



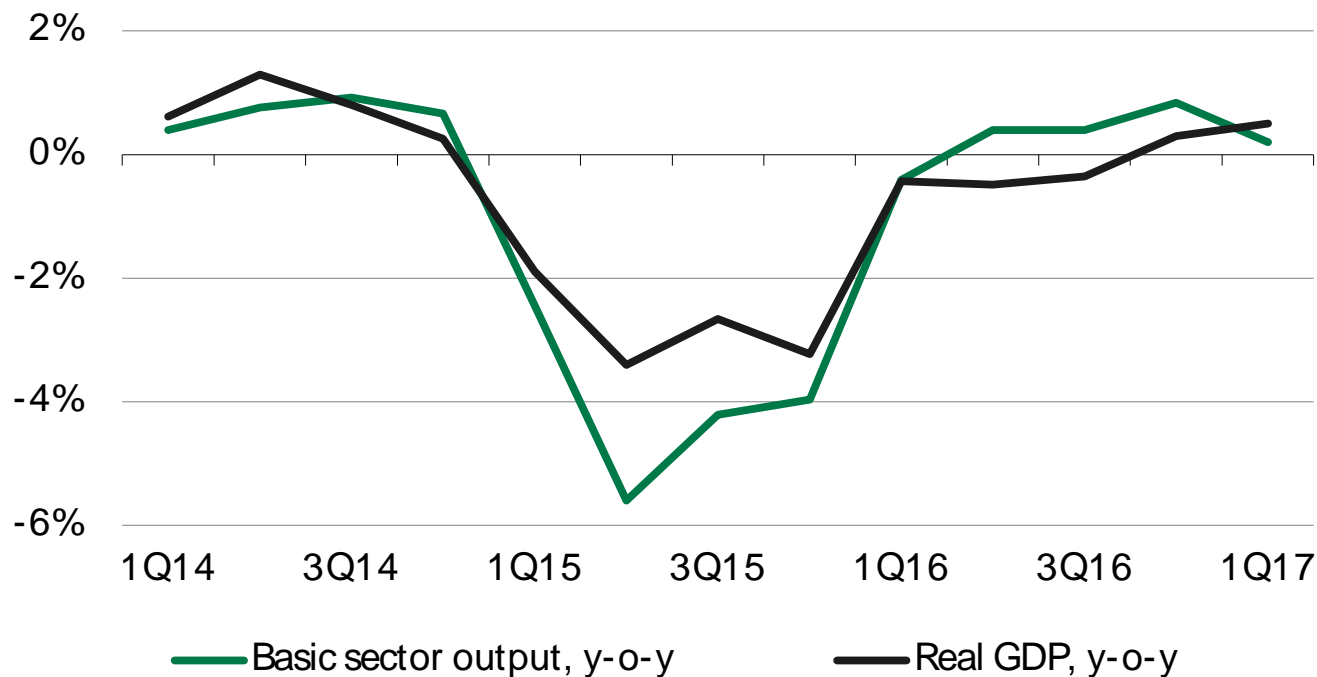
SBERBANK CIB

Russian Economics Cautious Optimism and Unexpected Obstacles

Anton Stroutchenevski, Chief Economist
May 2017

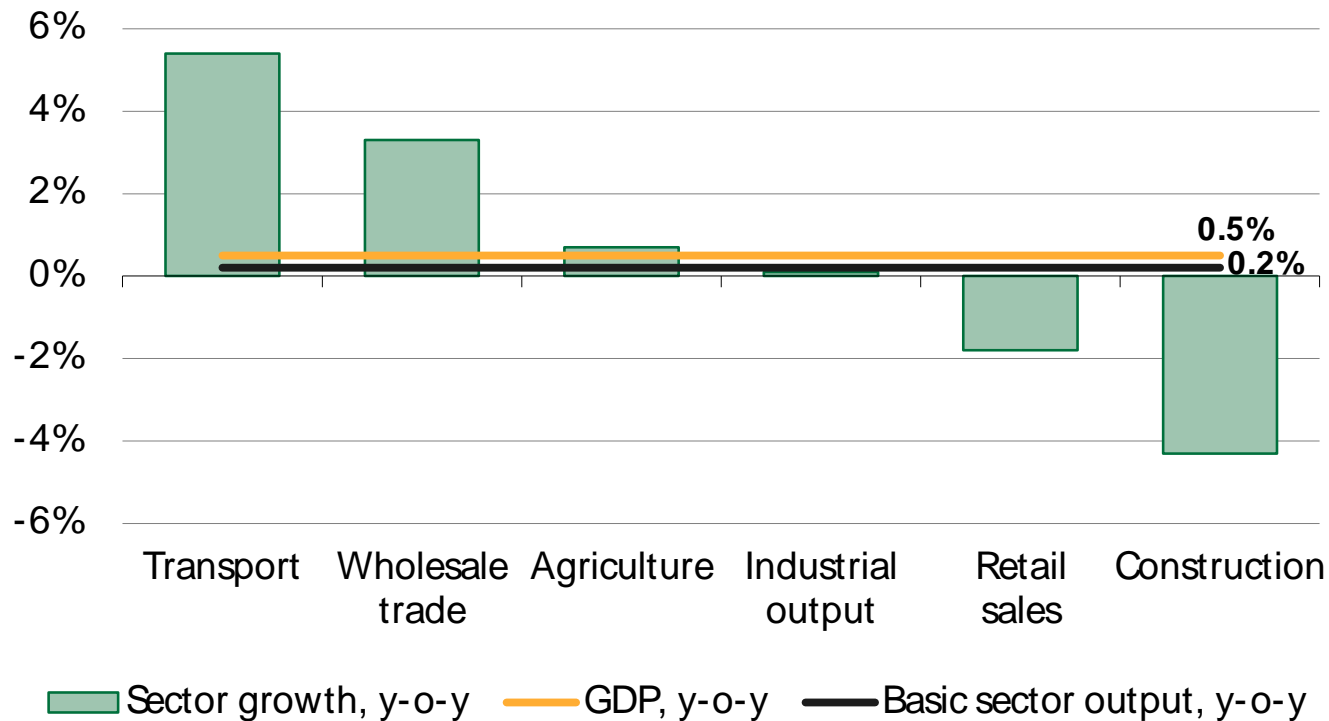
INVESTMENT RESEARCH

GDP dynamics have diverged from basic sector output



Source: State Statistics Service

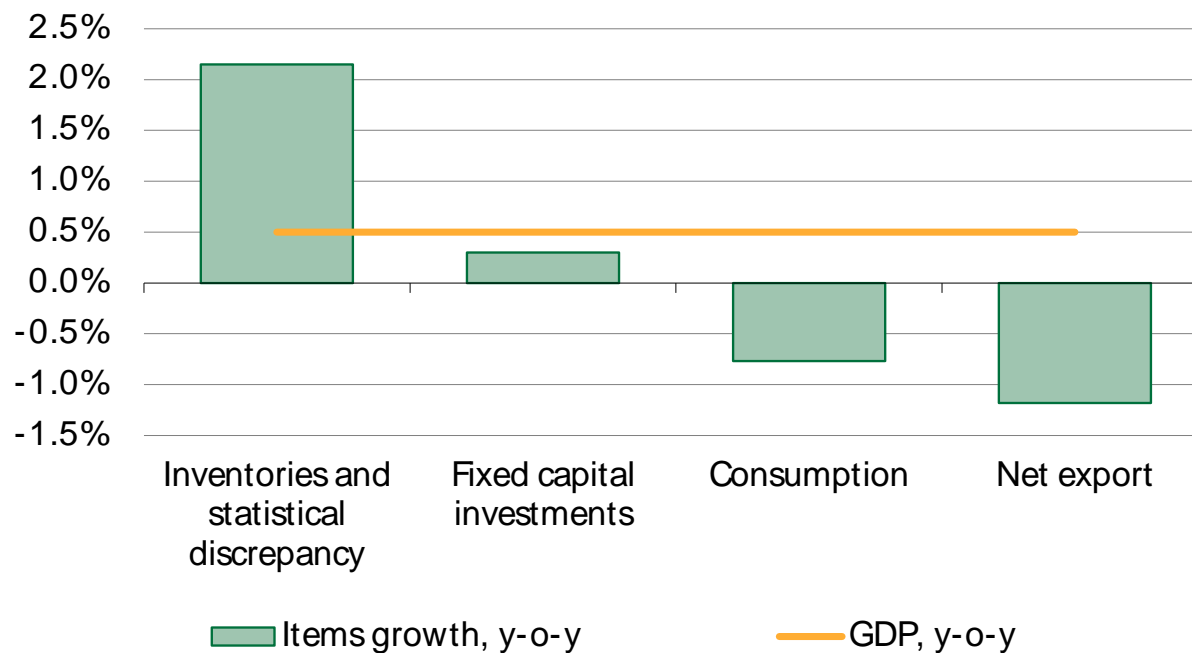
Transportation and wholesale trade were the main growth drivers in 1Q17, but this is not a sustainable situation



