

Russia: Growth stabilization, inflation moderation

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Summary

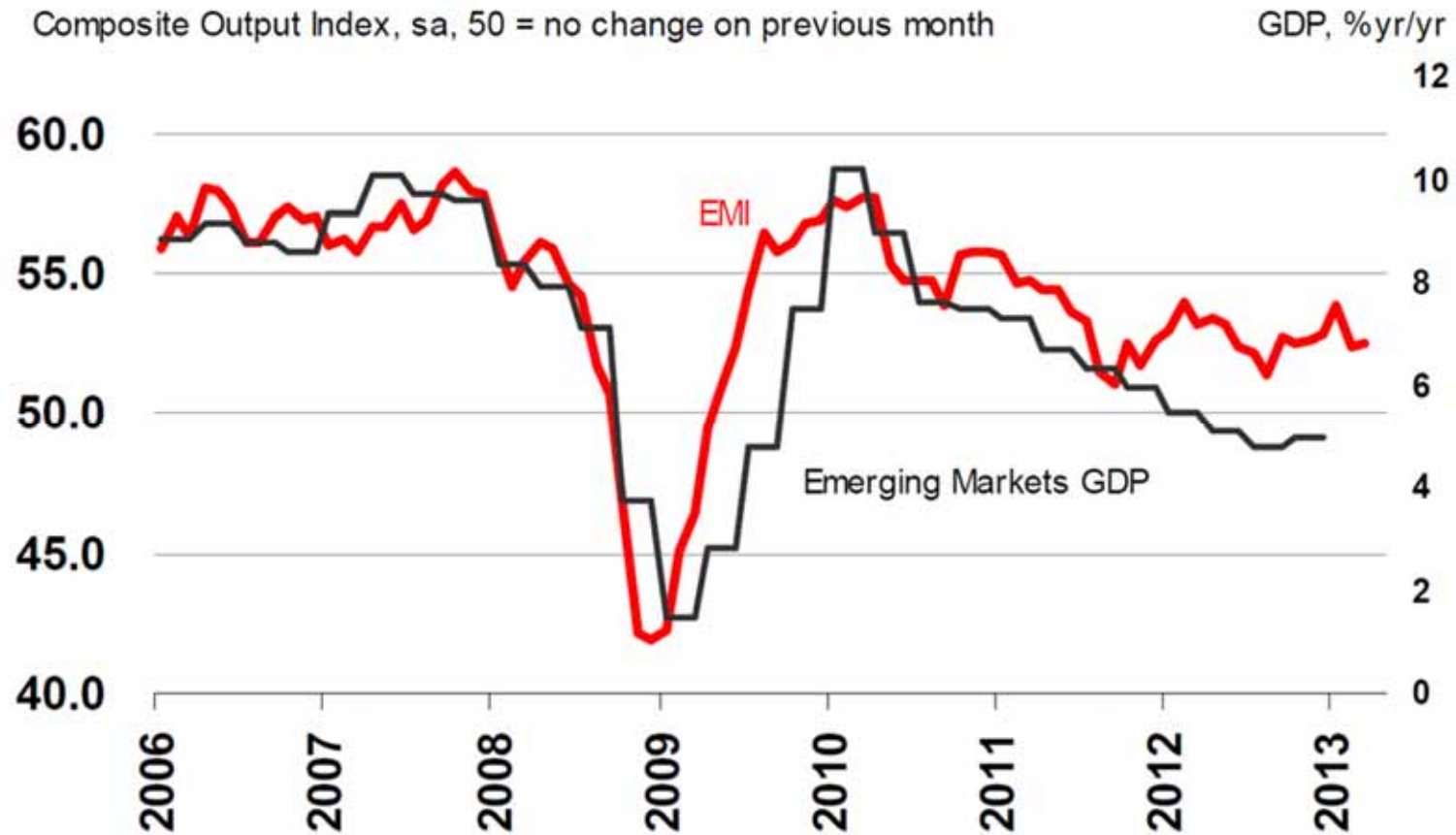
- **Global economic snapshot**
- **Russia's economic growth and inflation outlook**
- **Monetary policy and interest rates**
- **External accounts and RUB**

Global Manufacturing PMI: Slow start of 2Q

	PMI				New orders-Inventory		
	Apr 13	Mar 13	Feb 13	Jan 13	Apr 13	Mar 13	Feb 13
China HSBC	50.4	51.6	50.4	52.3	51.2	53.3	51.4
China NBS	50.6	50.9	50.1	50.4	51.7	52.3	50.1
India	51.0	52.0	54.2	53.2	52.3	52.8	56.3
Japan	51.1	50.4	48.5	47.7	53.6	52.8	50.7
Global	50.5	51.2	50.9	51.5	50.9	52.0	51.5
US (ISM)	50.7	51.3	54.2	53.1	52.3	51.4	57.8
US (Markit)	52.1	54.6	54.3	55.8	51.5	55.5	55.4
UK	49.8	48.3	47.9	50.7	50.6	49.3	47.3
Russia	50.6	50.8	52.0	52.0	52.7	53.2	55.1
Germany	48.1	49.0	50.3	49.8	48.1	48.7	52.8
France	44.4	44.0	43.9	42.9	41.9	40.6	41.6
Eurozone	46.7	46.8	47.9	47.9	45.4	45.3	47/9

