

April 2010

Key Russia Economic and Market News

Economy

- According to Bank of America Merrill Lynch, Russia's economy is poised for the "biggest bounce" in the world this year as companies rebuild stocks and resurgent consumer demand boosts output after a record slump in 2009. On a seasonally adjusted basis, Russia's GDP gained 6.5% in the first quarter from the previous three months, Bank of America Merrill Lynch estimates.
- According to Renaissance Capital, the Russian economy may grow by 8.3% in the second quarter, more than previously forecasted, on domestic demand and aluminum prices. The investment bank raised its estimate from 7.9% after a combination of higher wages, improved retail services and a decline in unemployment, together with higher aluminum prices and a larger trade surplus, fueled growth.
- Central Bank Chairman, Sergei Ignatyev, gave the economy a mostly clean bill of health on 9th April and said a rate cut this month was not a done deal, following a year-long easing campaign to help Russia out of recession. The strong rouble has helped keep inflation in check, in turn leaving room for the Central Bank to support growth through a series of interest rate cuts.
- On 7th April, Dmitry Pankin the Russian Deputy Finance Minister, announced that the Government is likely to borrow more from the domestic market than from abroad in the coming years due to improved liquidity in the rouble bond market. He also said that the total volume of debt issuance could be kept near the planned 1.5tr roubles (\$52bn) mark.

Currency

- The rouble scaled fresh 15-month highs on the 6th April, prompting the Central Bank to shift its floating band again and raising the appeal of profit-taking before a possible new upside move. Against the dollar, the rouble lost 16 kopeks to 29.36 on the MICEX exchange, but was 11 kopeks up against the euro at 39.26, near an earlier 15-month high of 39.22.

Capital Markets

- MICEX Group will make an offer to buy the RTS, turning the rival stock exchange into a full subsidiary, a Central Bank official said on the 7th April. MICEX Group may exchange its own shares for a controlling stake in the RTS after finishing the asset consolidation that it started last year, said Sergei Shvetsov, head of the Central Bank's department for financial markets.
- Russian companies plan to sell up to \$974m of shares in Moscow in the next two months, ending the longest drought in IPOs in at least eight years as stocks trading at a 20-month high lure investors. OAO Protek, the owner of Russia's second-largest drug retailer, said that it is seeking as much as \$400m from an IPO in May or June, and fishing company OAO Russian Sea Group said it will offer up to \$174m in shares this month.

Private Equity

- Wal-Mart is currently in discussions with TPG Capital, a private equity fund and owner of a 25% stake in St. Petersburg retailer, Lenta, on the possibility of a potential acquisition, an executive at the Russian retail firm said. Wal-Mart has been actively seeking a platform to enter Russia's growing consumer market.
- Russia's Government is planning to exempt private equity investors from tax on carried interest in an effort to boost funding for young companies, even as Western countries look at ways to increase taxes on buyout firms.

Aurora Investment Advisors Comment

It is apparent that the current Russian economic environment is strengthening as banks have started to lend again, bad loans are falling, and inflation remains in the single digits for the first time since the collapse of the Soviet Union. The mortgage market is showing some signs of recovery as demand for mortgages rose 10% in March and the number of deals increased 3.7 times from a year earlier. Given such a positive outlook, we anticipate an uptake in foreign direct investment and IPOs for the year ahead. Investors should have an appetite to participate in these potential opportunities as Russia continues to grow.

Currency Indicators*

As of 10 th April	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	29.32	0.4%	-1.4%	-2.9%	1.0%
Exchange Rate RUR/€	39.23	-1.0%	-3.1%	-9.7%	-0.6%
Exchange Rate RUR/£	44.93	0.8%	0.7%	-7.7%	0.8%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 31/03/2010	As of 28/02/2010
MoM	0.6%	0.9%
YoY	6.5%	7.2%
GDP	Q4 2009	Q3 2009
YoY	-7.9%	-8.9%

** Source: Bloomberg and Reuters

As at 10 April 2010

