Partners, the Moscow-based private equity arm of Siguler Guff, announced on 5th November the purchase of 3.3% of the Russian bank MDM. "We are pleased to be associated with MDM Bank and find this opportunity attractive because the bank is widely considered to be the best private sector bank in Russia", said Siguler Guff's founder Drew Guff.

Aurora Investment Advisors Comment

- While the Russian economy is getting an uplift from oil prices, growth in the services sector should outpace natural resources in the mid to long-term horizon. This growth is being driven by several factors including the growth of the middle class which is expected to double over the next five years, a low corporate and personal income tax regime, and a relatively low penetration of consumer and corporate debt.
- With some of highest reserves in the world, Russia should be able to recover from the global economic crisis faster than other countries in Europe. This presents an opportunity for private equity in Russia as companies begin to turn their focus from survival to expansion and growth. The exit prospects for market leaders in Russia remain positive because strategics seeking growth will likely not find it in their home markets but in underserved markets like Russia.

Currency Indicators*

As of 10 th Nov	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	28.85	-1.2%	-2.6%	-8.6%	-11.4%
Exchange Rate RUR/€	43.15	0.2%	-1.0%	-4.7%	-1.2%
Exchange Rate RUR/£	48.39	1.2%	2.2%	-8.4%	-1.0%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 31/10/2009	As of 30/09/2009
MoM	0.0%	0.0%
YoY	9.7%	10.7%
GDP	Q2 2009	Q1 2009
MoM	N/A	0.5%
YoY	-10.9%	-9.3%

** Source: Bloomberg and Reuters, Ministry of Economics