Source: ISM, NBS, Markit, HSBC

HSBC Emerging Markets Index: Sub-par growth continues



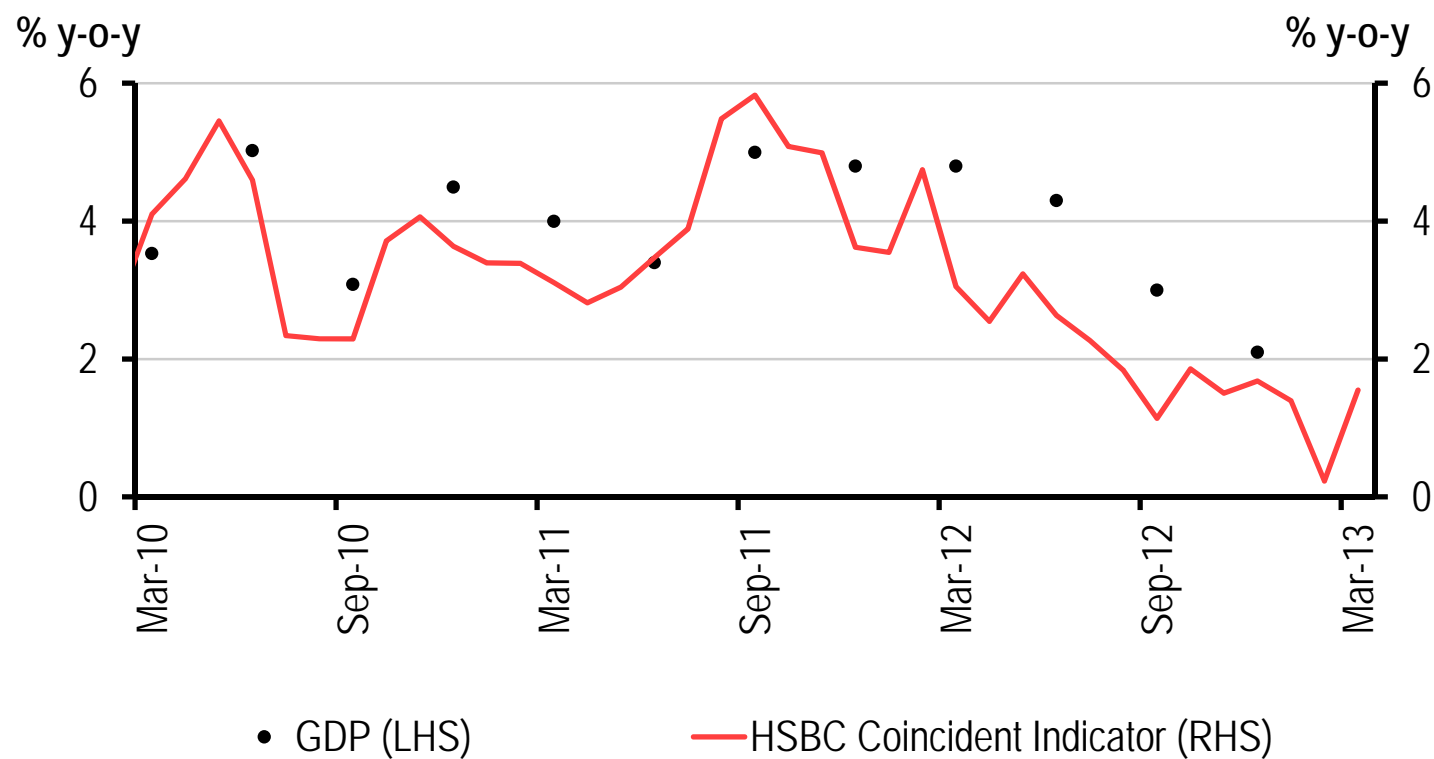
Source: Markit, HSBC

Changes in consensus and recent data support our view on Russia

<i>2013, % Year</i>	Consensus (Feb 12)	Consensus (Apr 13)	HSBC forecast	Most recent data
GDP	4.0	2.7	2.5	2.1 (4Q 2012)
IP	4.0	2.0	1.3 (1.8)	0.0 (1Q-13)
CPI (eop)	6.2	5.9	5.7 (7.0)	7.2 (Apr-13)

Source: Rosstat, Reuters, HSBC

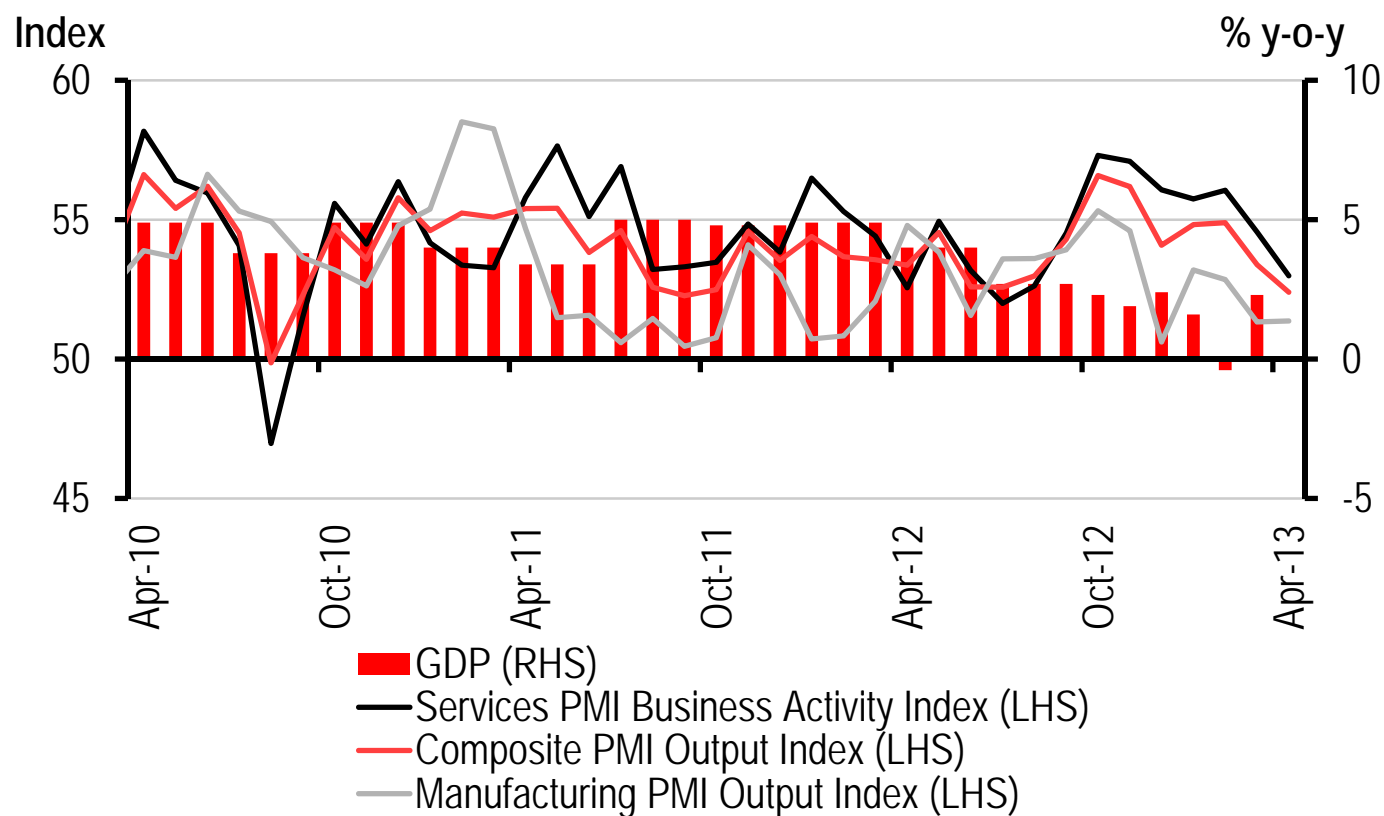
Signs of economic growth stabilization in Russia...