Source: State Statistics Service

An accumulation of inventories seems to have been the biggest change on the usage side of GDP in 1Q17

Contributions to 1Q17 GDP growth, usage side



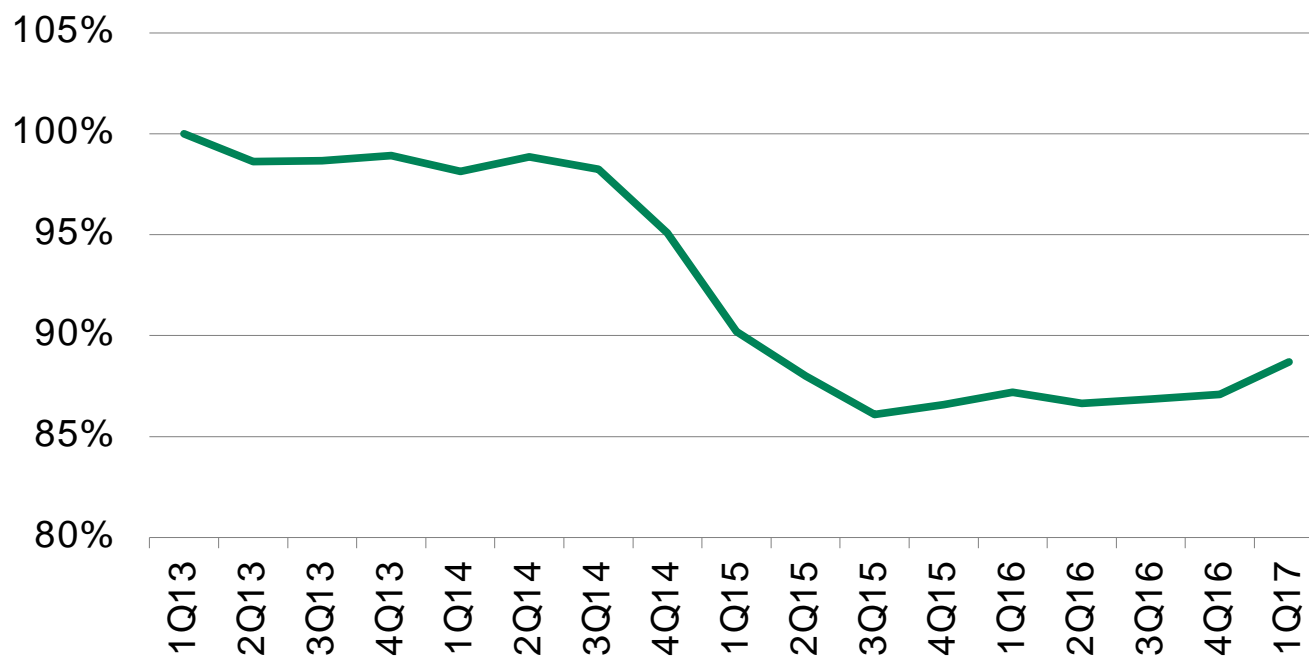
Source: State Statistics Service, Sberbank CIB Investment Research

In contrast to the overall economic performance the profits of Russian firms continued to soar

	Net income in nominal terms		
	2015	2016	2m17
Economy	53.1%	37.9%	53.4%
Agriculture, hunting and forestry	45.3%	3.2%	11.8%
Fishing	470.0%	43.0%	-8.1%
Mining and quarrying	13.0%	-21.7%	29.8%
Manufacturing	64.8%	61.5%	700.0%
Electricity, gas and water supply	52.5%	220.0%	23.7%
Construction	53.2%	39.5%	99.0%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	51.6%	20.6%	7.1%
Transport and communications	110.0%	110.0%	49.4%
Real estate, renting and business activities	110.0%	200.0%	760.0%

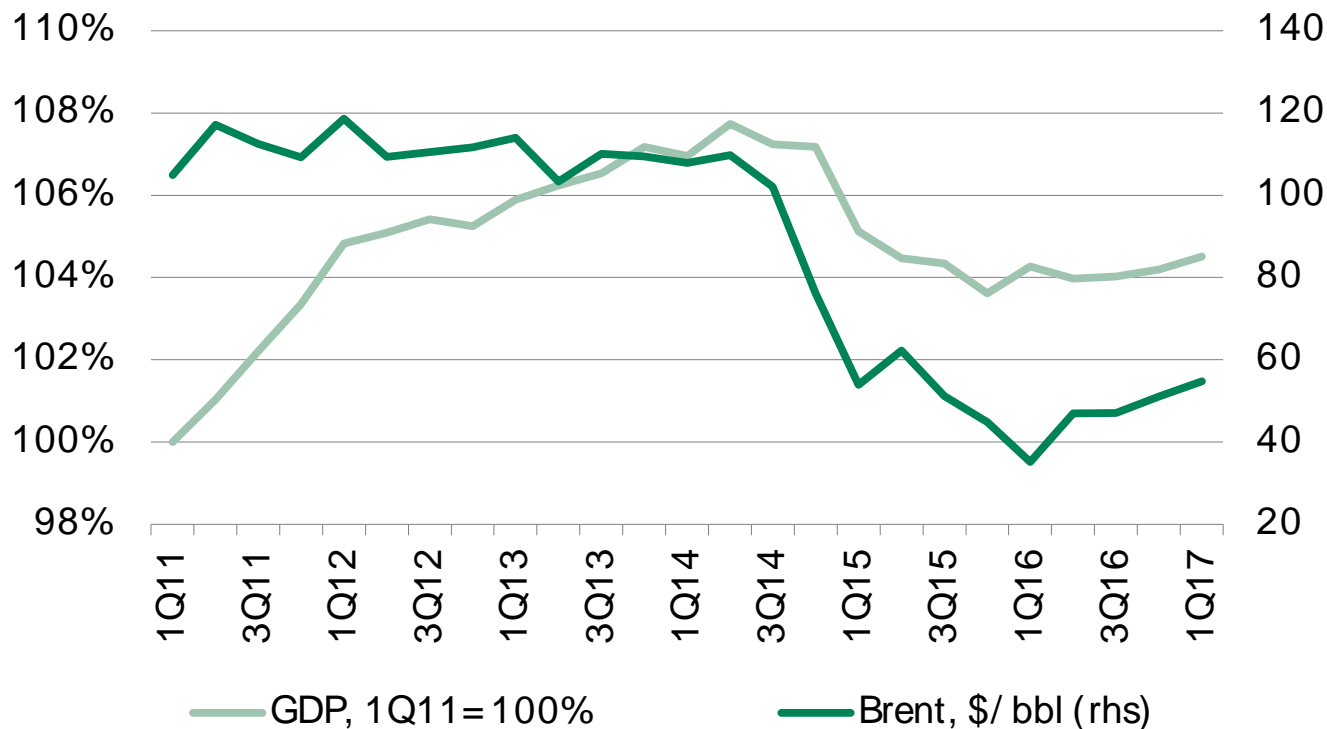
Source: State Statistics Service

Investment activity started to pick up in 1Q17



Note: Seasonally adjusted data, 1Q13 = 100%.
Source: State Statistics Service, Sberbank CIB Investment Research

