

Russia Economics

Time of volatility and a New Normal

December 8, 2011

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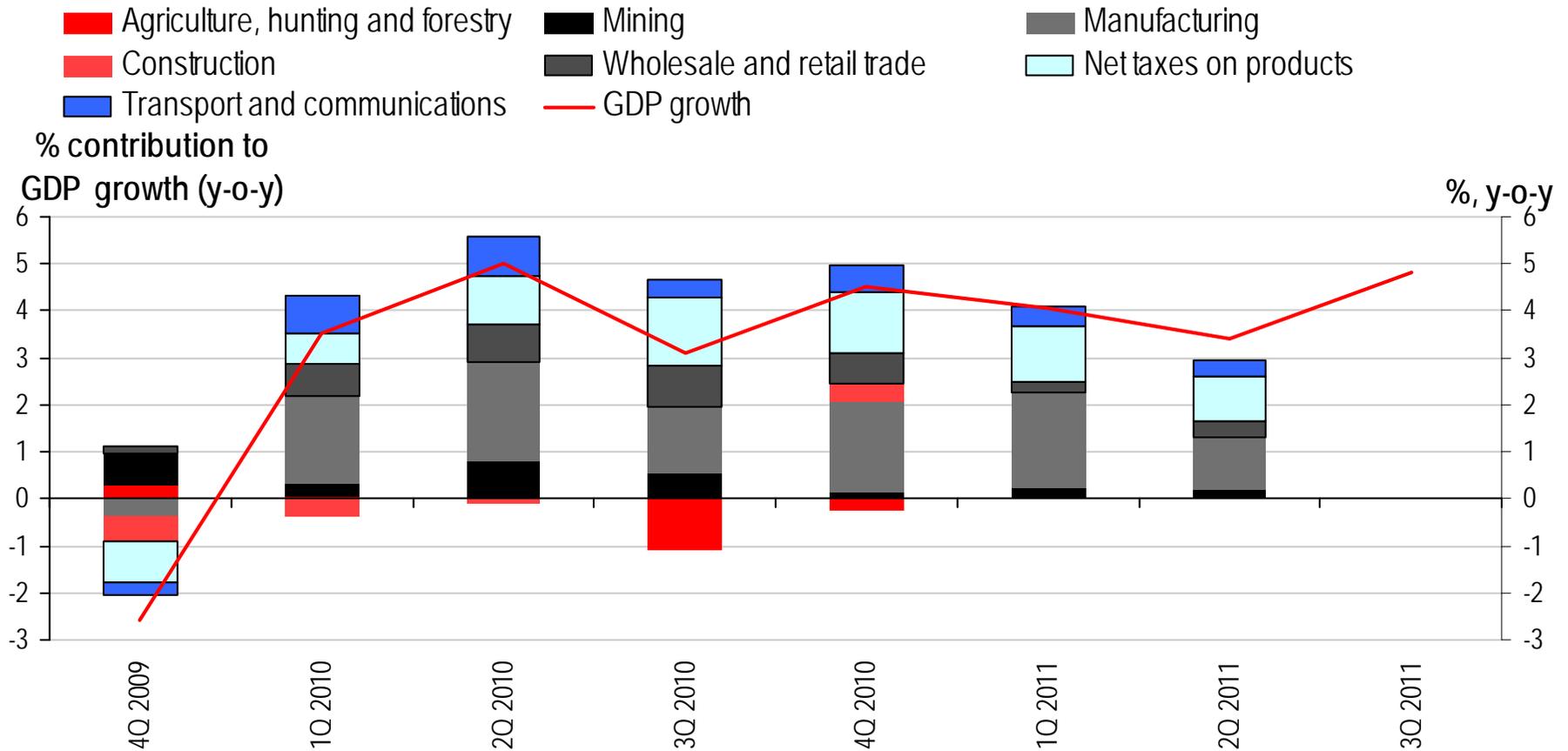
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Content

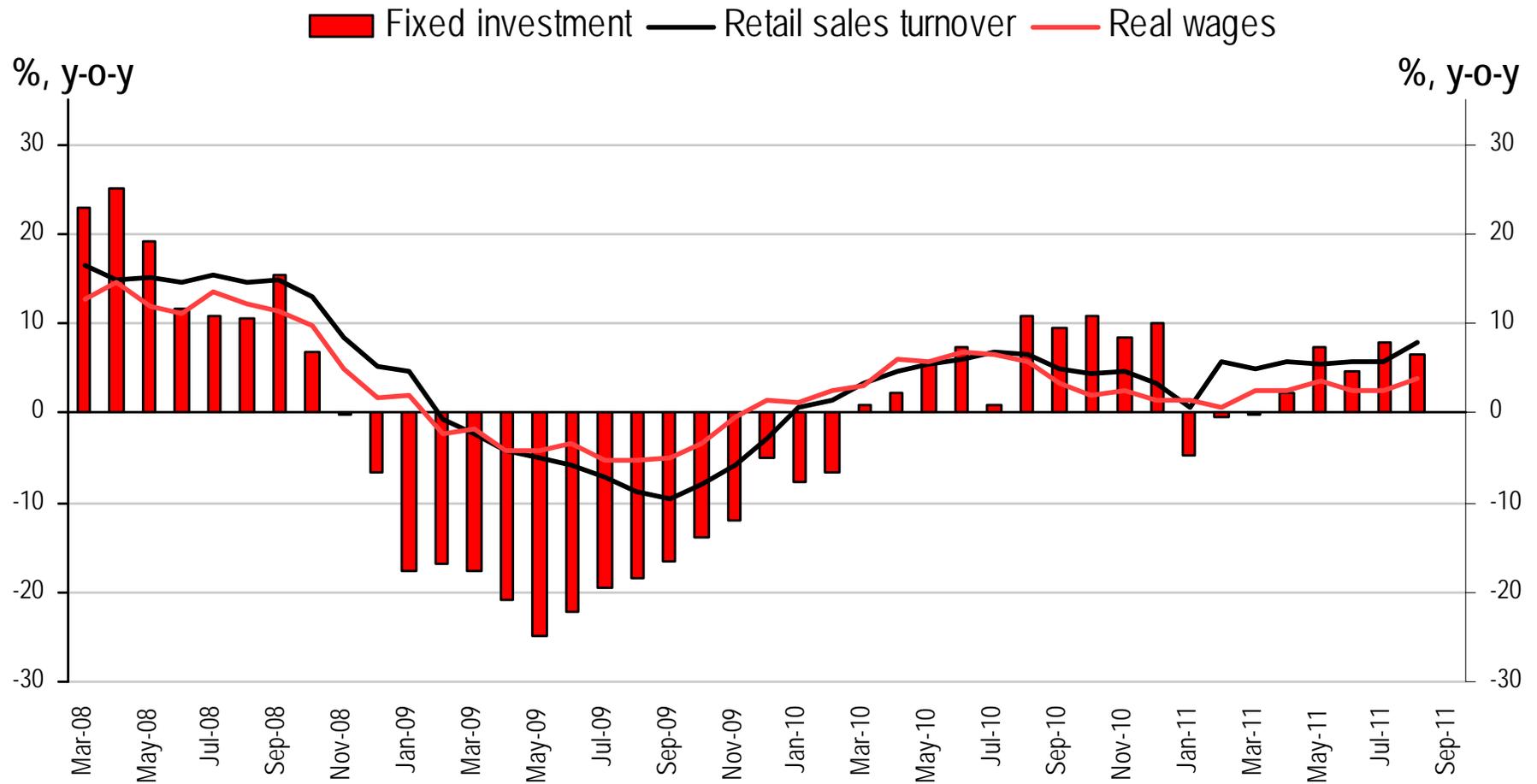
- **Economic growth**
- **Inflation**
- **Liquidity and interest rates**
- **The RUB**