Note: HSBC Coincident indicator is a monthly indicator that represents a weighted average of six sectors of the Russian economy that account for 72% of GDP

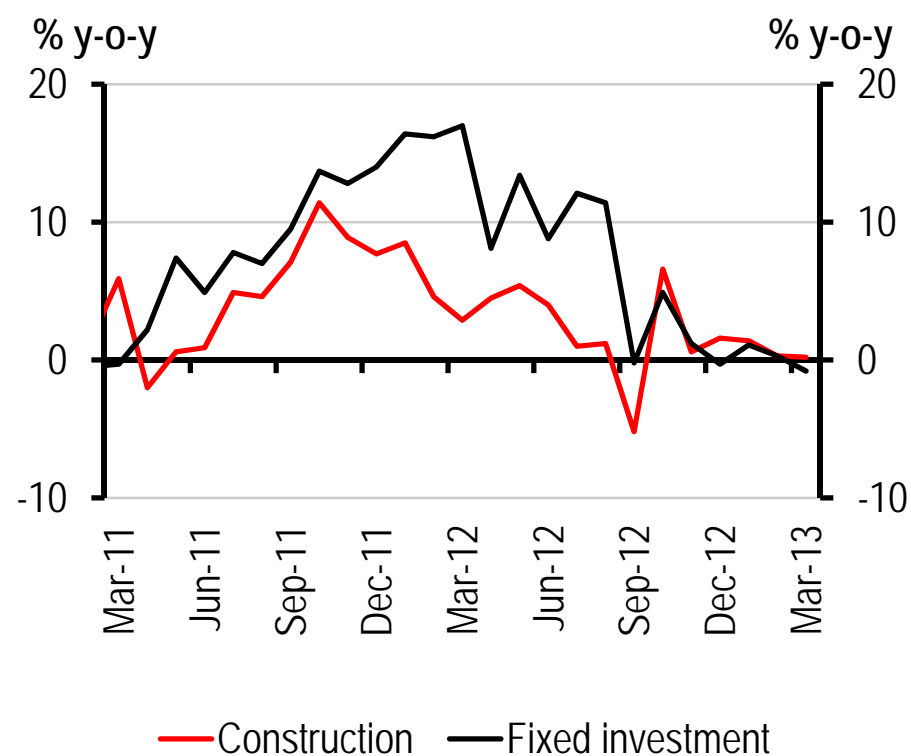
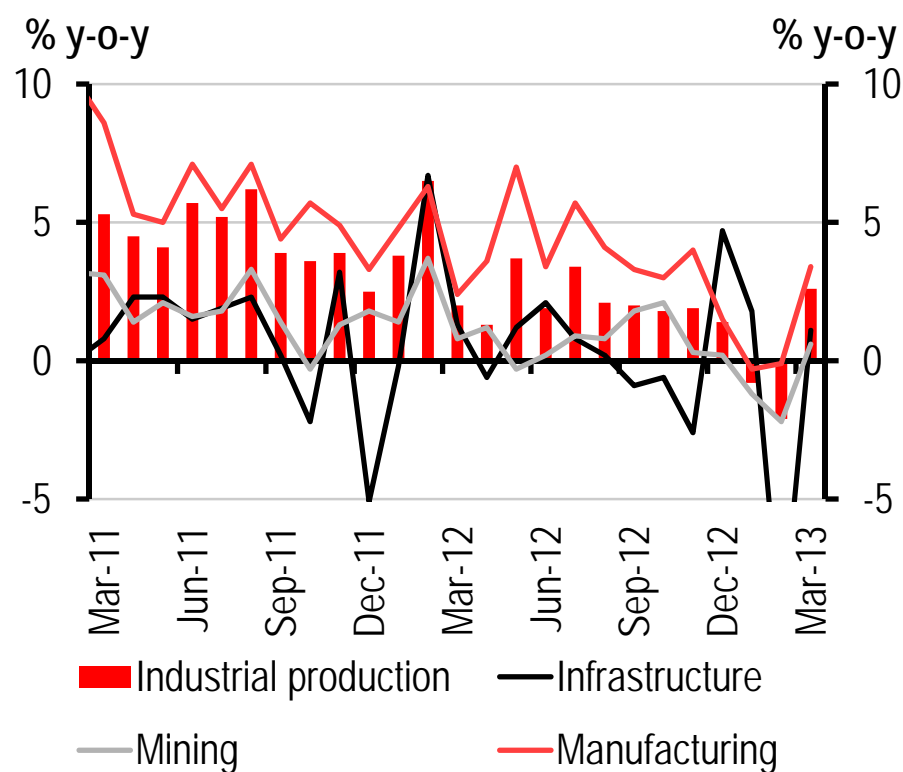
Source: Rosstat, HSBC