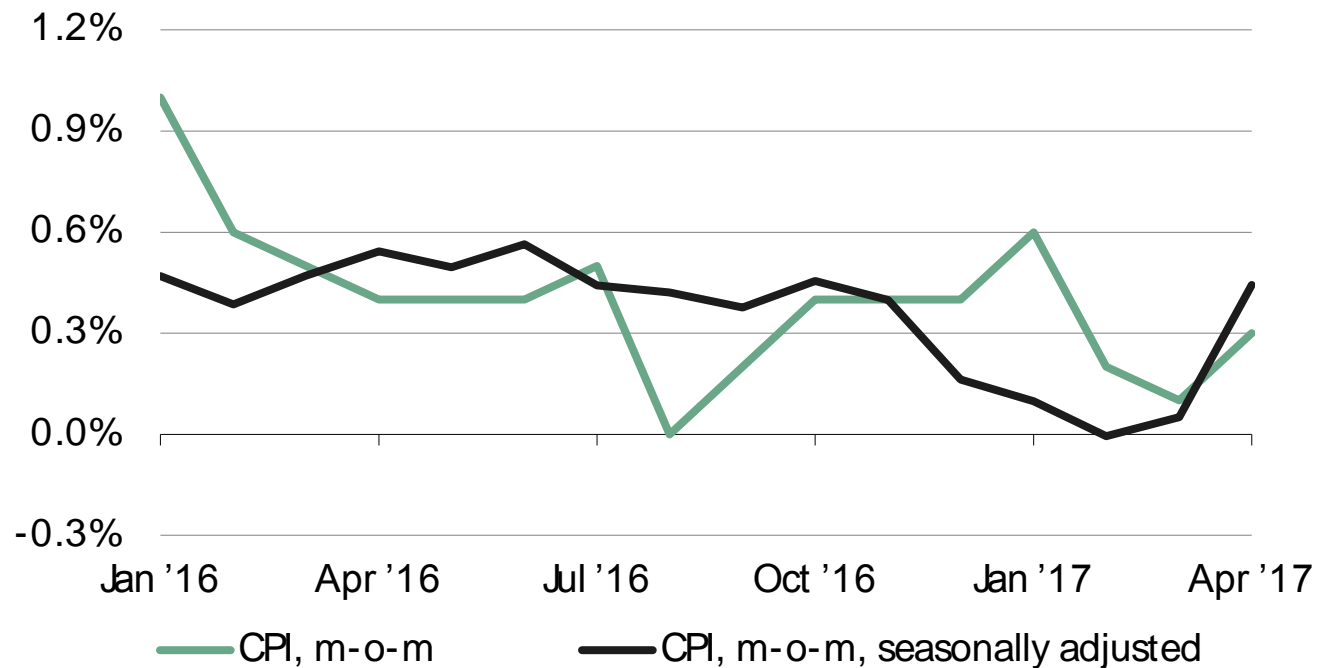
The economy expanded Q-o-Q in 1Q17, but it needs additional support from retail sales and construction



Source: State Statistics Service, Sberbank CIB Investment Research

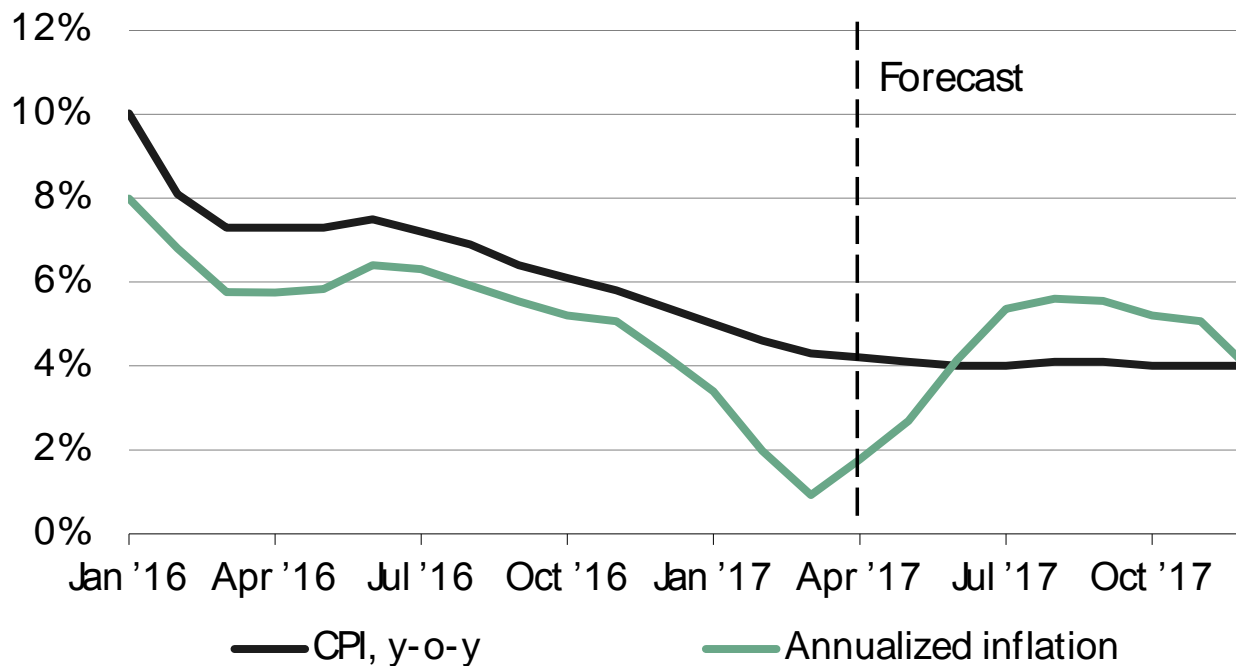
Inflation was already low at the end of 2016, but disinflation continued in 2017

Monthly inflation slowed rapidly at the end of 2016 and beginning of 2017



Source: State Statistics Service, Sberbank CIB Investment Research

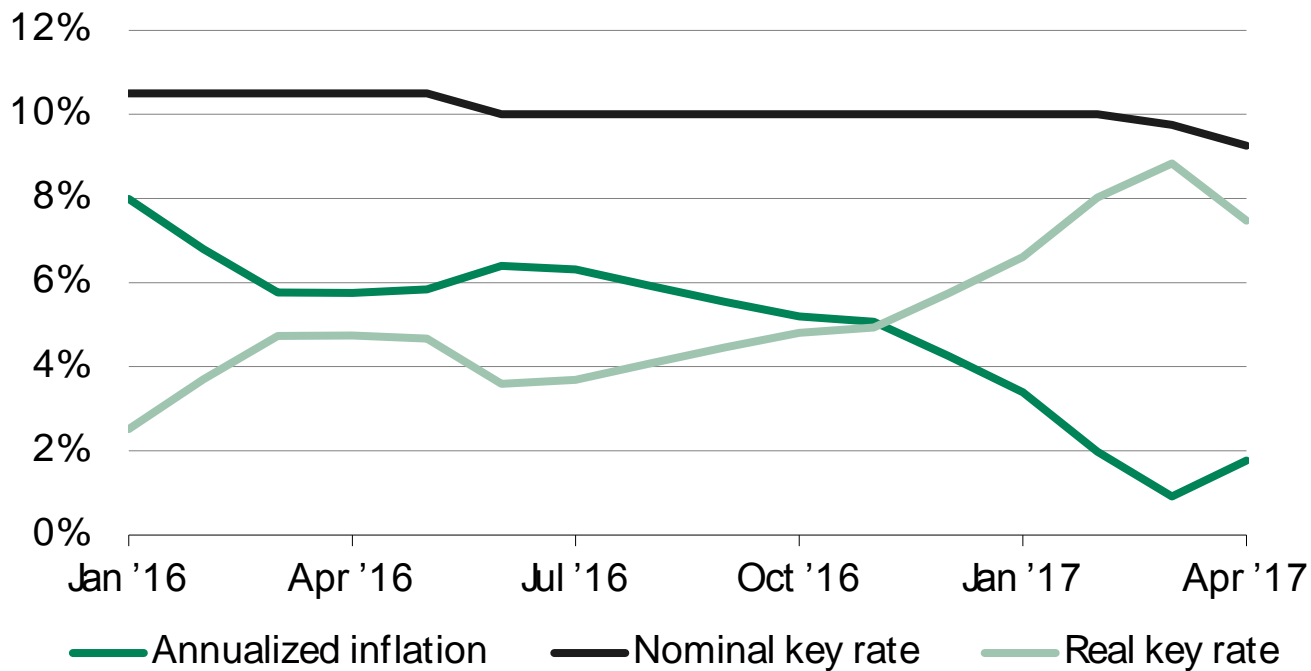
Annualized inflation is already below 4%, while y-o-y inflation is rapidly catching up



Note: By annualized inflation, we mean the average level of seasonally adjusted monthly inflation in the last four months extrapolated over 12 months.