1. Agriculture boosted GDP growth in 3Q...



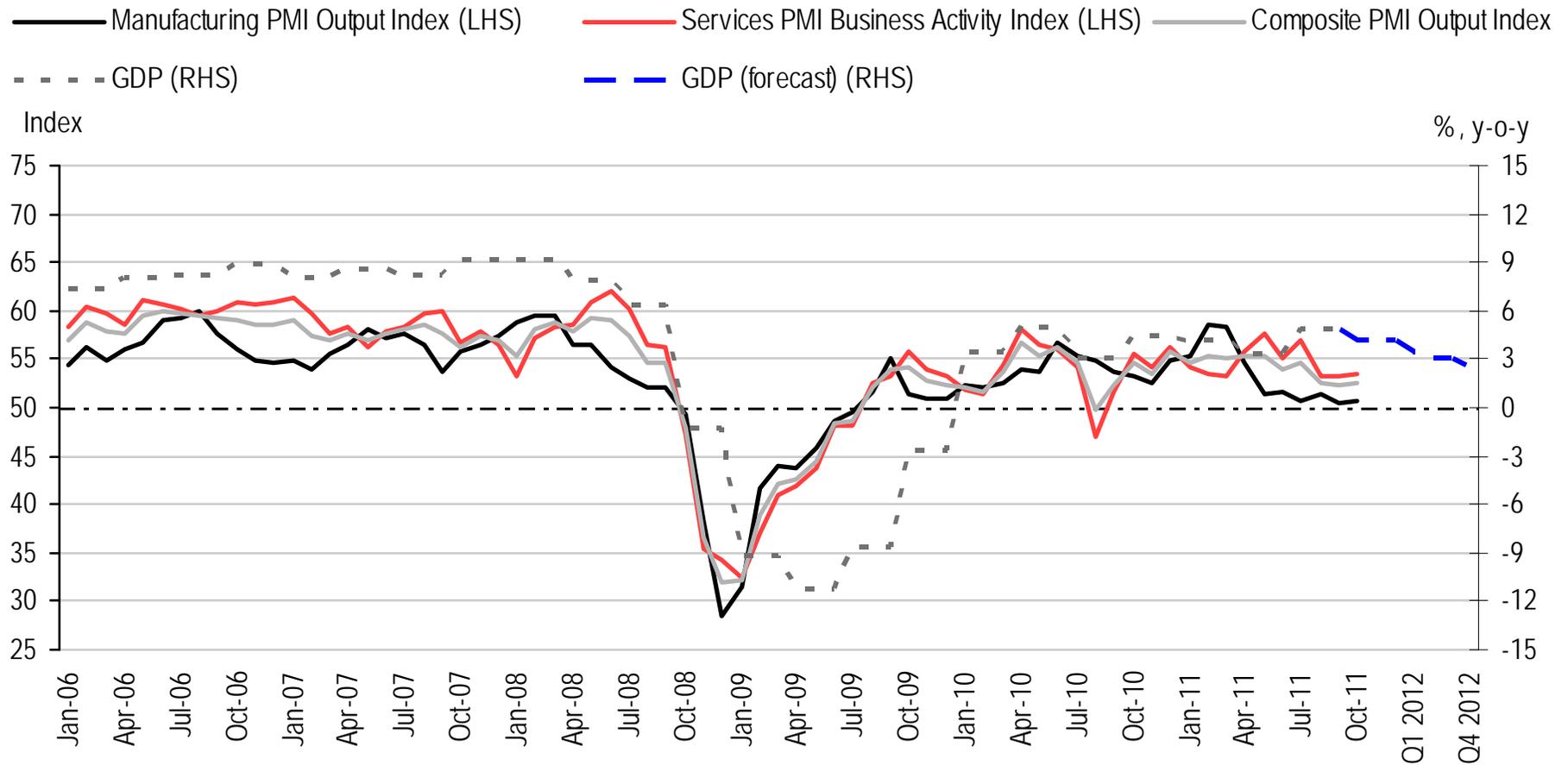
Source: Rosstat, HSBC

2. ...as well as stronger domestic demand



Source: Rosstat

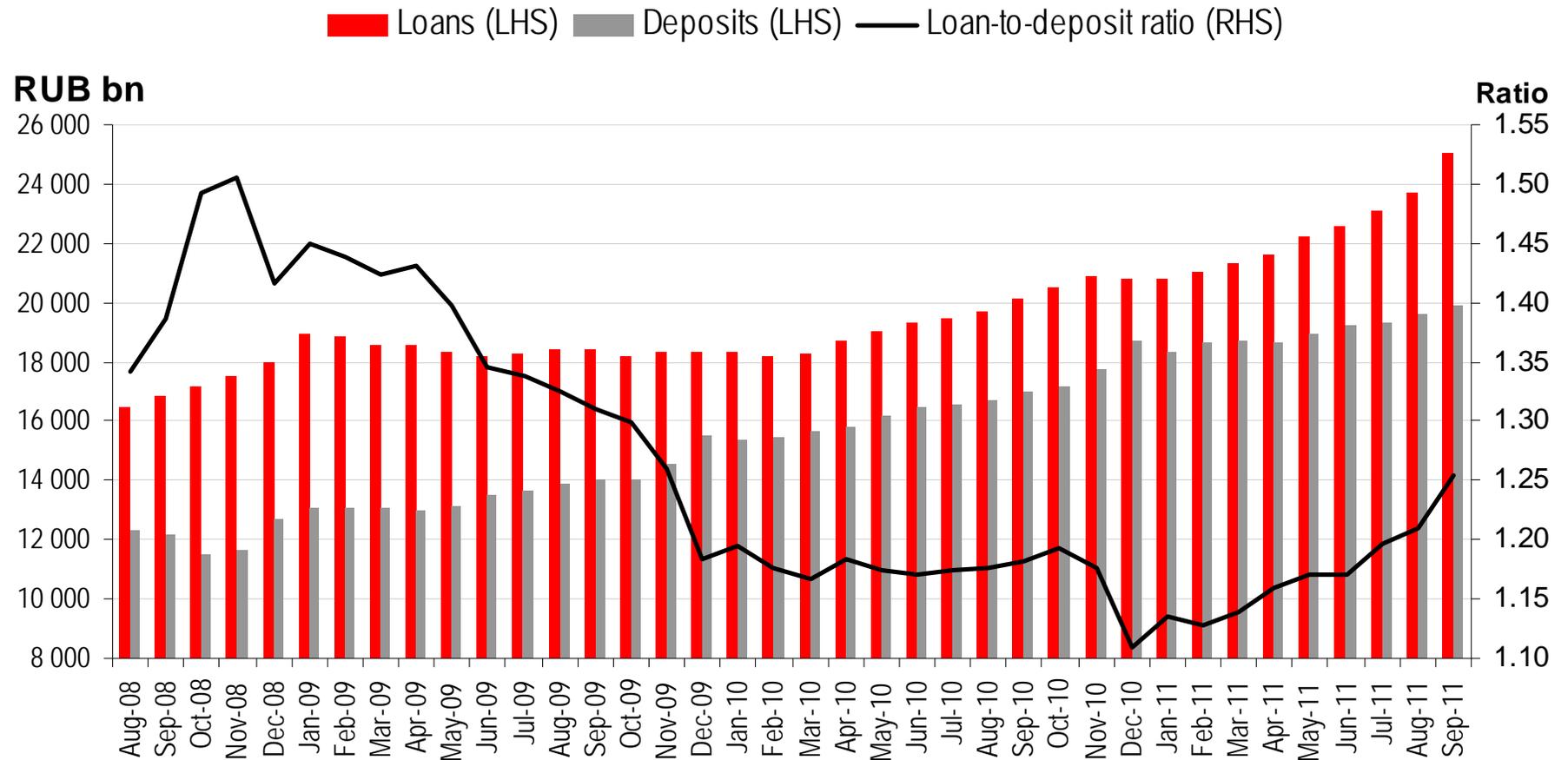
3. Yet, high downside risks are seen in the coming quarters



