

August 2010

Key Russia Economic and Market News

Economy

- Dow Jones reported on 27th July that Russia is considering its largest wave of asset sales since the 1990s, selling as much as \$30bn (€23bn) in stock of some of its top companies, according to the Finance Ministry. The country is looking to raise money and the Government will seek to retain control with over 50% of shares.
- Bloomberg reported that Russia's economy expanded in July at the same pace as the month before as manufacturing picked up and service industries from hotels to supermarkets grew.
- According to VTB Capital on 5th August, GDP rose an annual 2.4% in July, unchanged from June. Average Q2 growth was 1.9%, the highest since Q408. The report reflects "the ongoing recovery in the Russian economy, driven by the continued expansion of activity across both the manufacturing and services sectors."
- Reuters reported the Government is also seeking to develop business outside of the commodities and oil and gas industries which have driven a boom since the late 1990s. If higher inflation were to continue, it could eventually mean higher costs of borrowing and investment for companies.

Currency

- As of 9th August, the Russian rouble weakened despite strong oil prices, losing 0.5% against the dollar to trade around 29.9, due to uncertainty surrounding the wheat crisis. The currency has risen recently, which is attributable to the resurgent oil price.
- Reuters reported that in the long run, some say the drought this summer could actually benefit the rouble as long as it does not hurt economic growth too much. The drought could curb farm production, sparking a rise in consumer prices which the Central Bank would probably cap by reducing its currency interventions and allowing the rouble to firm further.

Capital Markets

- On 9th August, the Financial Times reported the ongoing wheat crisis failed to drag down the country's equities, with the Micex Index seeing its biggest rise in a week. The Micex closed afternoon trading up 1.2% at 1,419.20.
- According to Bloomberg on 11th August, Moscow's bonds are rallying to a record high as optimism in the capital's finances outweigh concern that a heat wave may affect Russian GDP. "Local investors like Moscow city bonds," said Alexander Ovchinnikov, Vice President of Global Markets at Troika Dialog. "The spreads are quite tight versus the Government bonds."

Private Equity

- The New York based private equity firm Tiger Global Management, acquired a 50% stake in Wikimart for \$5m, the Russian online mall, according to the Russian newspaper Vedomosti. The deal took place in May, but only recently surfaced. Wikimart provides the infrastructure to allow individuals and small retailers to set up shop online and enjoy accounting and legal support, ecommerce marketing tools and an order fulfillment interface.

Private Equity (cont'd)

- Despite the slowdown in global economic recovery, a recent international study by KPMG showed that M&A activity in the food, drink, consumer goods and retail sectors is strong, particularly in the developing economies. This activity is being driven by private equity houses which have reacted to the recession by taking on a value-added, long-term supporting role rather than just providing financial backing. This study showed that in the CEE, private equity houses are modernising companies or consolidating fragmented, struggling businesses to add long-term value.

Aurora Investment Advisors Comment

- Our assertion that Russia has reasserted itself as an attractive investment opportunity is backed up by a recent report from HSBC which revealed that emerging markets are continuing to lead the way. HSBC is the top global investor in the BRIC quartet of Brazil, Russia, India, and China, with \$90bn of assets in emerging markets. It has raised the Russia weighting of its BRIC funds to over 30% as they view Russian equities as offering excellent value as "Russia is unloved and undervalued. We think valuations will revert. It is more than just a commodity play."

Currency Indicators*

As of 10 th August	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	29.82	-1.2%	-3.2%	-2.9%	-1.8%
Exchange Rate RUR/€	39.61	0.4%	1.2%	1.7%	-5.0%
Exchange Rate RUR/£	47.55	-0.2%	1.7%	5.3%	0.2%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 31/07/2010	As of 30/06/2010
MoM	0.4%	0.4%
YoY	5.5%	5.8%
GDP	Q2 2010	Q1 2010
YoY	5.2%	2.9%

** Source: Bloomberg and Reuters