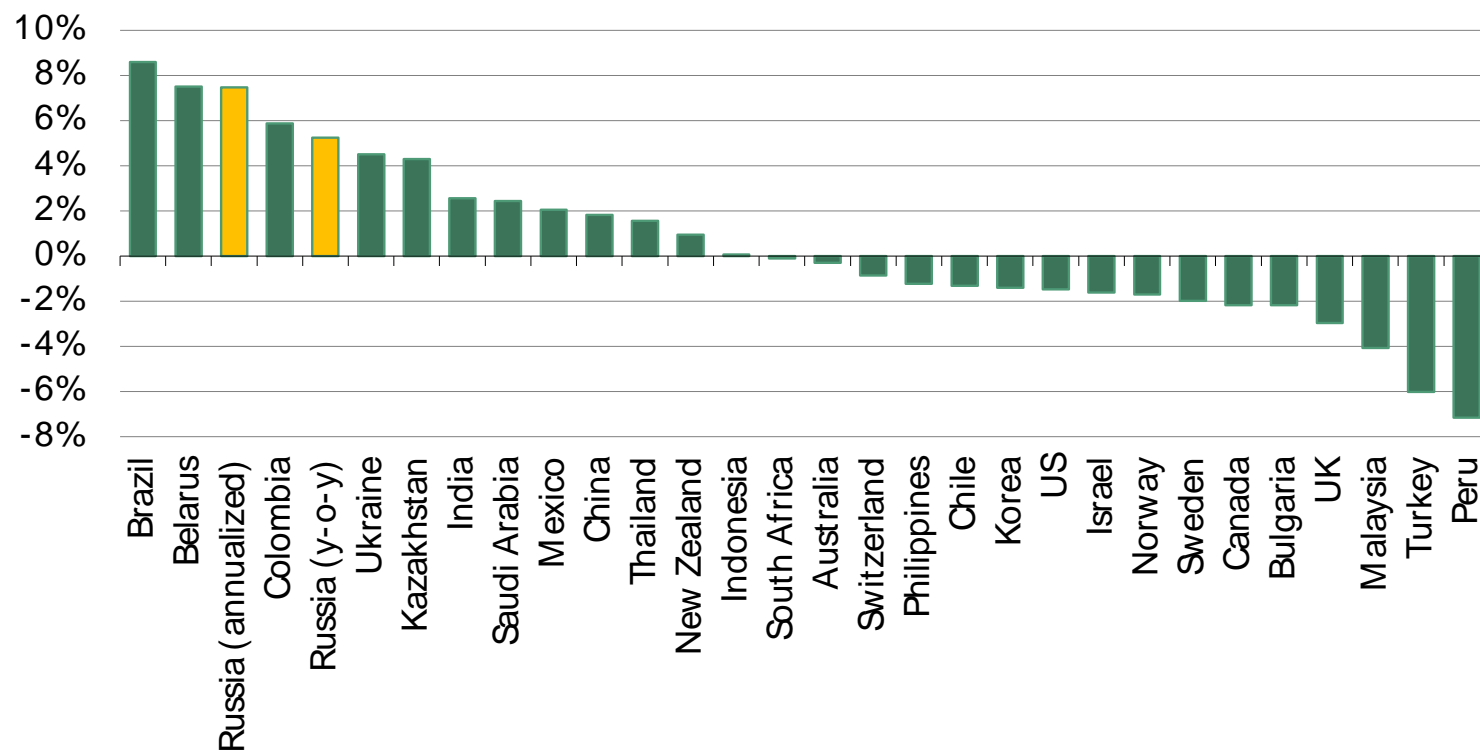
Source: State Statistics Service, Sberbank CIB Investment Research

Real key rate has increased since mid-2016 on the back of disinflation



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

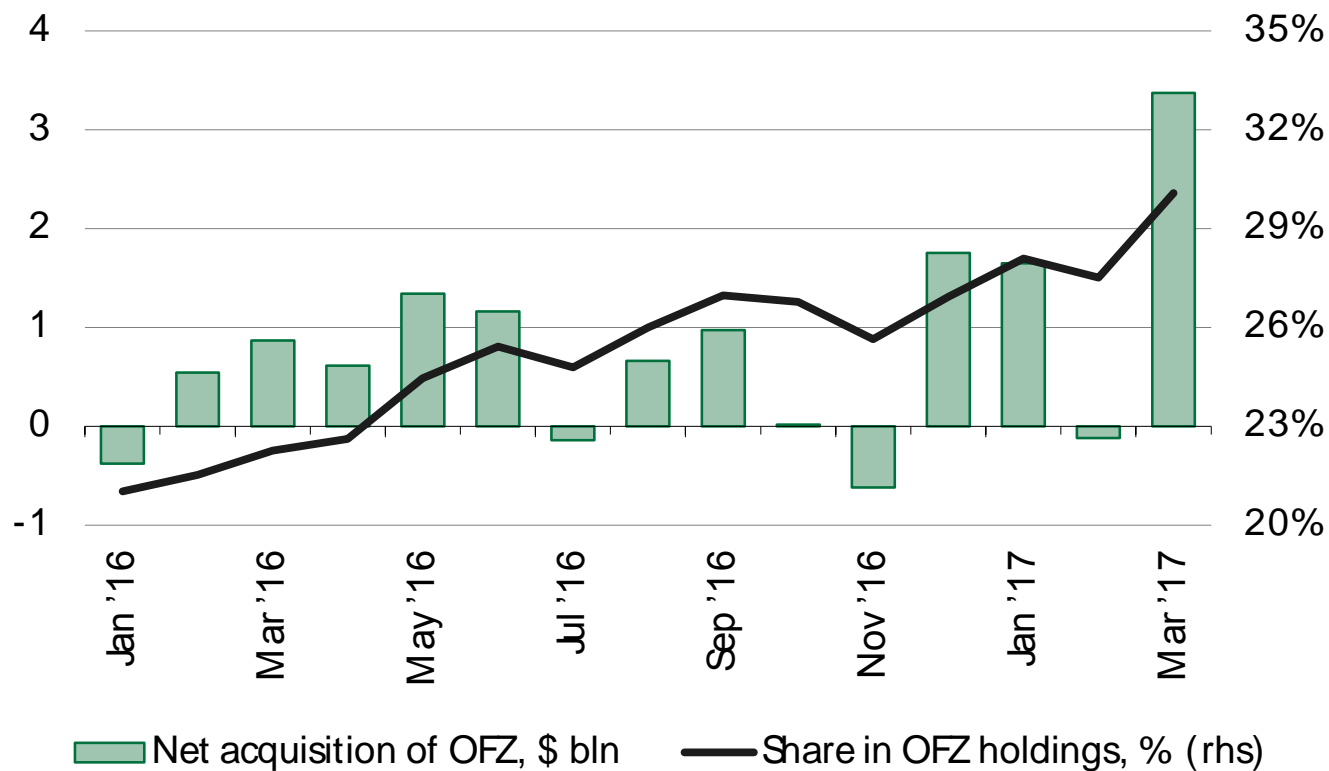
Real policy rates in different countries: Russia's is one of the highest



Note: Annualized inflation in Russia was 1.8% in April. The calculations for Belarus and Ukraine are based on inflation forecasts for 2016; for other countries, y-o-y inflation is used.