Source: Markit, HSBC

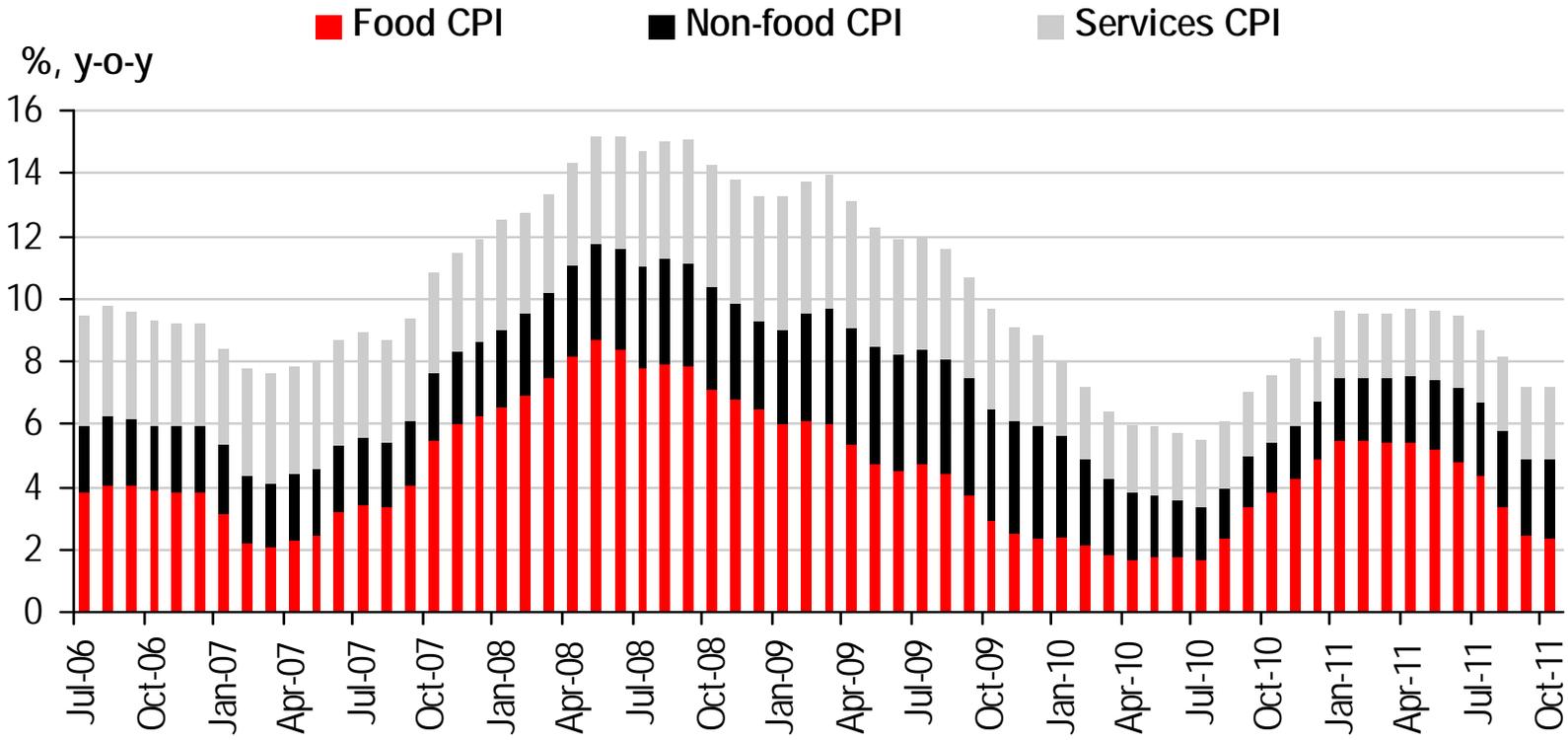
Note: 50.0 = no change on the previous month, above 50.0 = improvement, below 50.0 = deterioration

4. Banks start seeing constraints on lending



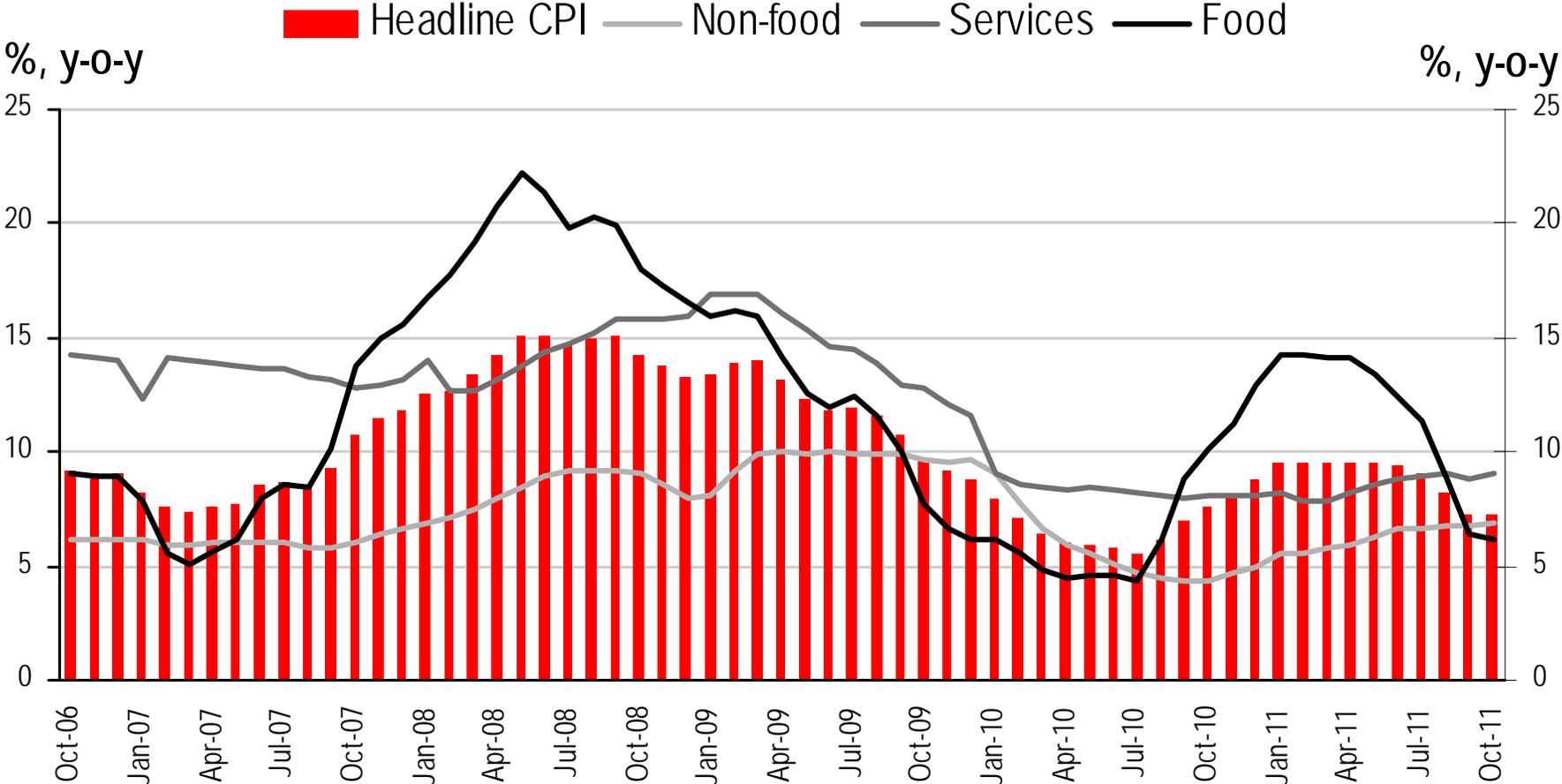
Source: CBR

5. Headline inflation has been declining...



Source: Rosstat

6. ...yet, non-food price growth remains elevated



Source: Rosstat

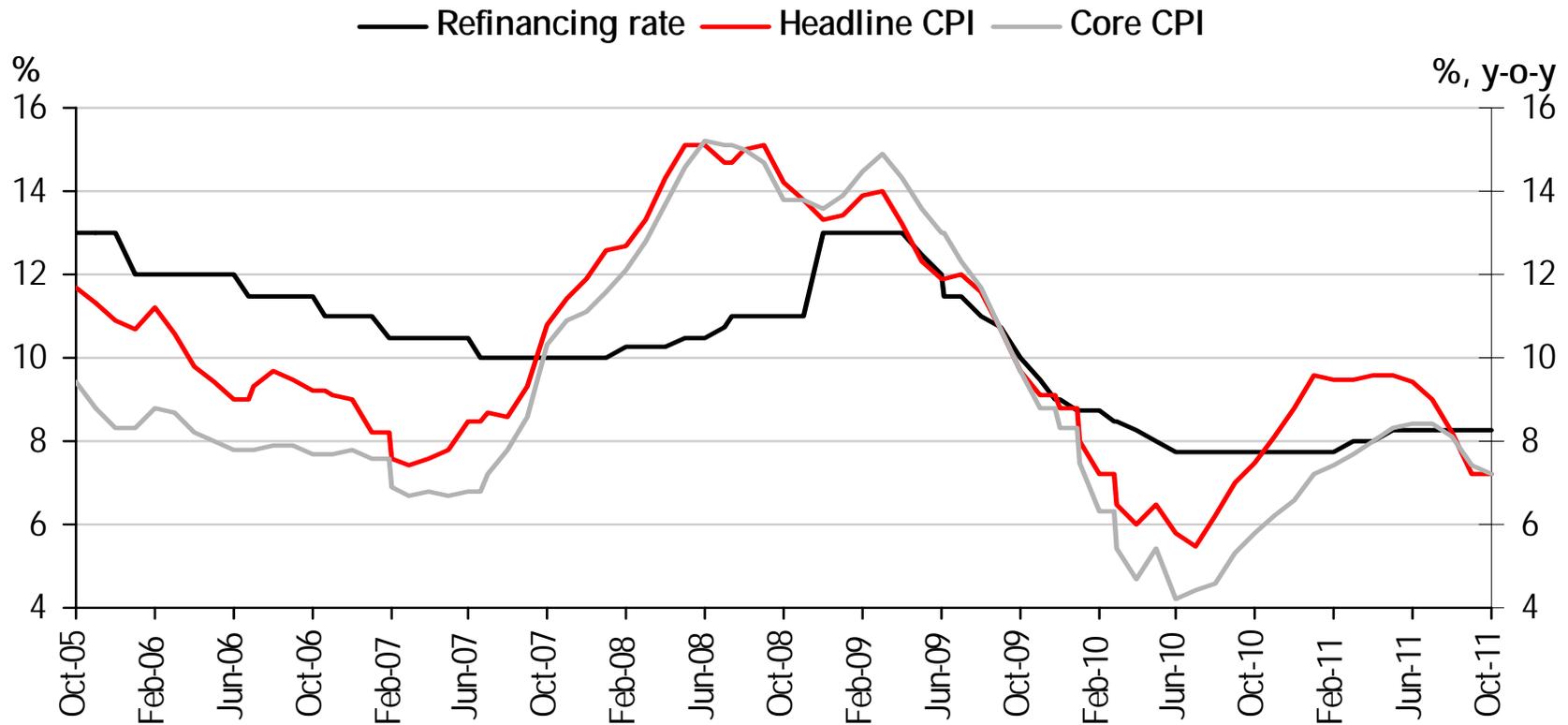
7. Budget is OK for now...as long as oil prices stay high