...amidst still prevailing downside risks



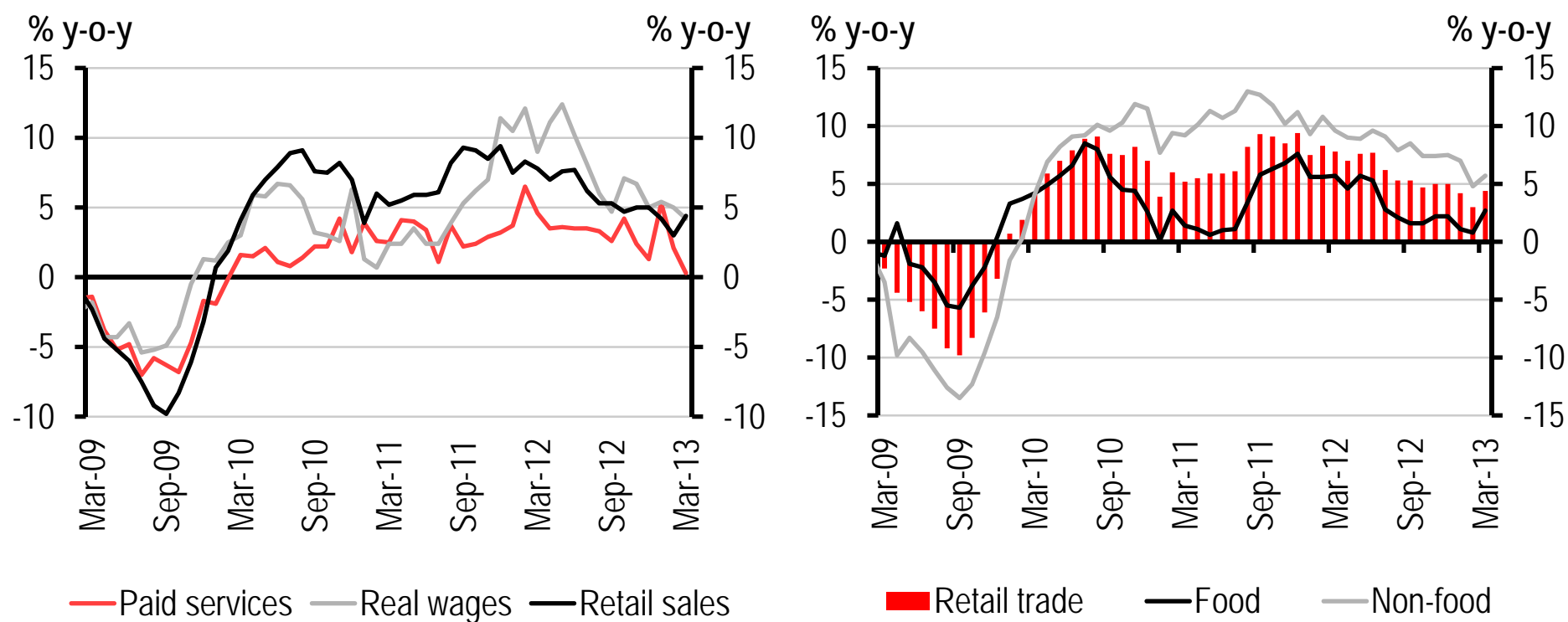
Source: Rosstat, HSBC

Industrial production and fixed investment growth has moderated



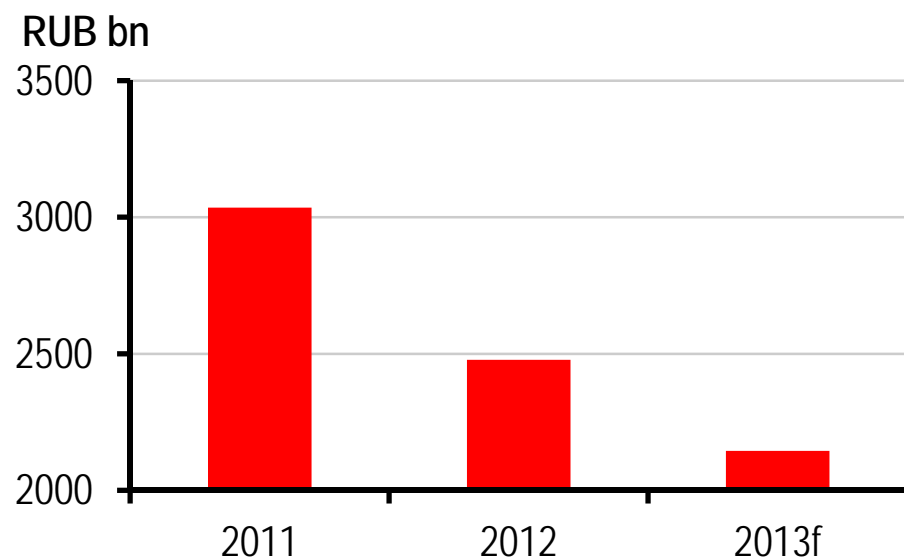
Source: Rosstat, Markit, HSBC

Consumer demand growth eases but remains robust

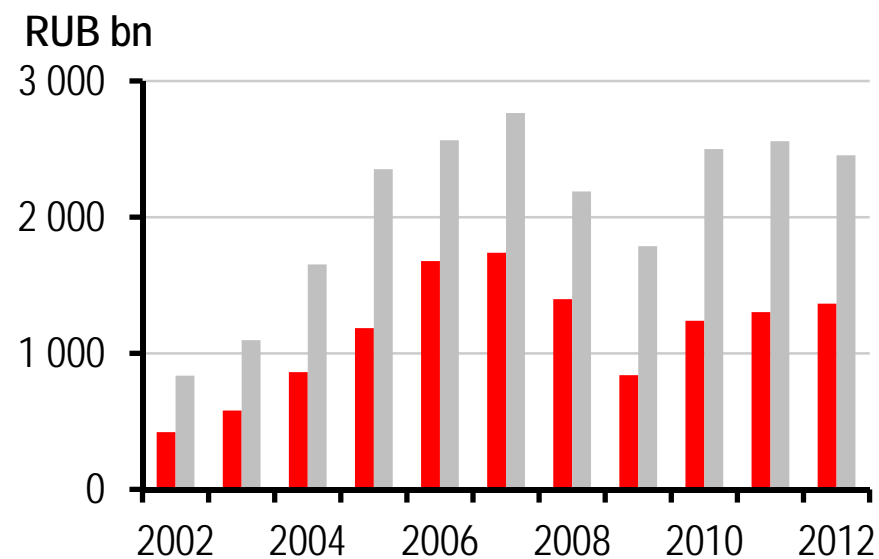


Source: Rosstat, HSBC

Monopolies cut investment while profits have not recovered



■ State monopolies fixed investment

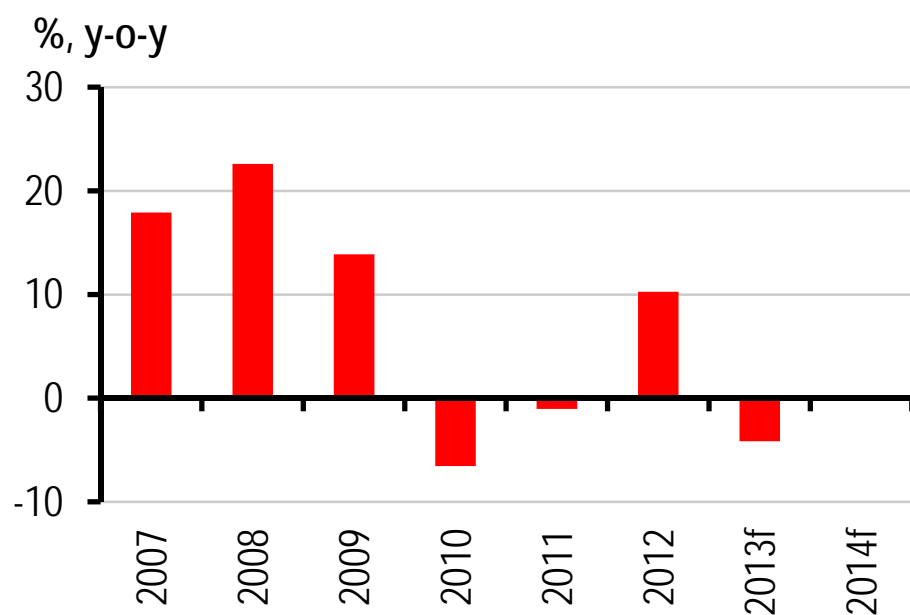


■ Profits in manufacturing (manufacturing PPI adjusted)

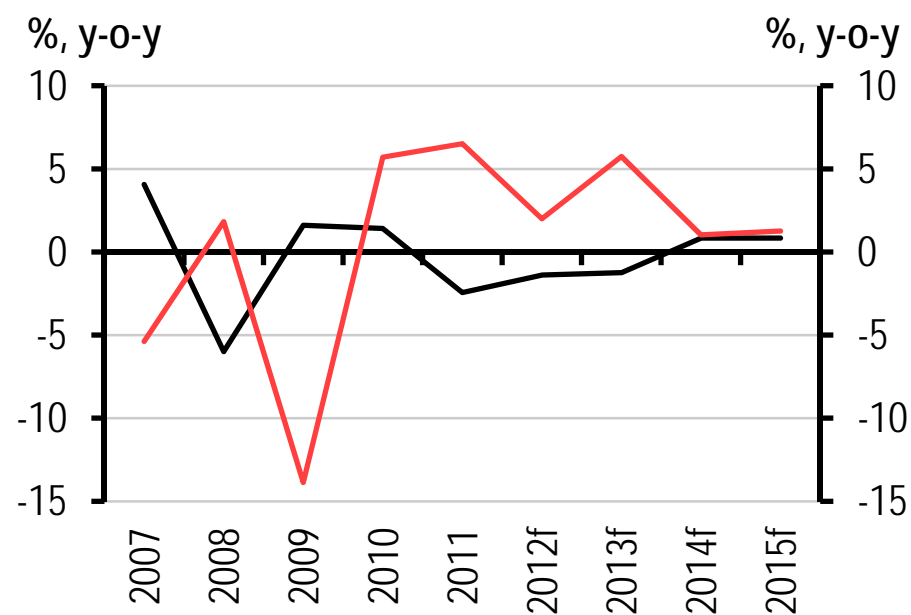
■ Profits in industrial production (PPI adjusted)