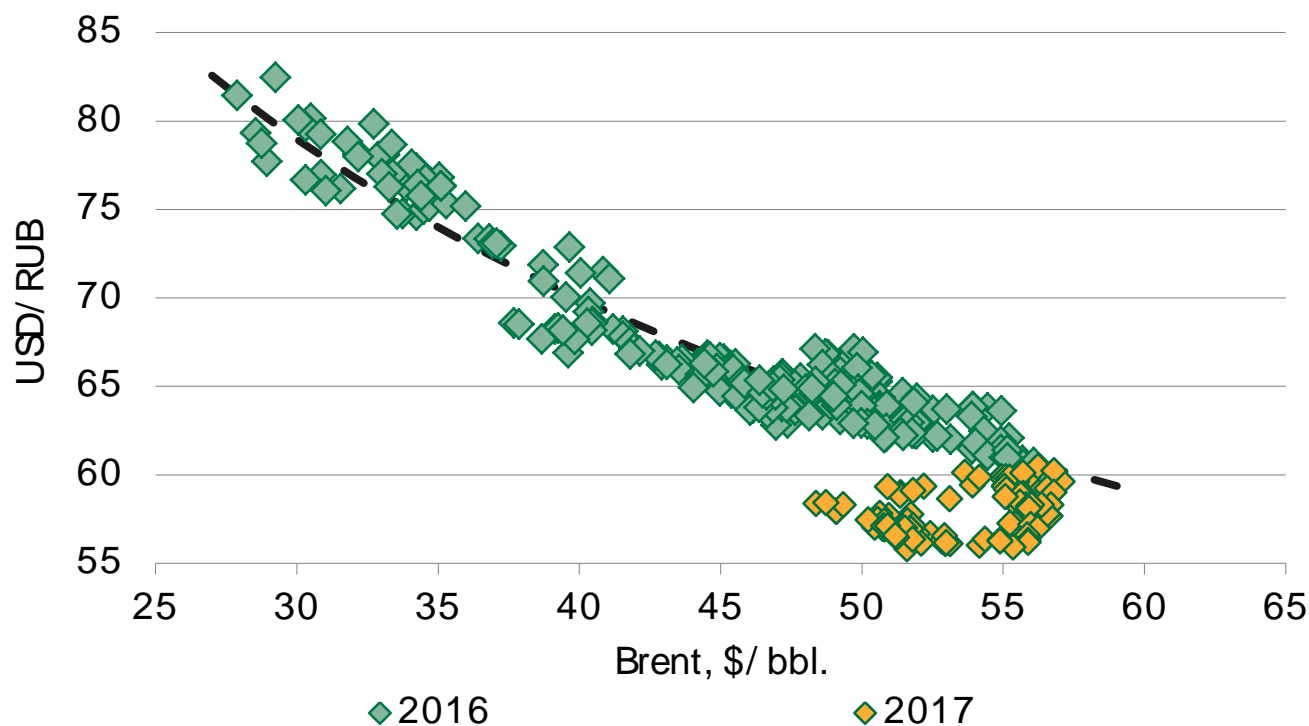
Source: CBR, State Statistics Service, Sberbank CIB Investment Research

Interest of non-residents in OFZ increases



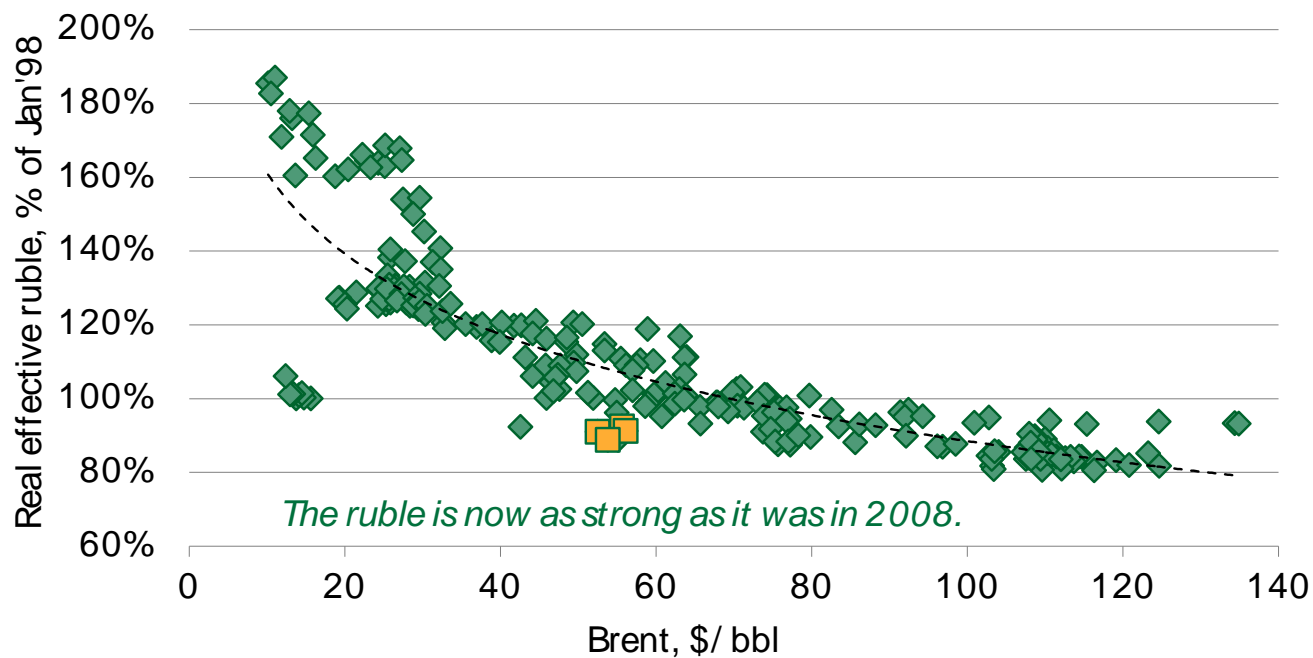
Source: Bloomberg

USD/RUB rate diverged from the oil price in 2017



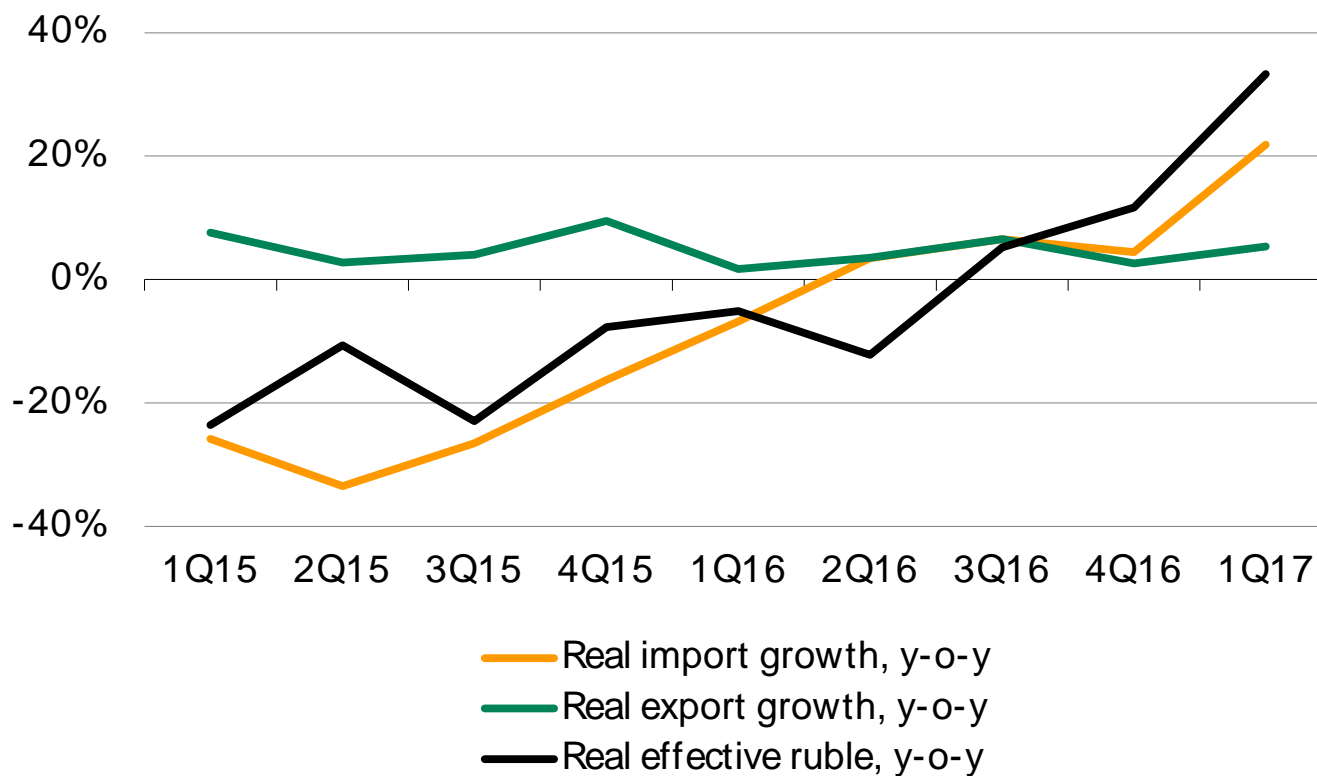
Source: Bloomberg

The ruble appears to be unsustainably strong



Source: Bloomberg

Imports are growing too fast, while export growth is being driven solely by fuel

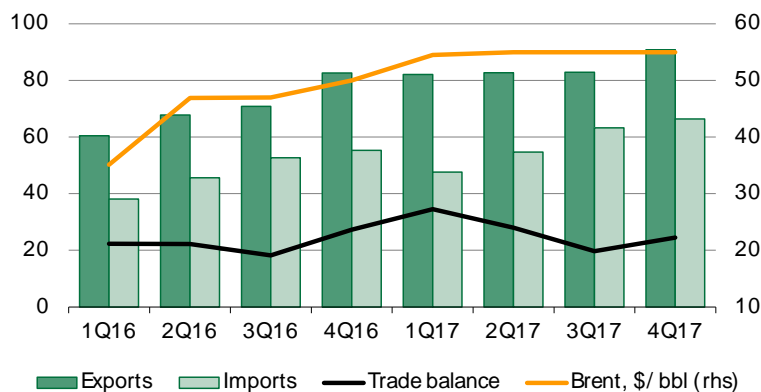


Note: Positive real effective ruble dynamics indicate ruble appreciation.