Official medium-term fiscal framework for 2011-2014

	2009	2010	2011p	2012p	2013p	2014p
<i>RUB bn</i>						
Revenues	7 338	8 304	11 008	11 779	12 729	14 116
<i>oil&gas revenues</i>	-	-	5 431	5 575	5 646	6 127
Expenditures	9 660	10 116	11 008	12 670	13 766	14 631
Surplus/Deficit (-)	-2 322	-1 812	0	-891	-1 037	-515
<i>% of GDP</i>						
Revenues	18.9	18.5	20.6	20.1	19.6	19.5
<i>oil&gas revenues</i>	-	-	10.2	9.5	8.7	8.5
Expenditures	24.9	22.5	20.6	21.6	21.2	20.2
Surplus/Deficit (-)	-6.0	-4.0	0.0	-1.5	-1.6	-0.7
<i>Oil prices assumptions Urals (USD/bbl)</i>						
Baseline scenario	-	78.0	108.0	100.0	97.0	101.0
To balance budget	-	-	118.3	116.2	114.4	107.8
<i>Real expenditures growth (% , y-o-y)</i>						
	-	-4.0	1.7	8.6	3.0	1.2

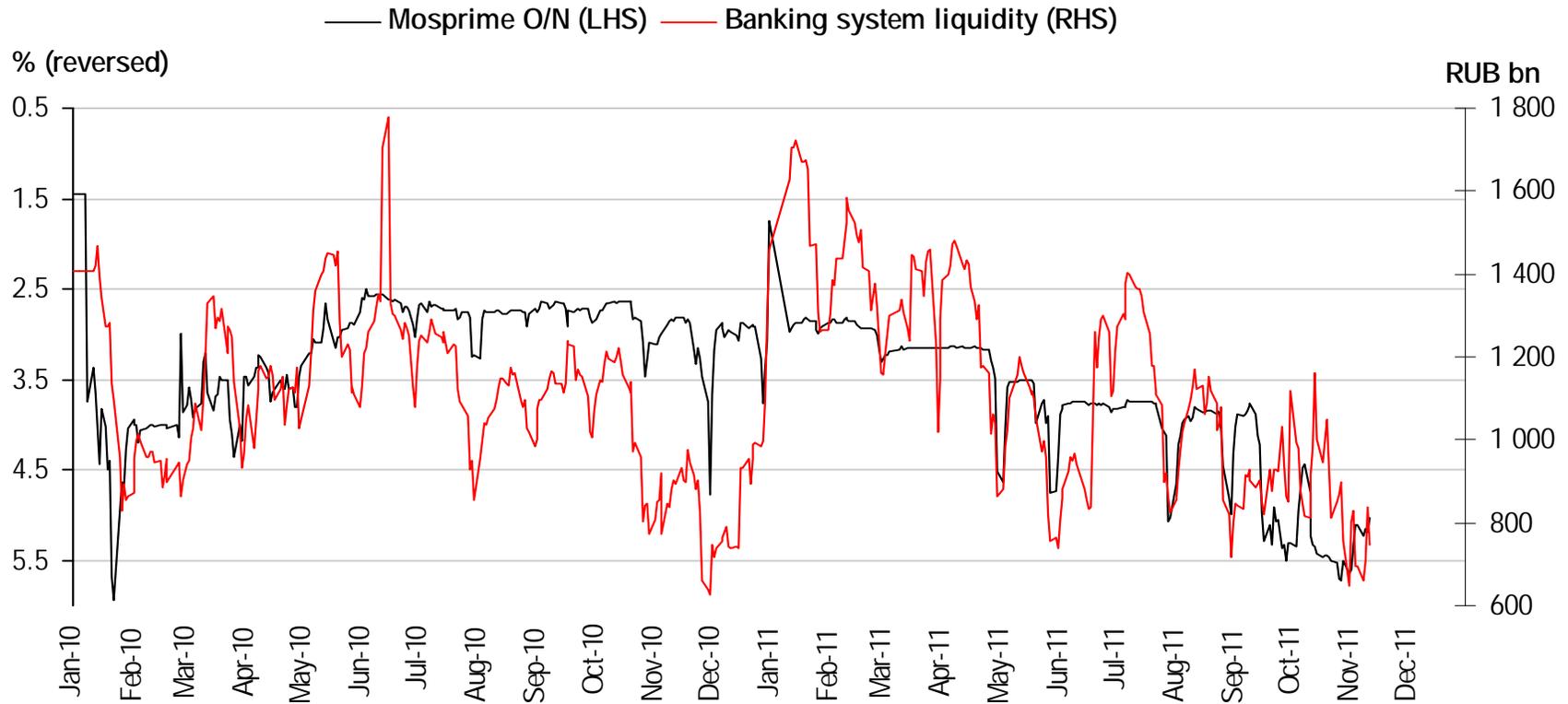
Source: MOF, HSBC

8. CBR prepares for policy easing



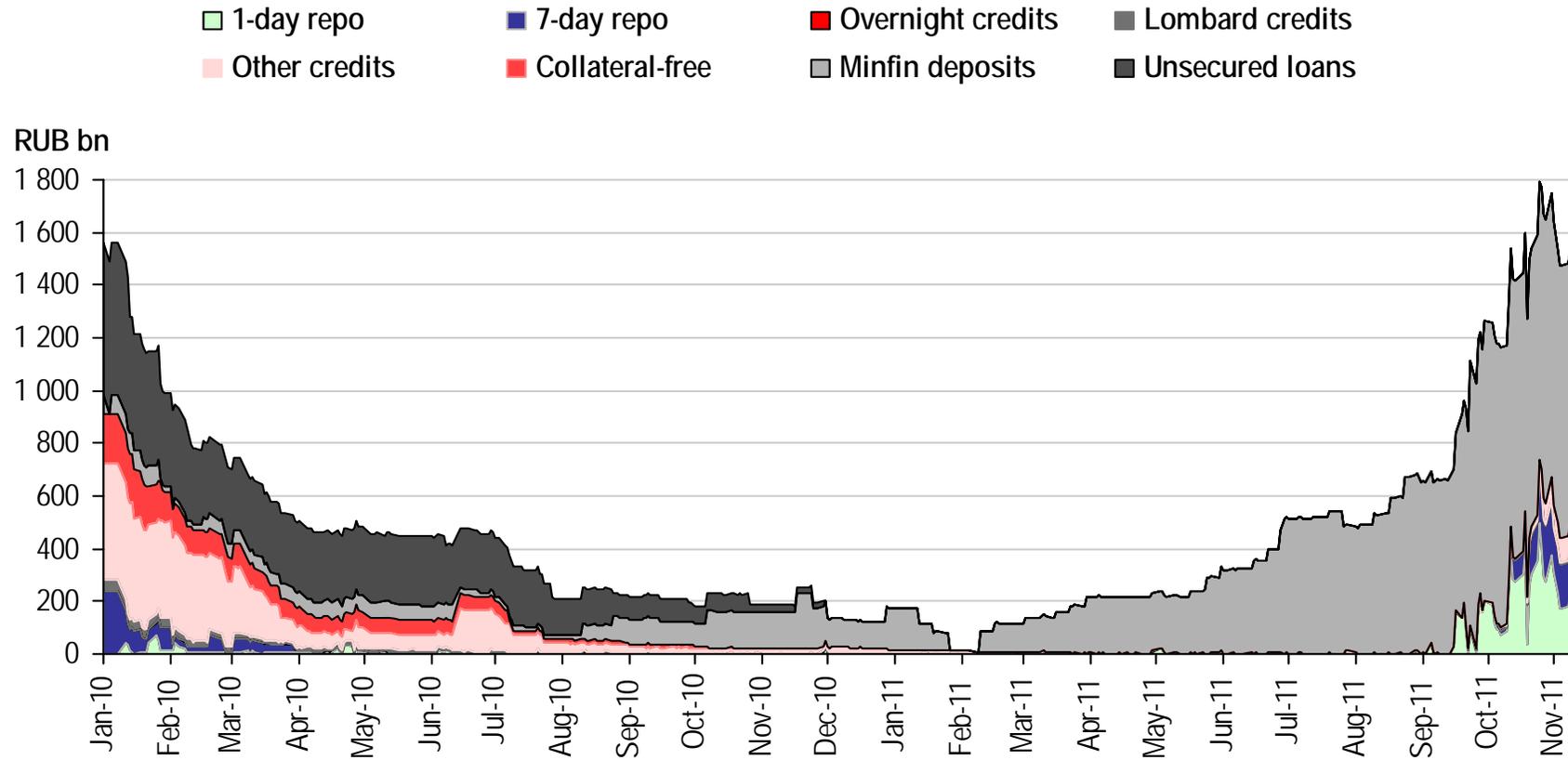
Source: CBR, Rosstat

9. Money market rates increased with the fallen liquidity



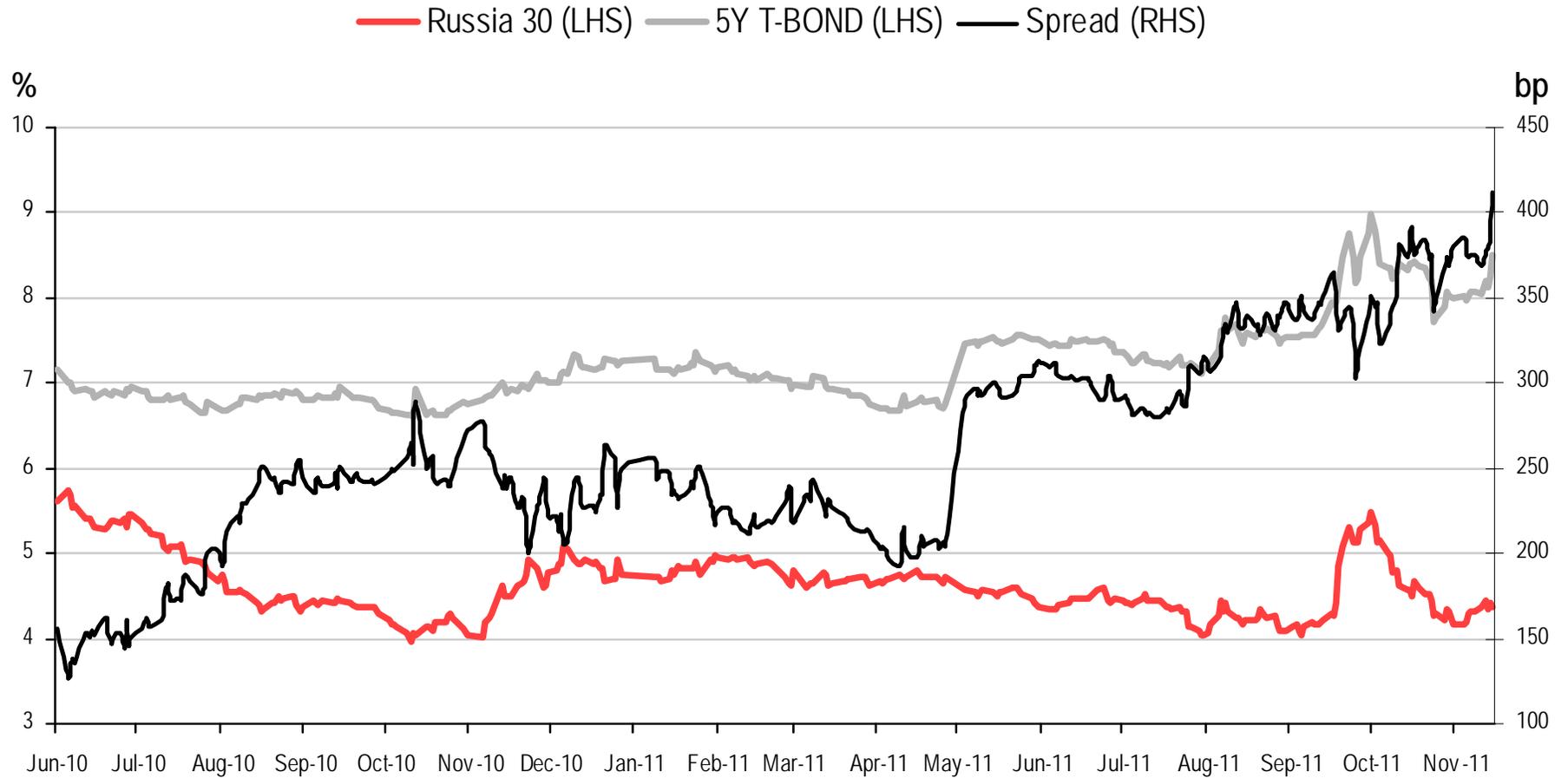