Source: Rosstat, Gazprom, RZhd, Rushydro, FedGridCom, MRSK Holding, Transneft, Rosneft, HSBC

Neither public spending, nor hydrocarbons can push GDP growth



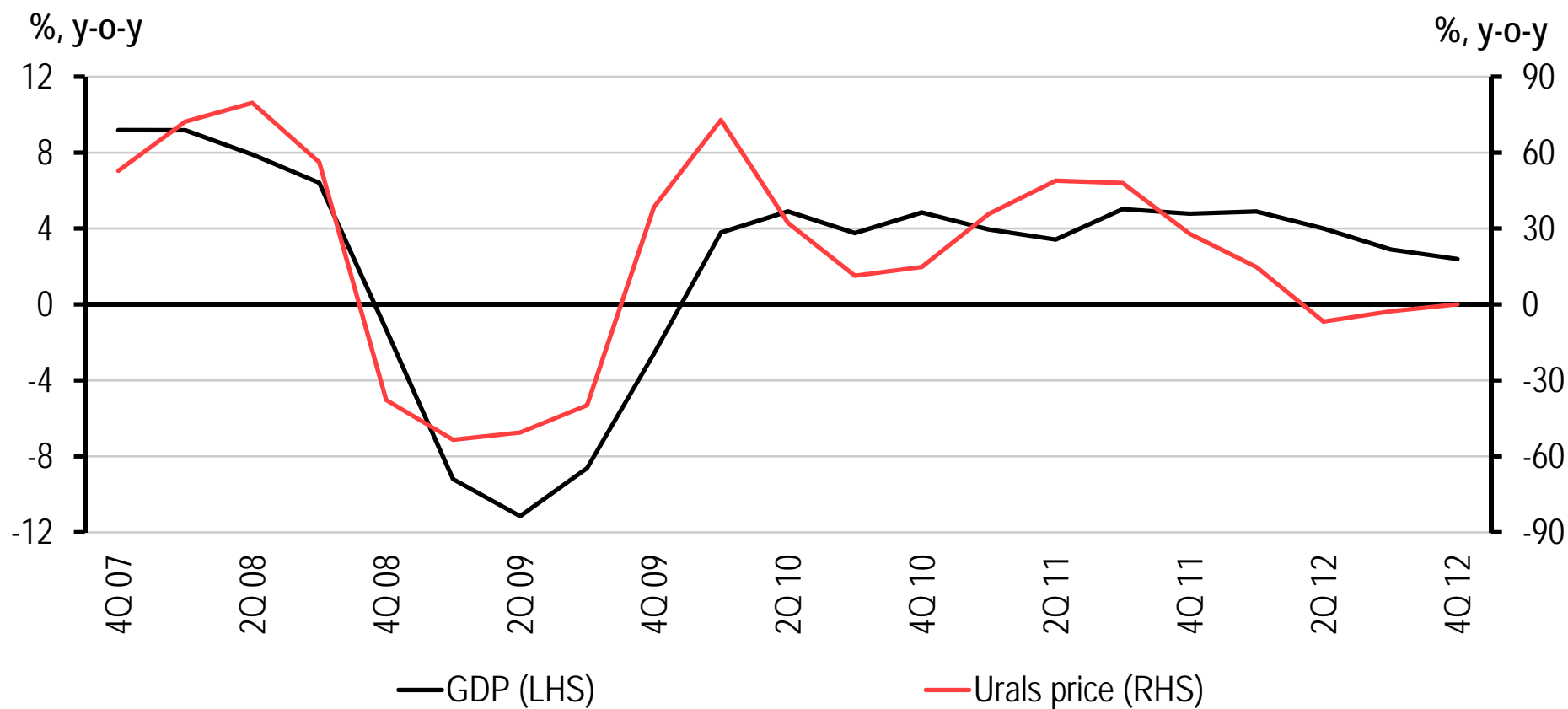
■ Central government expenditures (inflation adjusted)



