

May 2010

Key Russia Economic and Market News

Economy

- Russia's central bank cut its refinancing rate to an all-time low of 8% on 29th April, the latest in a year-long string of rate cuts designed to stabilise Russia's post-crisis economy. This also emphasised Russia's relative strength in the wake of market turmoil in Europe.
- The IMF has given a positive assessment of the measures taken by the Russian Government to overcome consequences of the global financial and economic crisis. At the same time the IMF believes that Russia needs to take additional efforts to strengthen the banking sector and also exercise care so that anti-crisis, budget-financed programs relating to additional spending "will not become a permanent phenomenon."
- Russia faces a "massive" capital influx as investors look for alternatives to Europe's crisis-ridden debt markets, said Mikhail Dmitriev, President of the Center for Strategic Development. Russia's oil wealth is reducing the country's foreign borrowing need as revenue from oil and gas fills state coffers. The Government may cut foreign borrowing plans by \$13bn this year.

Currency

- The rouble rallied on 18th May as it received a boost from impending tax payments as Russian exporters stepped up conversion of foreign currency revenues to meet domestic tax liabilities.
- Bloomberg reported on 18th May that the rouble gained against the dollar for the first day in four and reached a 17-month high versus the euro. The Russian currency increased 0.9% to 30.26 per dollar at the close of trading in Moscow, its first daily advance since 12th May. It gained 0.4% to 37.55 versus the euro, the highest level since 12th December 2008.

Capital Markets

- Keen international interest in Russia's Eurobond issue in the last few weeks points to an underrated economy with strong fundamentals, according to Business News Europe. Russia made a sparkling return to international credit markets with its first sovereign Eurobond issue in 12 years to raise a total of \$5.5bn - the second biggest dollar issue on record.
- On 12th May, the Micex Index of 30 stocks climbed 4.3% to 1,391.87 in Moscow. This helped push it to its biggest two-day gain in more than eleven months.
- Agricultural group Rusagro postponed its \$300m public share offering on 14th May because of global market jitters, casting further doubts over Russian firms' plans to raise billions of dollars via IPOs this year. Last week, fertilizer market Uralchem delayed its \$642m IPO.

Private Equity

- UFG Private Equity Fund II has acquired 15% of Wi-Max operator Prestige-Internet, which provides services under the brand name Enforta. The fund acquired the shares directly from Sumitomo Corporation, which had previously owned over 30% of the company. Prestige-Internet provides Internet access services via WiMax technology in 70 cities in Russia under the brand Enforta and Enter. It services 32,000 corporate and 20,000 private clients.

Aurora Investment Advisors Comment

- In 1Q10 banks in Russia disbursed RUR 58bn of mortgages compared to RUR 30bn in 1Q09 – almost doubling y-o-y growth. In Moscow, the share of mortgage financed real estate deals in 1Q10 reached pre-crisis levels of 20.3% and in April this figure was even higher at 22.7%. In addition to the increased activity in new mortgage origination, we are seeing increased appetite for existing mortgage assets with demand for portfolio purchases returning.
- RBK recently published their annual report on the DIY sector in Russia estimating that the DIY market shrank 9-10% in rouble terms, broadly in line with last year's performance of our DIY investment, Superstroy. According to the report, we should start to see growth in DIY consumption in the second half of 2010 and the market could grow as much as 20% in 2010.

Currency Indicators*

As of 10 th May	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	30.72	5.4%	4.8%	1.1%	1.2%
Exchange Rate RUR/€	38.95	0.6%	-0.7%	-6.6%	0.9%
Exchange Rate RUR/£	45.17	0.8%	0.5%	-4.8%	0.4%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 30/04/2010	As of 31/03/2010
MoM	0.3%	0.6%
YoY	6.0%	6.5%
GDP	Q1 2010	Q4 2009
YoY	2.9%	-3.8%

** Source: Bloomberg and Reuters