Source: Reuters

10. Refinancing of banks (CBR+MOF) reached RUB1.5 trn



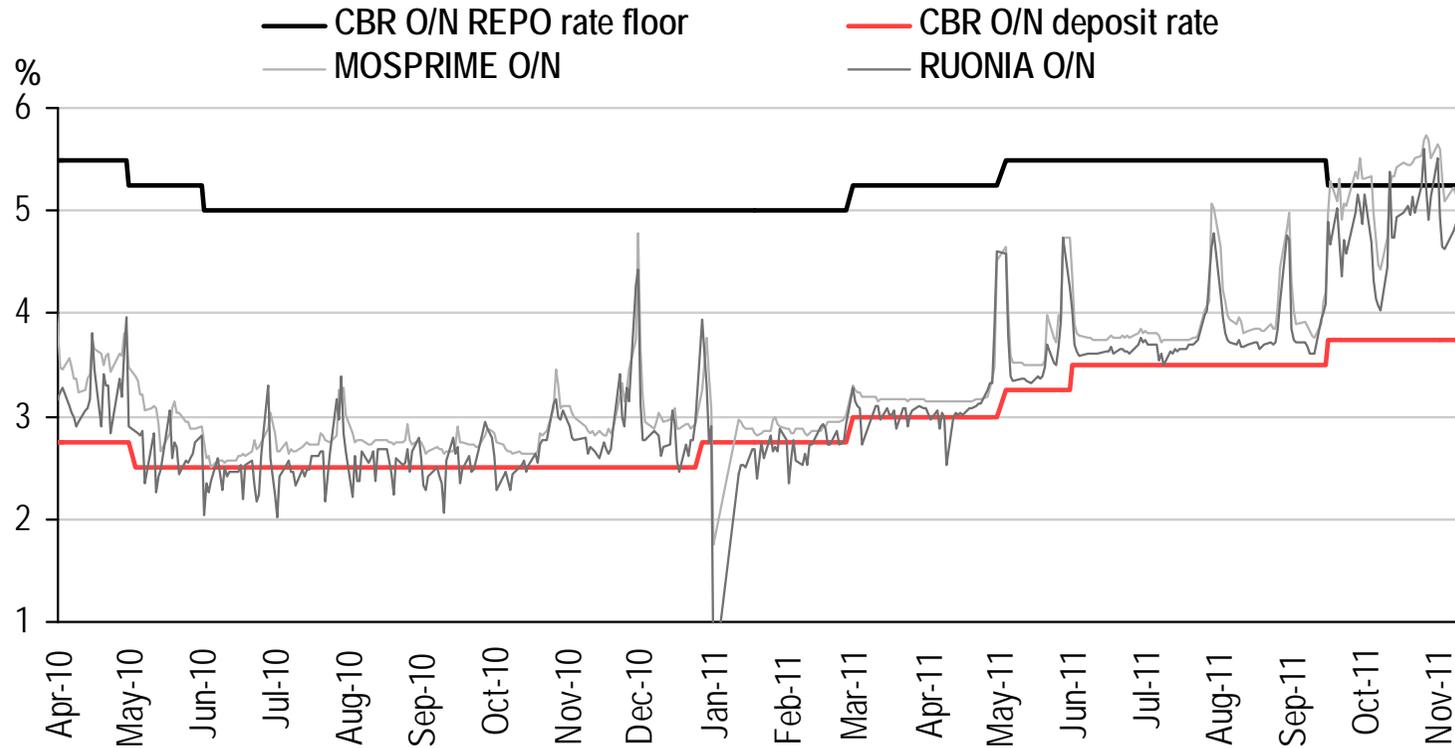
Source: MOF, CBR

11. Tight liquidity triggered Russian bonds' yields diversion



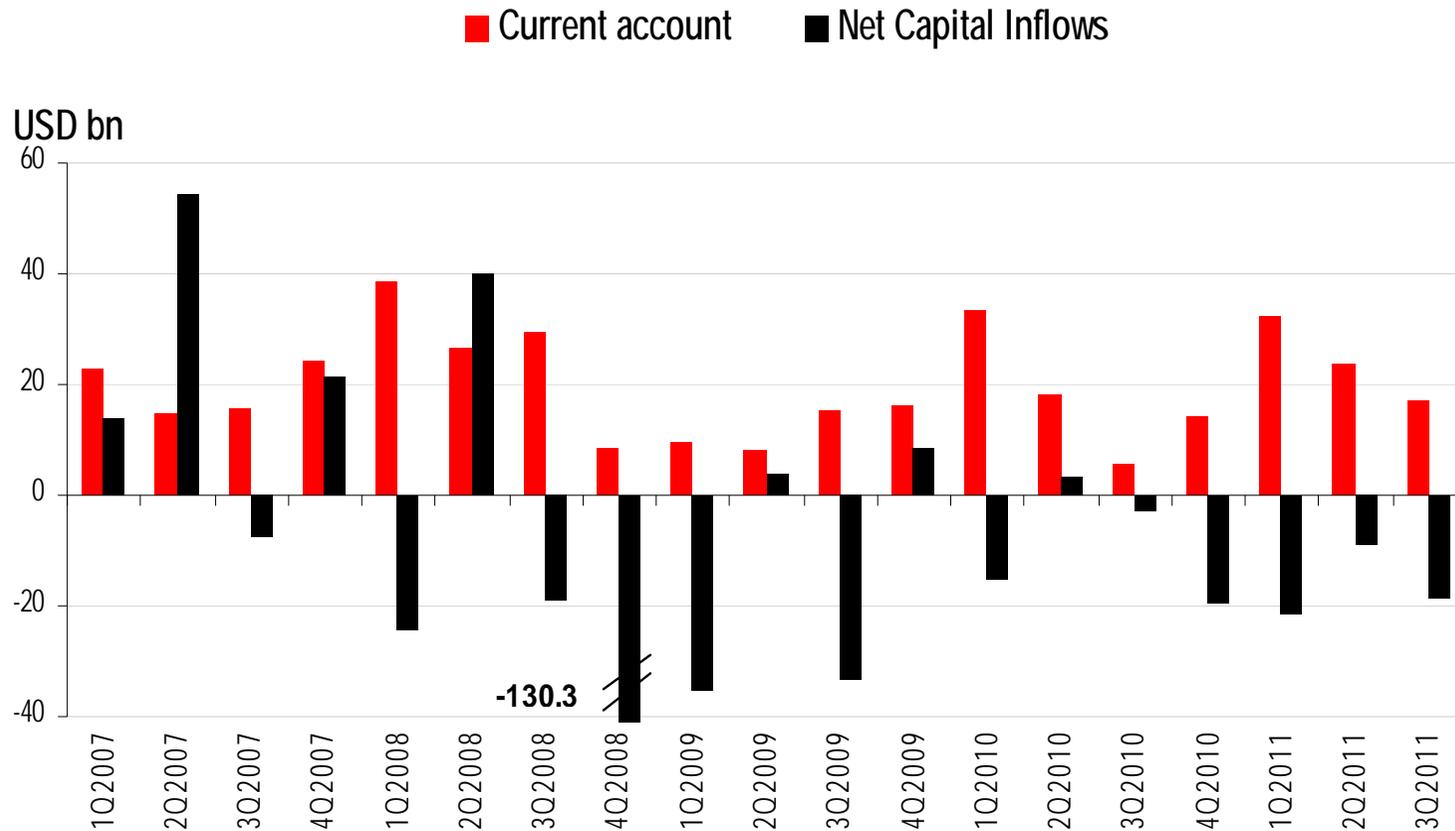
Source: Reuters

12. Money market rates trend around CBR repo rate – a New Normal



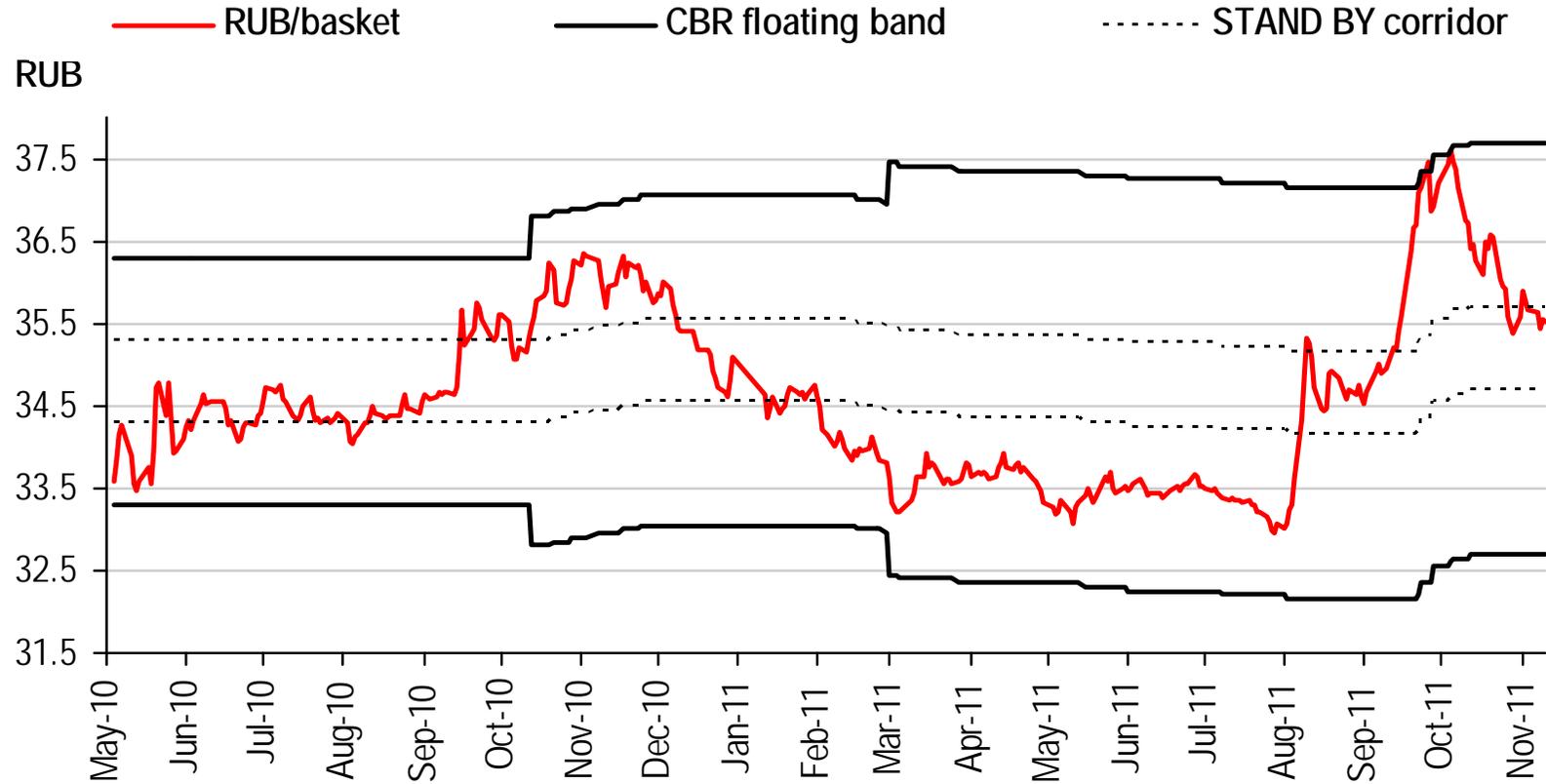
Source: CBR

13. Sustained capital outflows weaken the RUB...



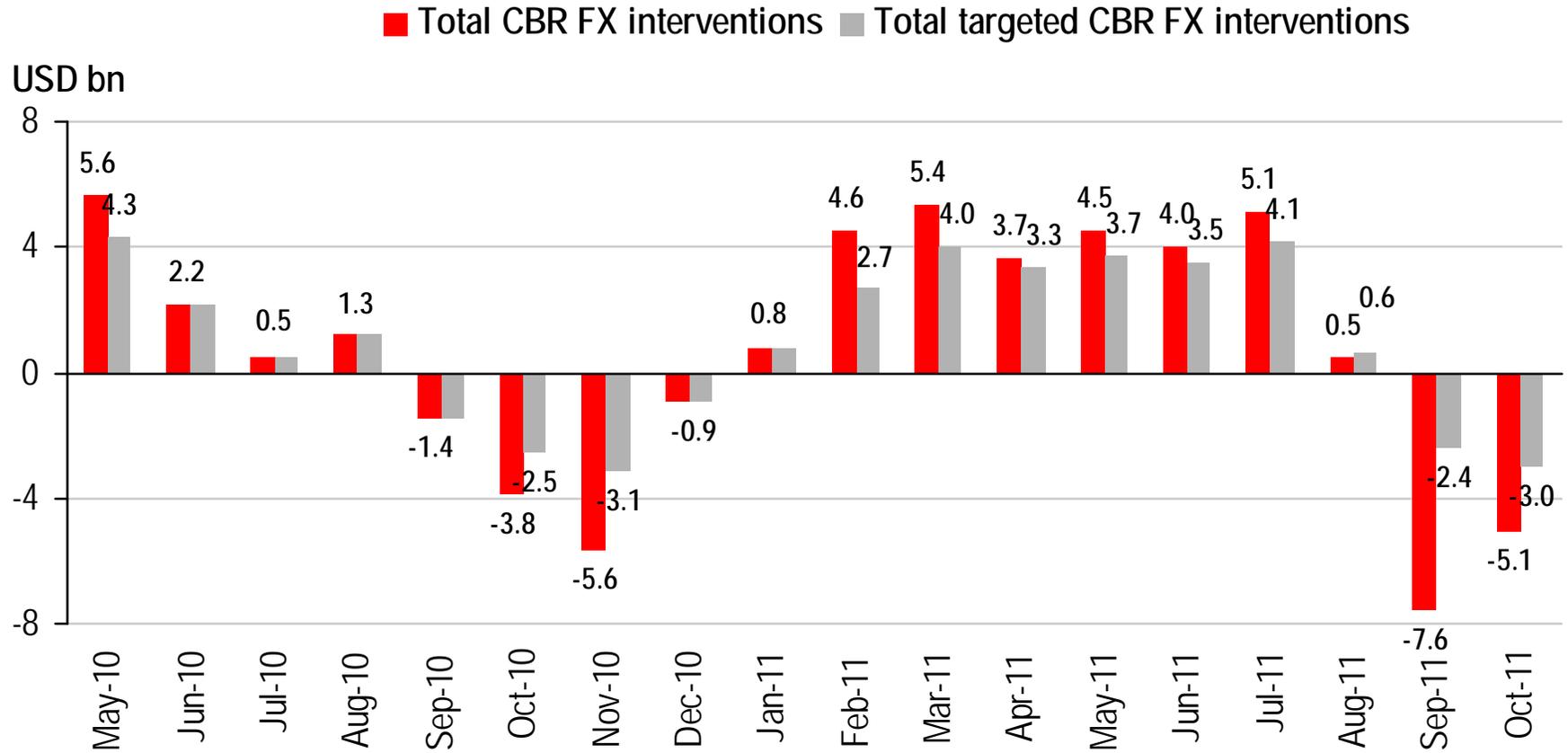
Source: CBR