— Crude oil exports — Natural gas exports

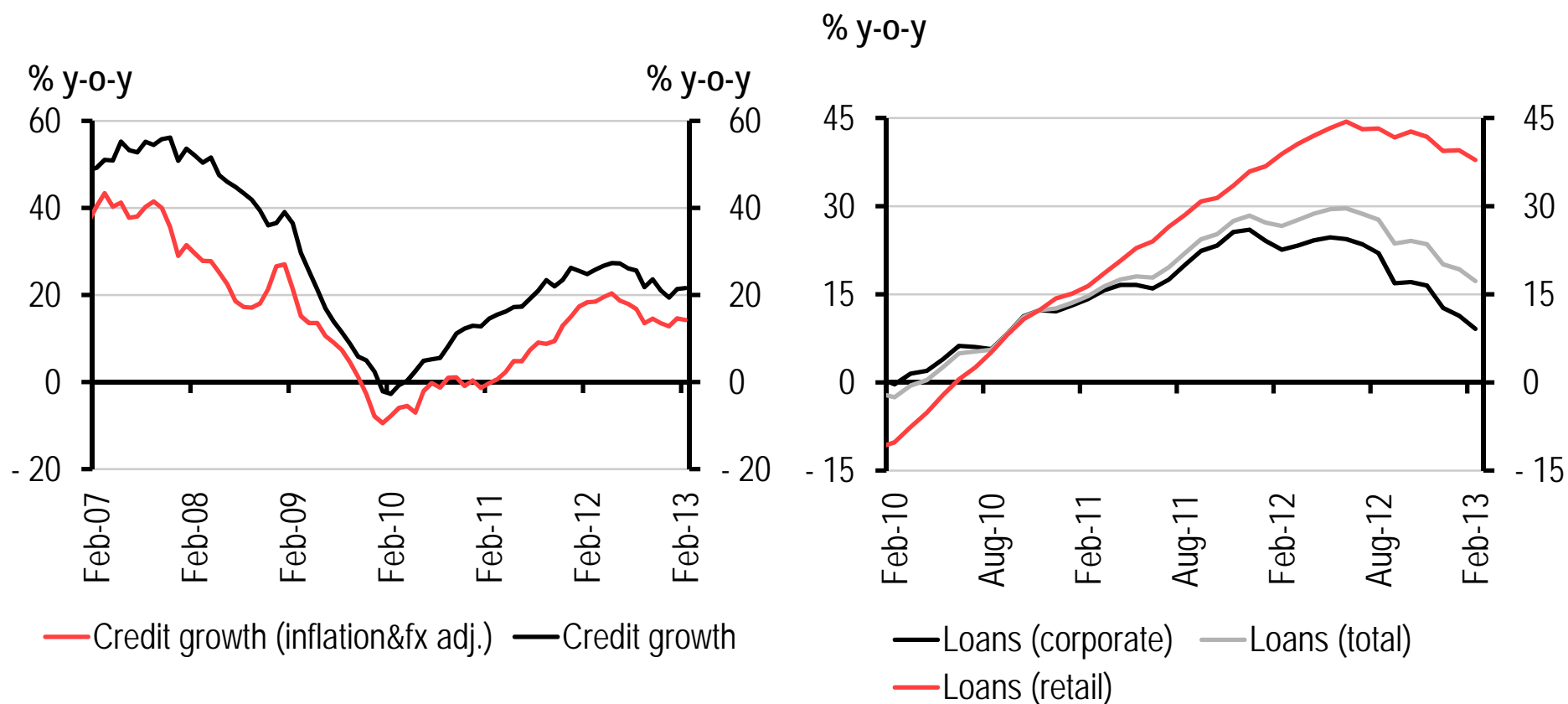
Source: Rosstat, MOE, HSBC

Oil prices stopped supporting growth too



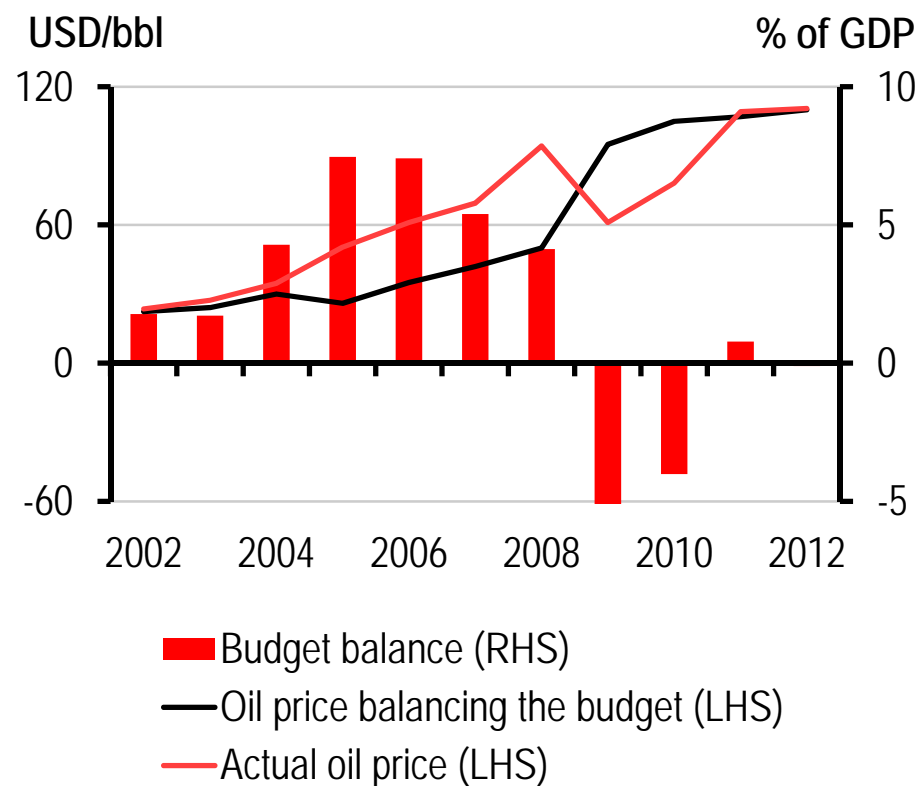
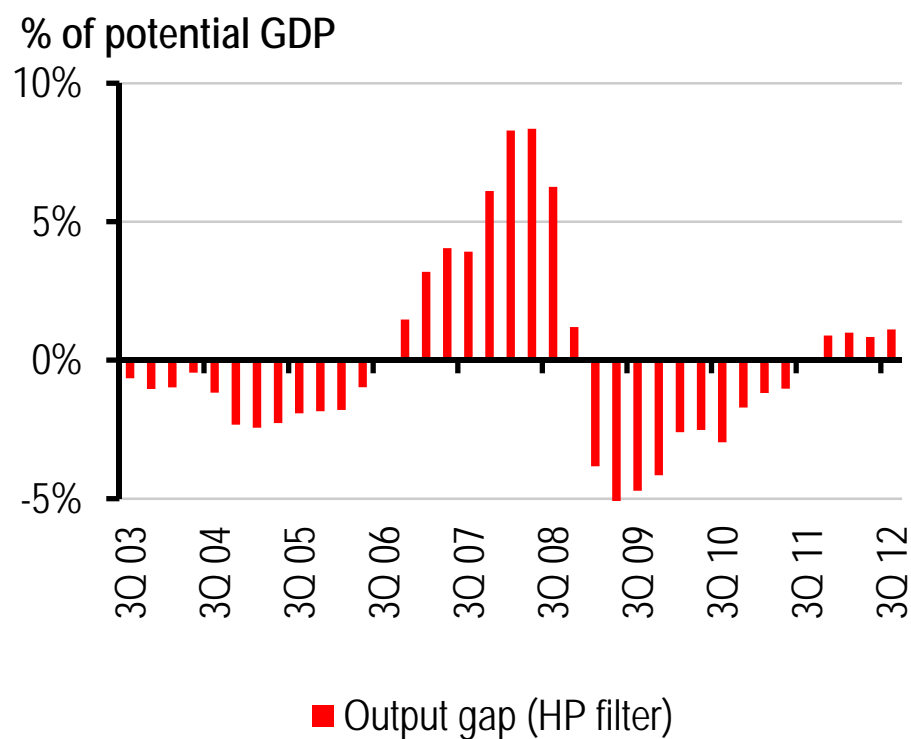
Source: Reuters, HSBC

Lending growth topped out but remains robust



Source: CBR, HSBC

Calls for expansionary fiscal and/or monetary policies look ill-placed



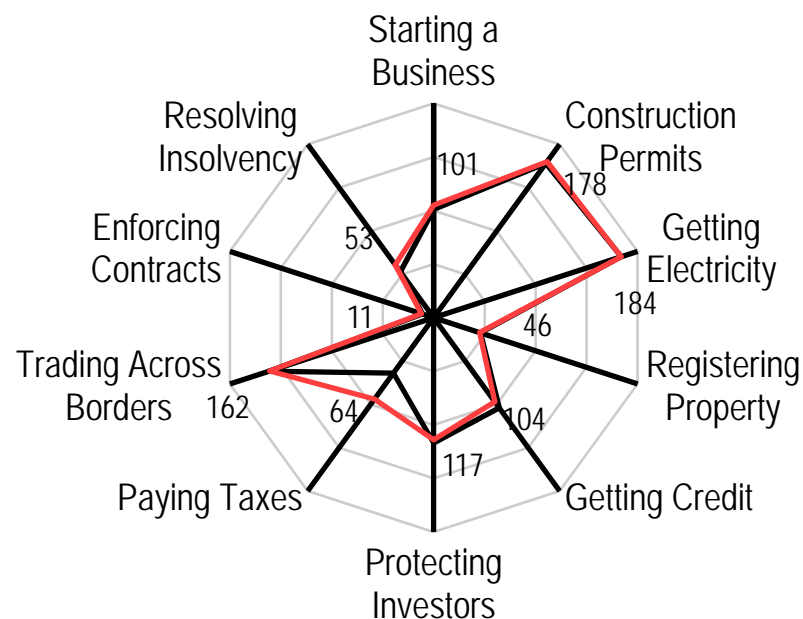
Source: MOF, CBR, Rosstat, Reuters, HSBC