Source: CBR, Federal Customs Service, Sberbank CIB Investment Research

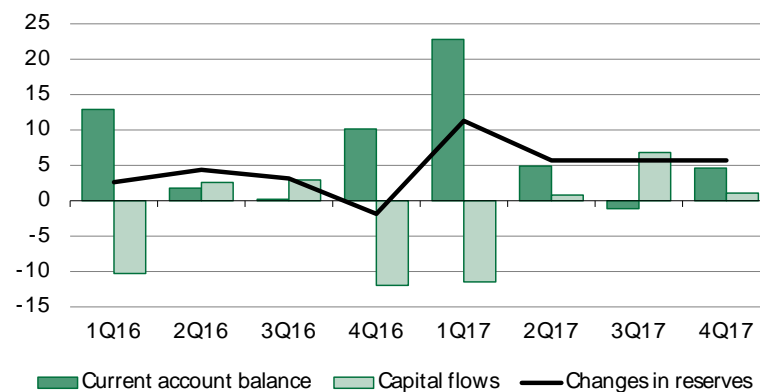
Balance of payments possible scenario, assuming ruble at USD/RUB 56 and oil price at \$55/bbl

If the ruble remains strong, the trade surplus will start shrinking, \$ bln...



Source: CBR, Sberbank CIB Investment Research

... and net capital inflows will be needed to stabilize the forex market, \$ bln



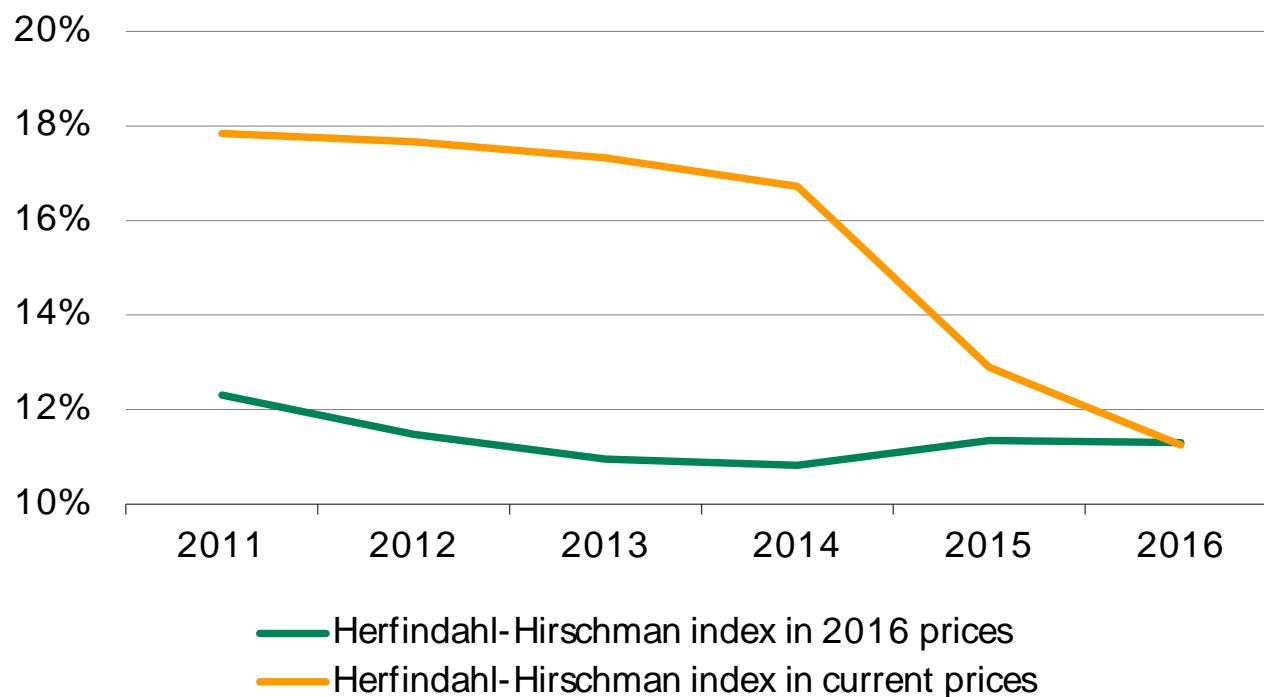
Source: CBR, Sberbank CIB Investment Research

Macroeconomic performance at different oil prices in 2017

Average oil price in 2017, \$/bbl Brent	30	35	40	45	50	55	60
Average R/\$	73.0	70.0	67.0	63.1	61.3	59.5	58.5
GDP, y-o-y	0.5%	0.6%	0.8%	1.0%	1.0%	1.0%	1.0%
Inflation, Dec-o-Dec	4.9%	4.6%	4.4%	4.0%	4.0%	4.0%	4.0%
Current account, \$ bln	20.0	25.0	30.0	35.0	40.0	45.0	50.0
Budget balance, R trln	-4.8	-4.0	-3.3	-2.8	-2.2	-1.6	-1.0
Budget balance, % GDP	-5.3%	-4.4%	-3.7%	-3.1%	-2.4%	-1.7%	-1.0%
Net borrowing and privatization, R trln	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Interventions at the forex, \$ bln	0.0	0.0	0.0	4.0	10.0	20.0	30.0
Sovereign funds, eop, \$ bln	31.4	39.9	48.0	58.2	73.6	92.9	113.4

Source: Sberbank CIB Investment Research

Export concentration fell in nominal terms as oil prices eased



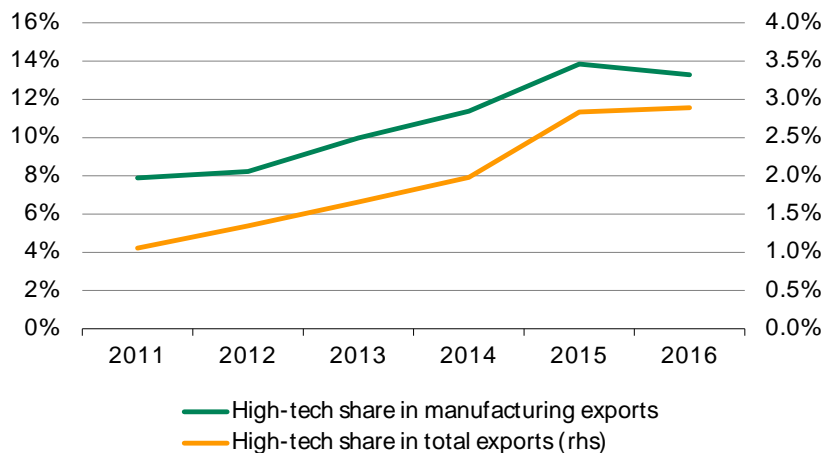
Note: A lower reading indicates greater diversification.

Source: Federal Customs Service, Sberbank CIB Investment Research

Note: The Herfindahl-Hirschman Index (HHI) is a commonly used measure of market concentration. It has many uses, including estimating product concentration and export diversification. It is calculated by squaring the export shares of individual items and adding up the results. A lower score indicates greater diversification. We have calculated an index in both nominal terms and fixed 2016 prices to highlight the impact of price changes.