14. ...prompting the CBR to sell FX above RUB/basket35.70



Source: Reuters, CBR, HSBC

15. CBR's FX sales squeeze RUB liquidity



Source: CBR, HSBC

16. RUB is exposed to seasonality

RUB HEATMAP

Monthly current account surplus (USD bn)

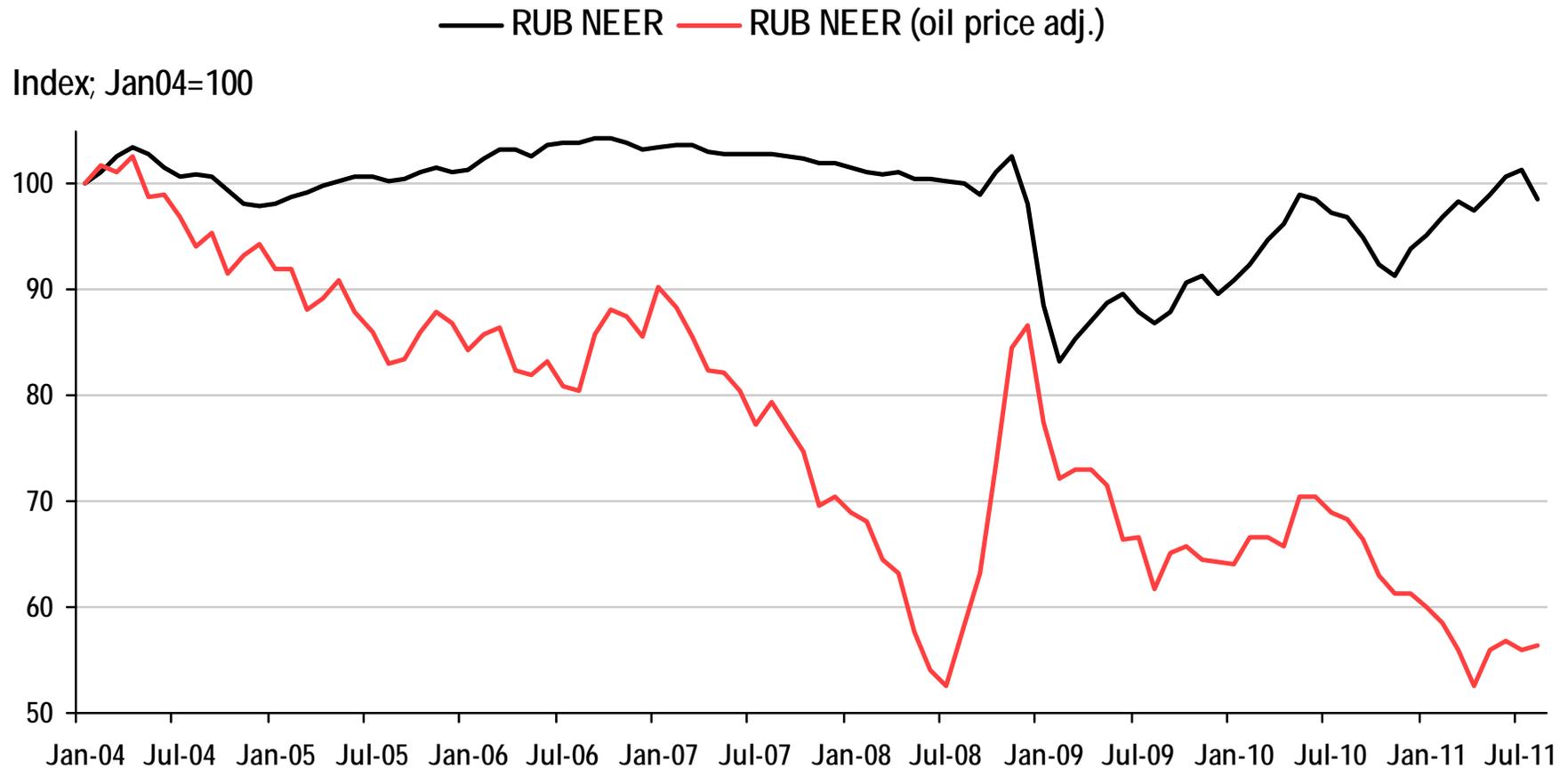
	CA 10	CA 11	CA 12
January	12.4	9.7	8
February	10.9	12.6	9.5
March	10.3	10.1	9.5
April	9.7	12.9	9
May	6.9	9.6	6
June	2	1.3	-1
July	3.1	8	4.5
August	-0.5	3	1
September	2.9	6	3
October	3	4	2
November	3.3	4.5	3.5
December	6.4	4	2