Stagnating labour force, rising ULC restrains potential GDP growth

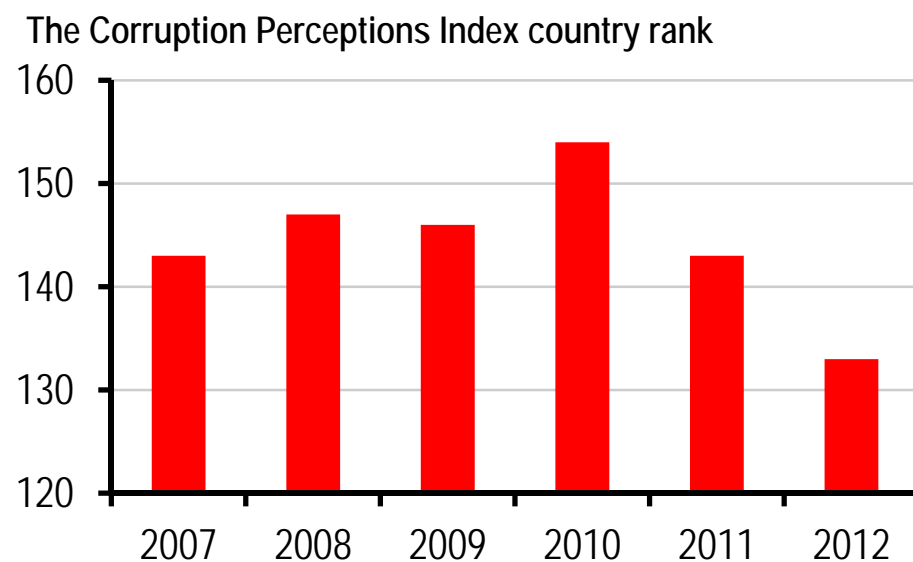


Source: Rosstat, HSBC

Structural policies should be in focus



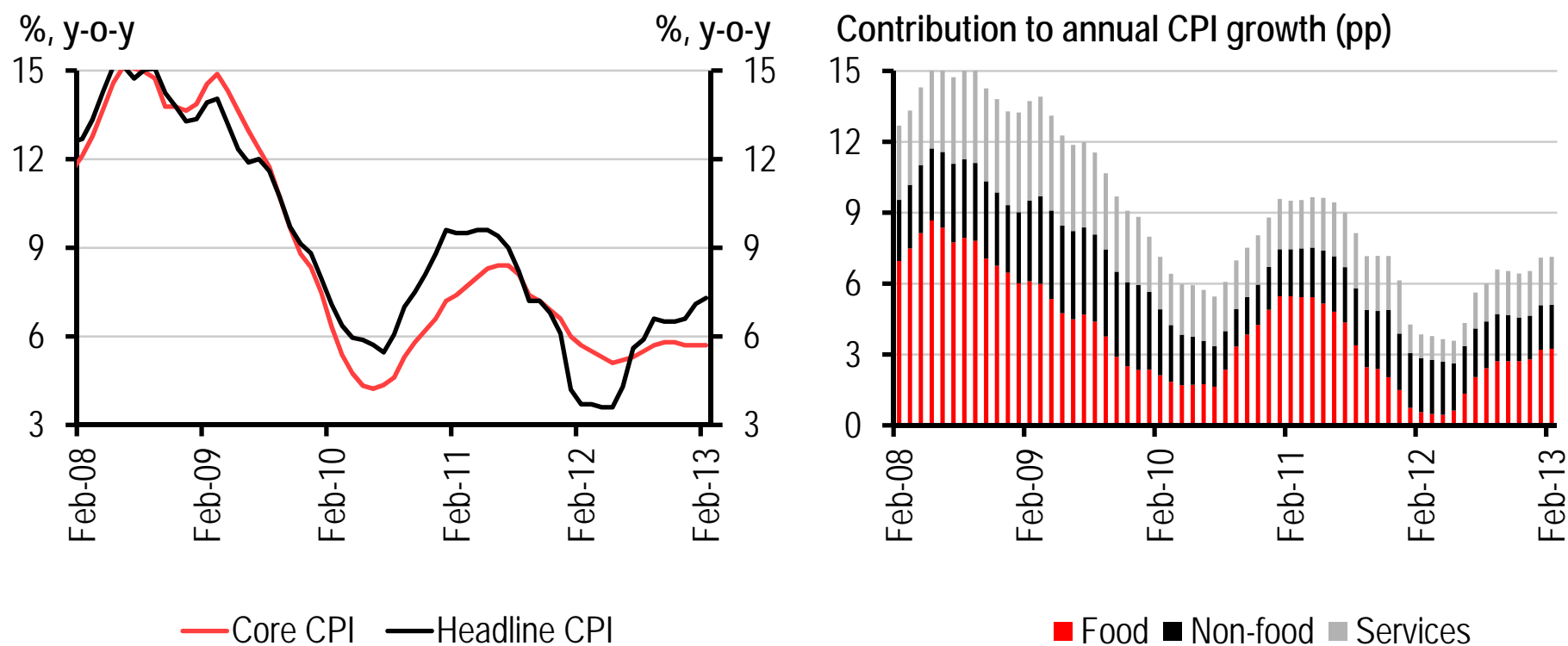
— Ranked 112th in DB13 — Ranked 118th in DB12



