

March 2010

Key Russia Economic and Market News

Economy

- Russia's economy could grow by as much as 4%-4.5% in 2010 compared with the Government's forecast of 3-3.5%, an Economic Development Ministry official said on 16th March. "Our forecast for 2010 is moderately optimistic. We expect GDP to grow by 3-3.5% in 2010. Added to the third and fourth quarter growth of 2009, this could be as high as 6%", Deputy Economic Development Minister Andrei Klepach said.
- According to fund tracker EPFR Global, \$411m flowed into Russian funds over the week ending 11th March, the highest level since October, outstripping investment flows into Russia's BRIC peers.
- With the Russian economy on the rebound, resurgent commodity prices and a strengthening currency, Russia is appearing more favourable to foreign funds. Foreign direct investment in Russia will recover to \$60-70bn in the next two to three years, said Alexei Kudrin, Deputy Prime Minister and Finance Minister at the Russia 2010 Forum.
- In year-on-year terms inflation slowed from 8% at the end of January to 7.2% as of 28th February and likely to be under 6% in 2010. This accompanies considerable growth across industrial, transportation and agricultural sectors which points to a robust economic recovery.

Currency

- On 10th March the rouble hit a new 14 month high, increasing speculation that the Central Bank would control the surging currency or speed up interest rate cuts to keep economic recovery on track.
- The rouble rallied 2.6% against its currency basket in the past month, reflecting a 10% surge in the price of oil. "There are many factors supporting the rouble. Oil is one of them [and] interest rates remain high compared to [close to] zero in other countries", said Vladimir Osakavosky, an analyst at UniCredit.

Capital Markets

- On 10th March the MICEX retreated following an eight day rally, the longest rally since July 2006. It dropped 0.1% and the RTS fell 0.4%.
- At the annual joint conference of the London Stock Exchange and the MICEX group earlier this month, Konstantin Korishchenko, President of MICEX said Russia is expecting a surge of IPOs in 2010. At the beginning of 2010, the Russian IPO market opened with the floatation of Rusal on the Hong Kong Stock Exchange, which brought the company more than \$2.2bn.

Private Equity

- In a recent Mergermarket survey on the current Russian M&A environment, responses from Russian M&A and corporate finance decision makers were split, polling nearly 50% each on whether foreign or local private equity companies will dominate the M&A landscape this year. Private divestments and public takeovers are likely to be the most frequent sources of private equity acquisitions in Russia in 2010.

Private Equity (cont'd)

- Prime Minister Vladimir Putin has agreed to a zero capital gains tax on direct investments in Russia. Private equity investors will receive a tax break in Russia on investments of 10% or greater in a company which is not traded on any exchange and have a minimum holding period of five years.
- According to RBC Daily, Russian investment fund UFG Private Equity II has already invested \$30m into a project involving plans to build cell towers in the Northwest Federal District. These towers will then be subsequently leased out to mobile operators for developing fourth generation (4G) mobile networks. The European Bank for Reconstruction and Development (EBRD) is the other key investor in the project.

Aurora Investment Advisors Comment

According to McKinsey, Russia is a model of constraint when it comes to gross levels of debt in Europe. With a total debt of 71 percent of GDP (5% government, 10% households, 16% financial sector, and 40% from corporates) compared to average gross levels of debt in Europe of around 300% (the United Kingdom was at 380%). This data indicates that there are fewer constraints for consumers to spend and more room for the government to deleverage over the coming months. With inflation coming down, interest rates in Russia for consumer loans and particularly mortgages, should also come down. These factors should result in positive growth in the services sectors as the year progresses.

Currency Indicators*

As of 10 th March	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	29.75	-0.8%	-2.0%	-3.3%	-4.5%
Exchange Rate RUR/€	40.49	-0.1%	-2.9%	-10.5%	-10.3%
Exchange Rate RUR/£	44.64	-0.2%	-5.9%	-10.7%	-13.0%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 28/02/2010	As of 01/01/2010
MoM	0.9%	0.5%
YoY	7.2%	8.0%
GDP	Q3 2009	Q2 2009
YoY	-8.9%	-10.9%

** Source: Bloomberg and Reuters