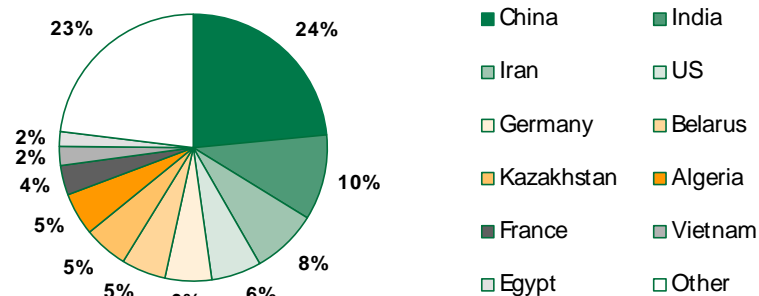
In recent years, the share of high-tech in total exports and manufacturing exports has been growing

High-tech exports have grown faster than other categories



Source: Federal Customs Service, Sberbank CIB Investment Research

Developing nations are the main customers for Russian high-tech producers



Source: Federal Customs Service, Sberbank CIB Investment Research

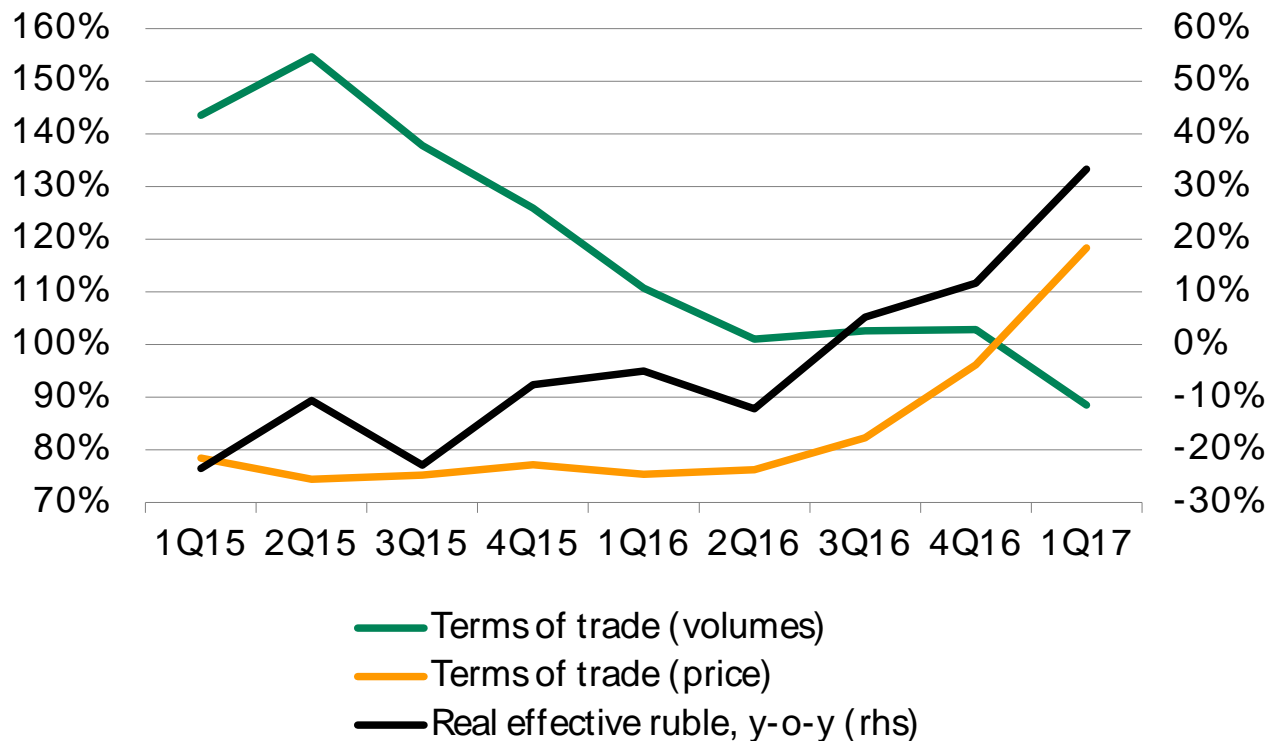
High-tech exports from Russia by category

	2011	2012	2013	2014	2015	2016
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Aerospace	26.5%	33.0%	37.9%	27.8%	31.1%	31.9%
Chemicals	18.6%	13.1%	10.8%	10.2%	10.1%	9.0%
Computers and office machines	5.6%	5.6%	6.4%	27.2%	25.8%	4.8%
Electrical machinery	1.0%	0.9%	0.9%	0.7%	0.7%	0.8%
Electronics and telecommunications	21.0%	22.5%	20.4%	15.0%	15.4%	29.2%
Non-electrical machinery	1.0%	0.5%	0.4%	0.4%	0.2%	0.2%
Scientific instruments	26.3%	24.5%	23.1%	18.7%	16.7%	24.1%

Source: CBR, Federal Customs Service, Sberbank CIB Investment Research

Rising export prices are bringing about a recovery in real imports, while real export growth is not accelerating

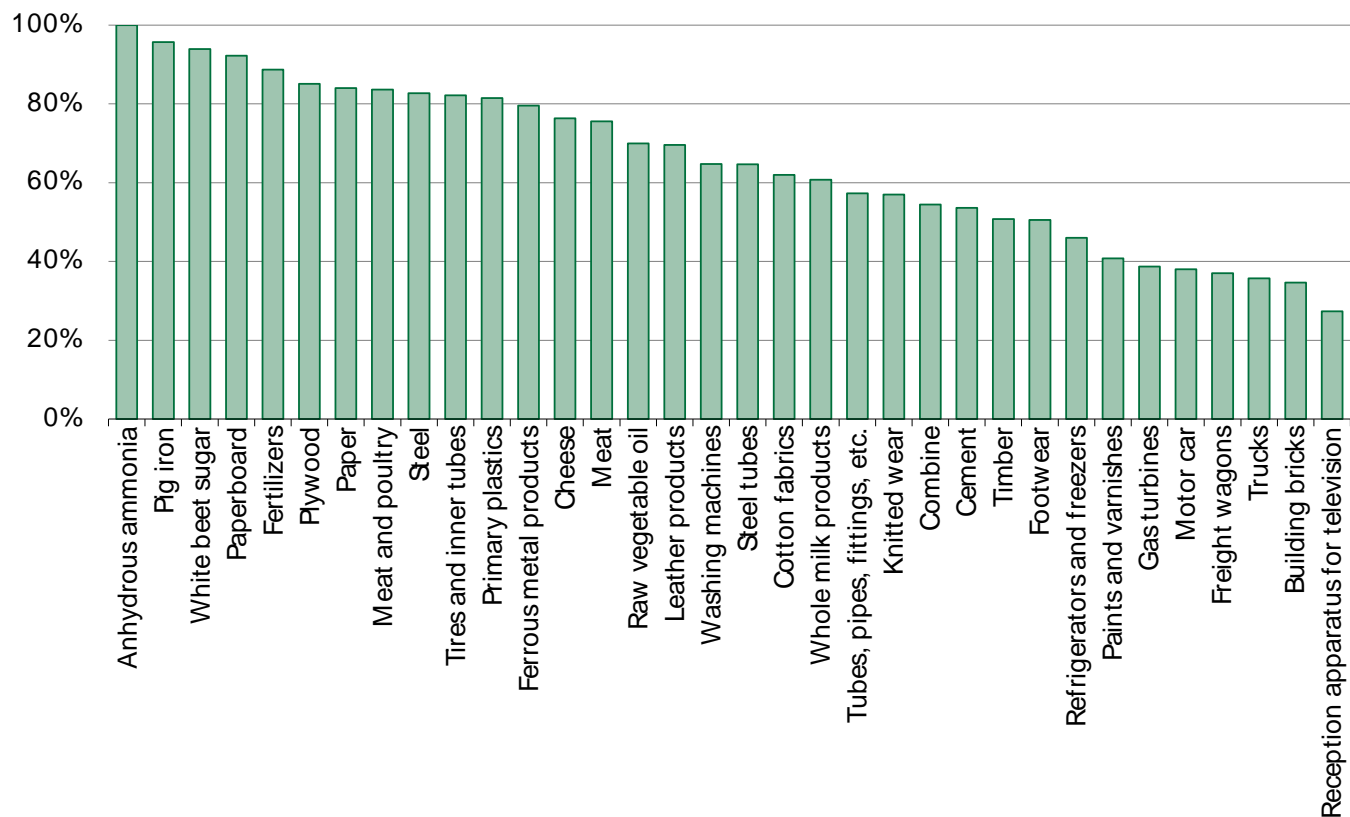
Rising export prices have been offset by a deterioration in real trade conditions



Source: Federal Customs Service, Sberbank CIB Investment Research

Note: The terms of trade indicator is an important gauge of foreign trade. It reflects a country's export prices relative to import prices or the same comparative dynamics of physical volumes. If the indicator rises above 100%, exports are outperforming imports in terms of prices (or volumes), and vice versa.