RUB positive
RUB neutral
RUB negative

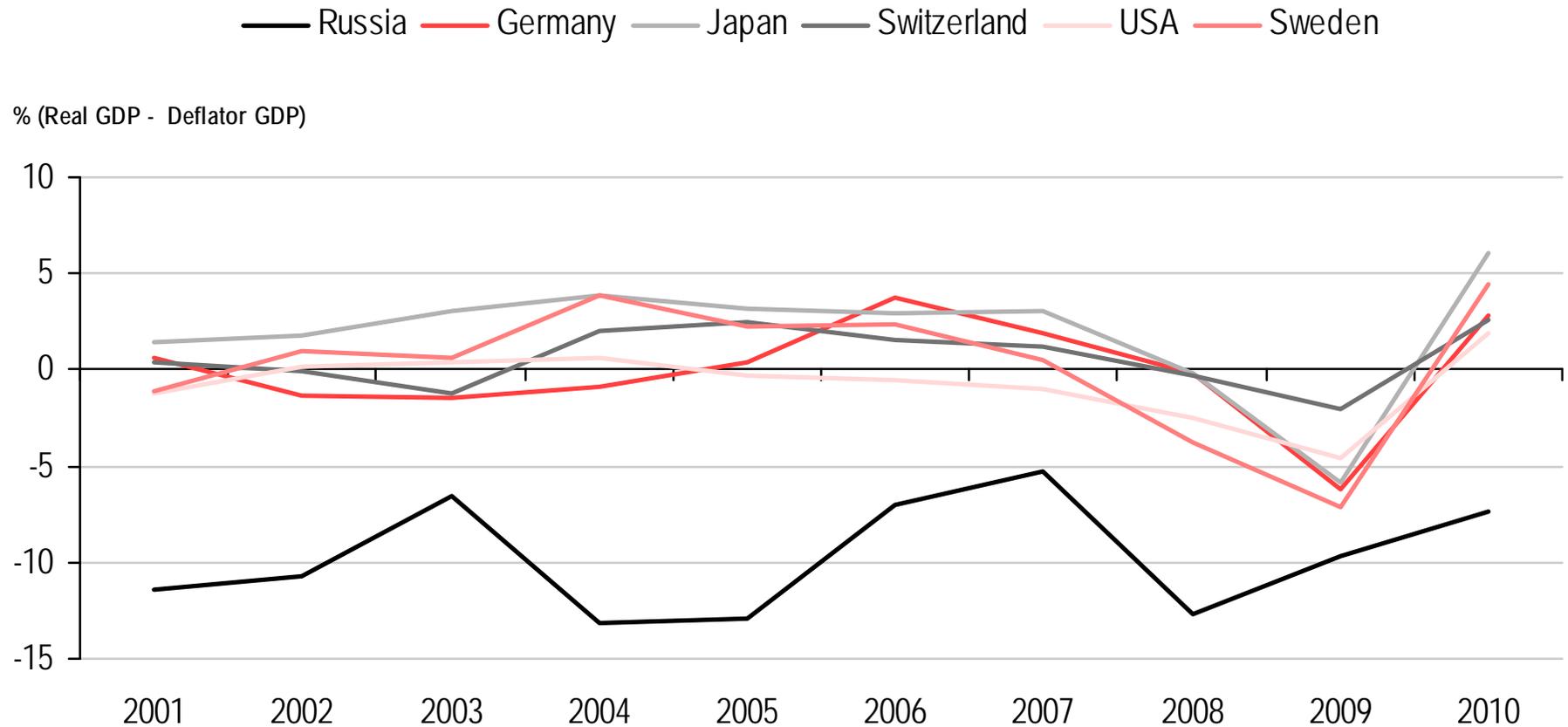
Source: CBR, HSBC

17. Note: With flat oil prices, RUB would have depreciated...



Source: CBR, HSBC

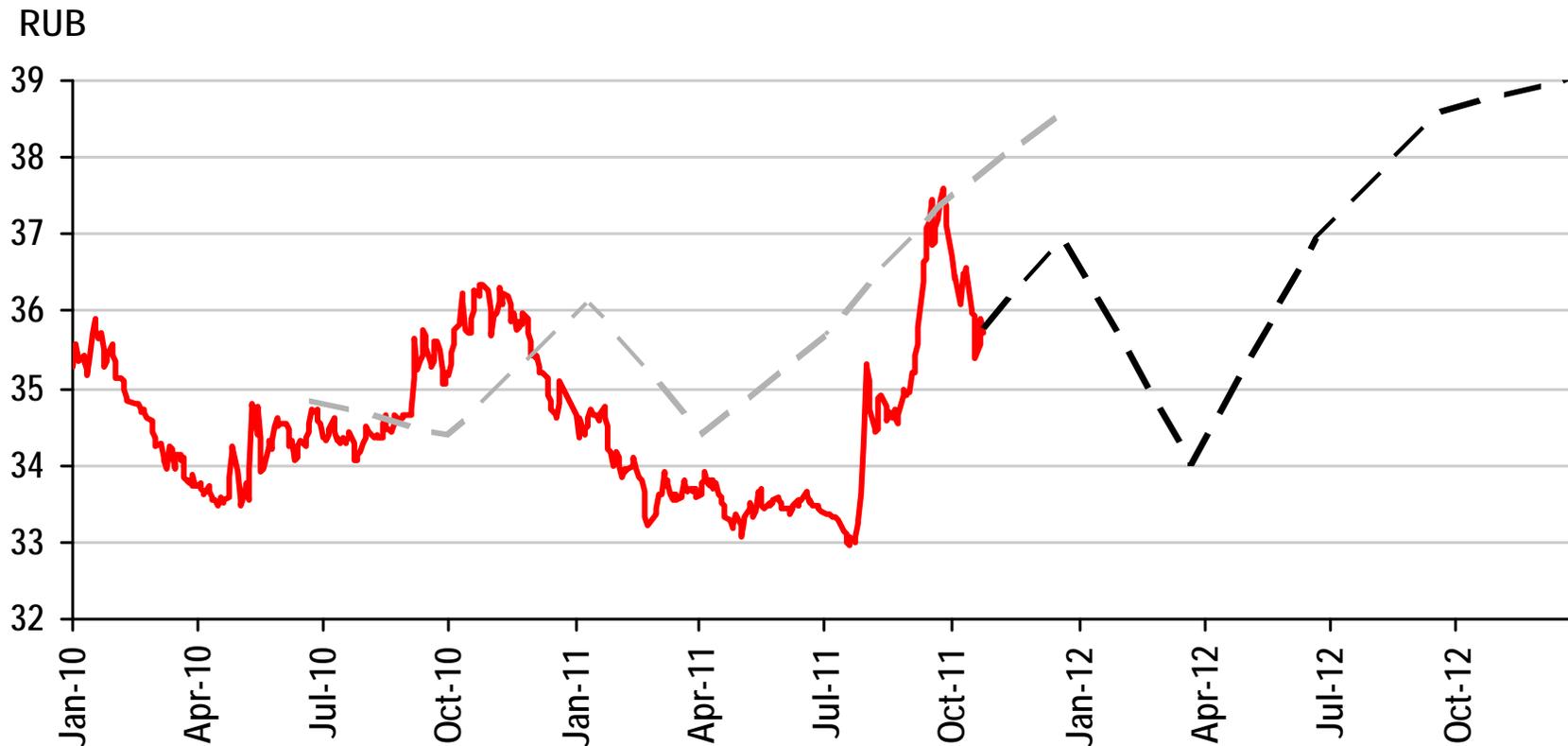
18. ...since Russian economic growth persistently lags behind inflation



Source: IMF, HSBC

19. HSBC has strong track record on the RUB

— Rub/basket
— RUB/Basket (eop, latest forecast)
— RUB/Basket (eop, June 2010 forecast)



Source: Reuters, HSBC

Summary

- Volatile growth: Recent acceleration of **economic growth** in Russia appears to be temporary
- Volatile inflation: **Inflation** to decline to below 6% in 1Q 2012, yet to increase again in 2H 2012
- Good days for **liquidity** are over: CBR's repo rate – a New Normal for MM rates
- Volatile RUB: **RUB** to see some sunny days in 1H 2012 before depreciating to new lows

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