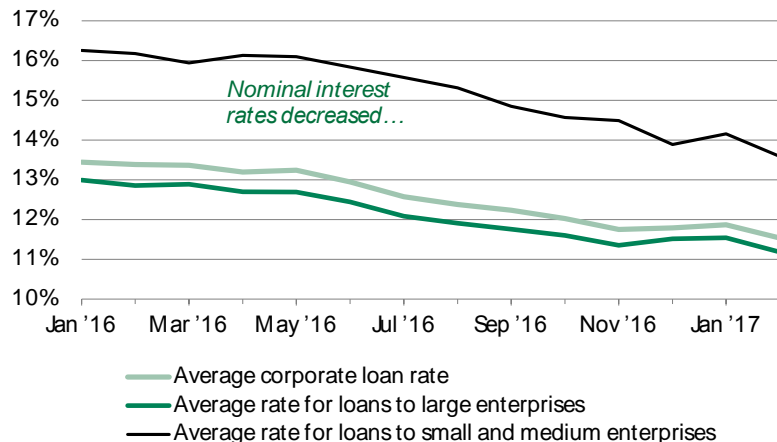
Capacity utilization in certain sectors, 2016E



Source: State Statistics Service, Sberbank CIB Investment Research

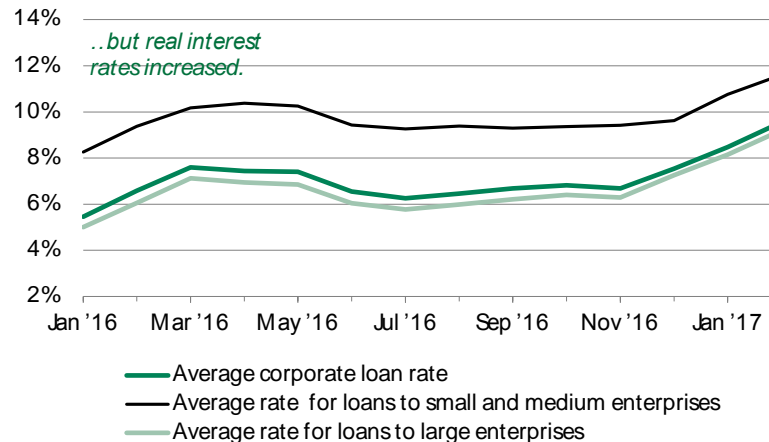
Small and medium enterprises have faced much more difficult borrowing conditions...

Nominal interest rates



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

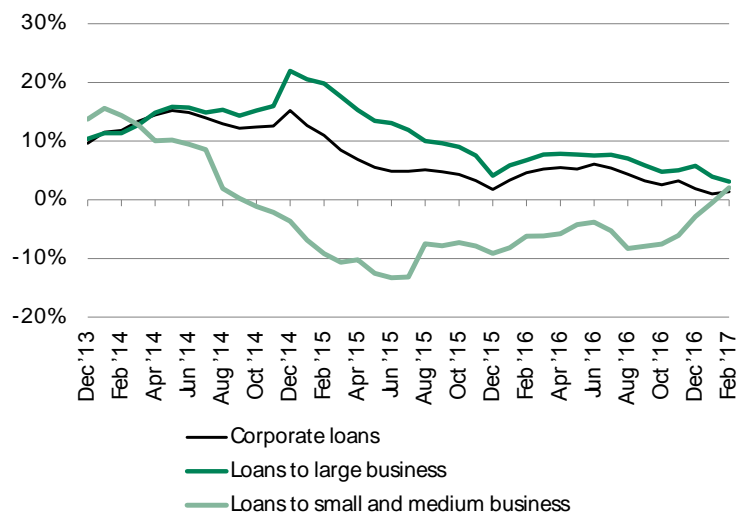
Real interest rates



Source: CBR, State Statistics Service, Sberbank CIB Investment Research
Note: real rates calculated using annualized monthly average inflation for 4 months

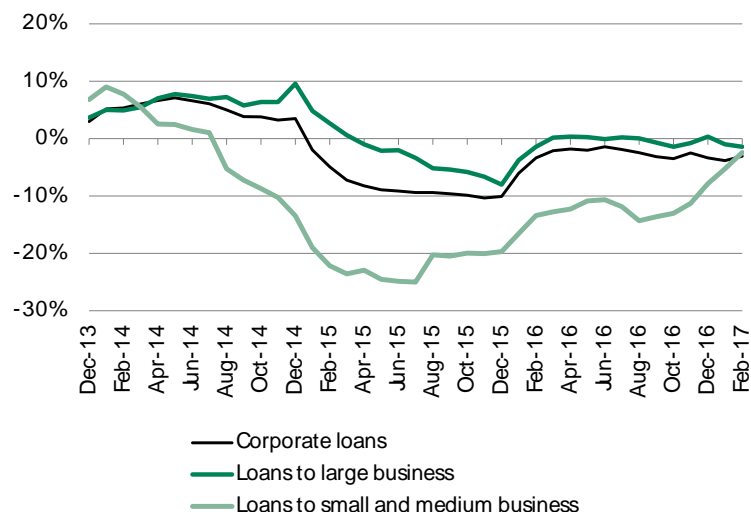
...for this reason, loans to small enterprises have fallen this year, even in nominal terms

Nominal loan growth, y-o-y



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

Real loan growth, y-o-y



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

Senior Management

Head of Sberbank CIB
Co-Head of Sberbank CIB

Igor Bulantsev
Aleksandr Bazarov

Head of Global Markets Department,
Vice-President

Andrey Shemetov

Research Department

+7 (495) 258 0511

Head of Research Alexander Kudrin +7 (495) 933 9847

Strategy

Chief Equity Strategist Andrey Kuznetsov +7 (495) 933 9868
Junior Equity Strategist Cole Akeson +7 (495) 933 9851

Economy

Chief Economist Anton Stroutchenevski +7 (495) 933 9843
Senior Economist Rodion Lomivorotov, CFA +7 (495) 787 2364
Economist Natalia Suseeva +7 (495) 787 2384
Economist Sergei Konygin +7 (495) 933 9848
Junior Economist Artem Vinogradov + 7 (495) 258 0541

Oil and Gas

Senior Analyst Alex Fak +7 (495) 933 9829
Analyst Valery Nesterov +7 (495) 933 9832
Assistant Analyst Anna Kotelnikova +7 (495) 787 2382

Metals and Mining, Chemicals

Senior Analyst Irina Lapshina +7 (495) 933 9852

Financials

Senior Analyst Andrew Keeley +44 (20) 7936 0439
Analyst Andrey Pavlov-Rusinov +7 (495) 933 9817

Telecoms, Media and Internet

Senior Analyst Svetlana Sukhanova +7 (495) 933 9835
Analyst Maria Sukhanova +7 (495) 933 9856

Consumer

Senior Analyst Mikhail Krasnoperov +7 (495) 933 9838

IT

Senior Analyst Julia Gordeyeva, CFA +7 (495) 933 9846
Senior Analyst Igor Vasilyev +7 (495) 933 9842

Utilities

Senior Analyst Igor Vasilyev +7 (495) 933 9842

Real Estate, Construction

Senior Analyst Julia Gordeyeva, CFA +7 (495) 933 9846
Senior Analyst Igor Vasilyev +7 (495) 933 9842

Transport, Industrials

Senior Analyst Igor Vasilyev +7 (495) 933 9842
Senior Analyst Julia Gordeyeva, CFA +7 (495) 933 9846

FICC Strategy

Chief Strategist FX/IR Tom Levinson +7 (495) 933 9858
Strategist Quant FX/IR Iskander Lutsko +7 (495) 787 2346
Commodity Strategist Mikhail Sheybe +7 (495) 258 0521
Assistant Strategist FI Alexander Golinsky +7 (495) 258 0511

Fixed Income Credit Research

Senior Credit Analyst Alexey Bulgakov +7 (495) 933 9866
Credit Analyst Ekaterina Sidorova, CFA +7 (495) 933 9834
Credit Analyst Alexander Sychev, CFA +7 (495) 933 9886
Assistant Analyst Nikolay Minko +7 (495) 933 9857

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