■ Russia

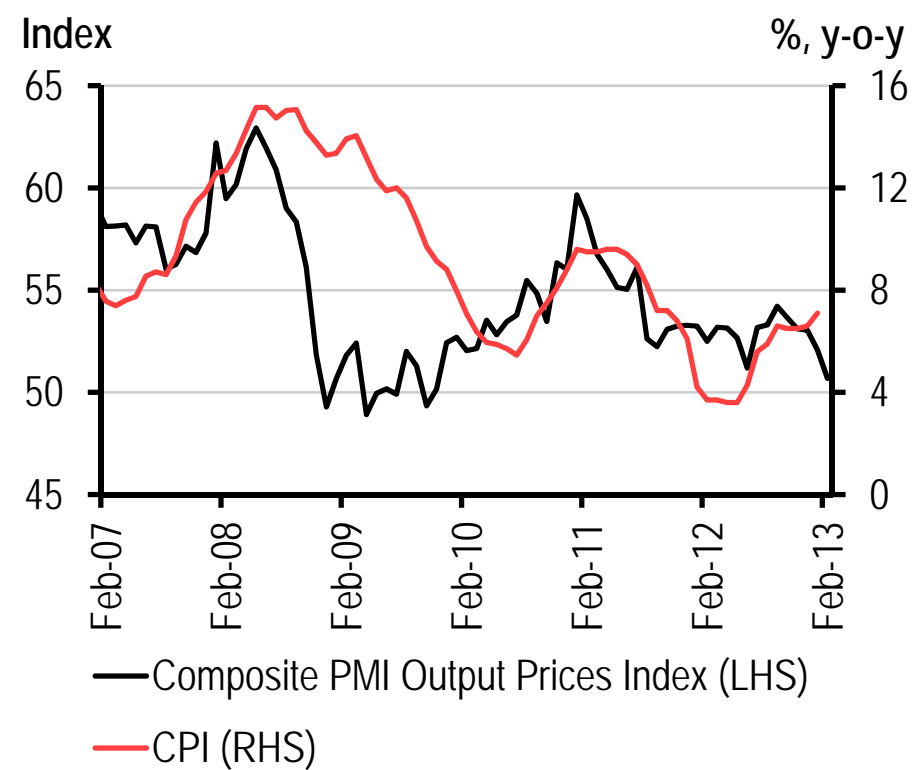
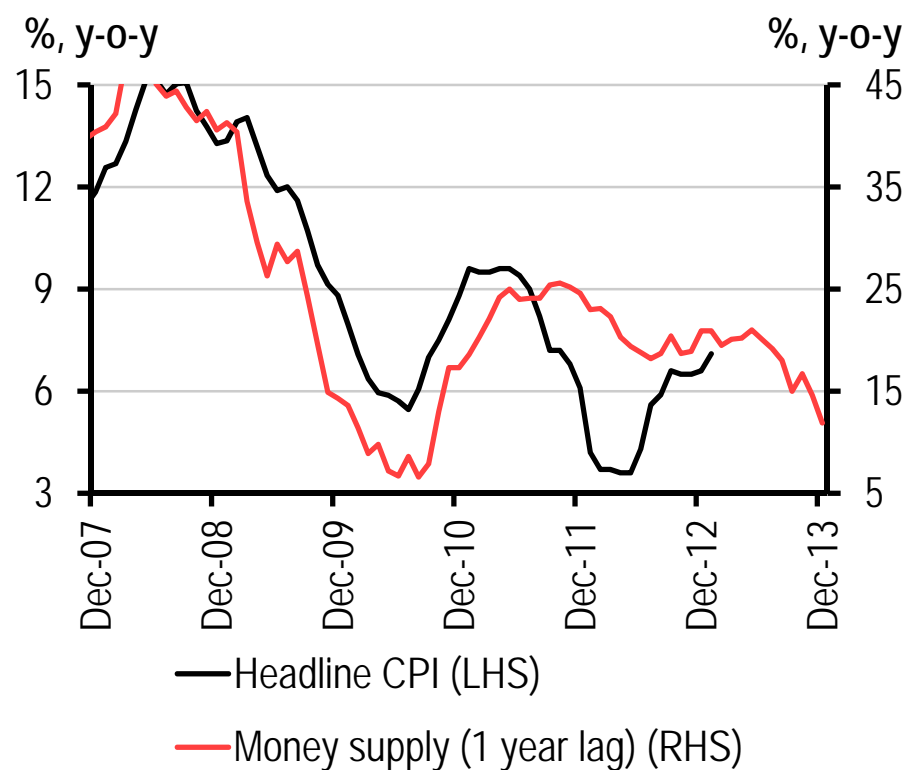
Source: World Bank, Transparency International

Inflation: food prices keep pushing CPI higher since June 2012...



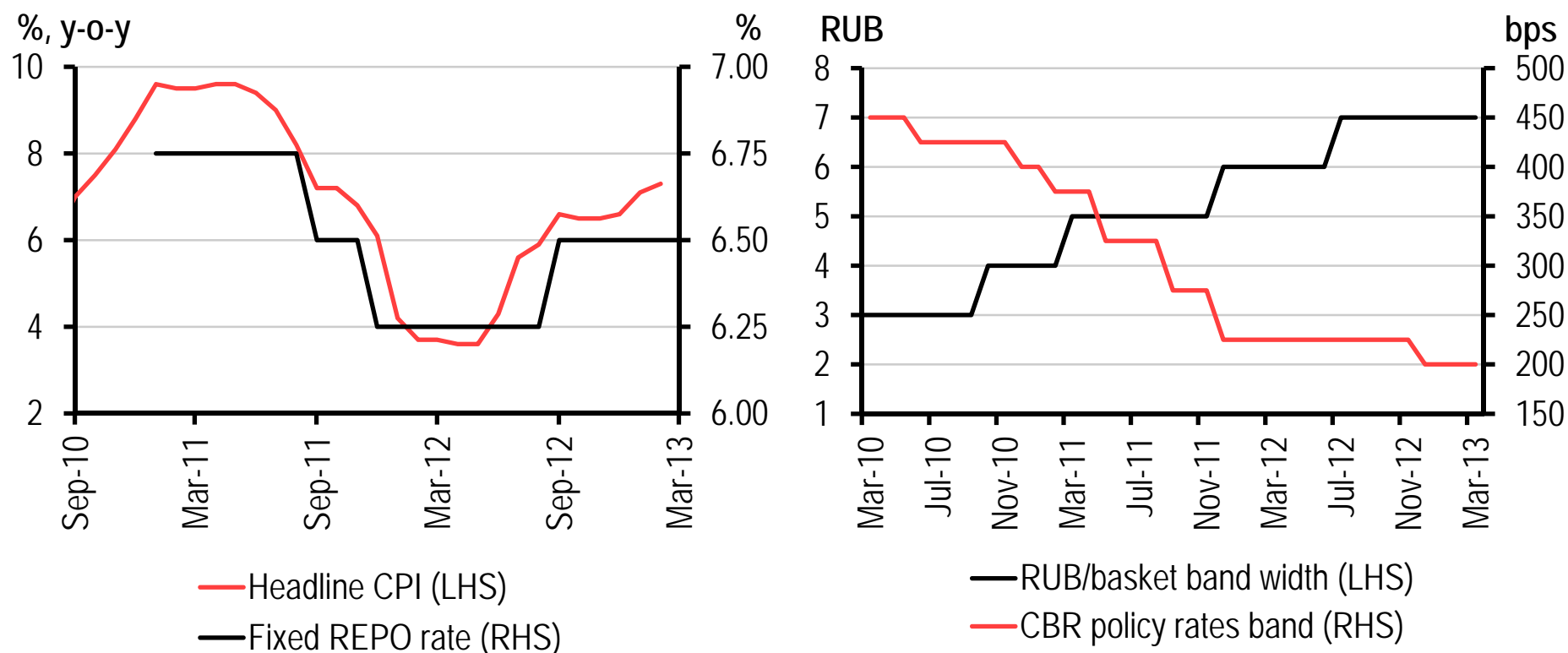
Source: Rosstat, HSBC

...yet, underlying inflationary pressures started easing



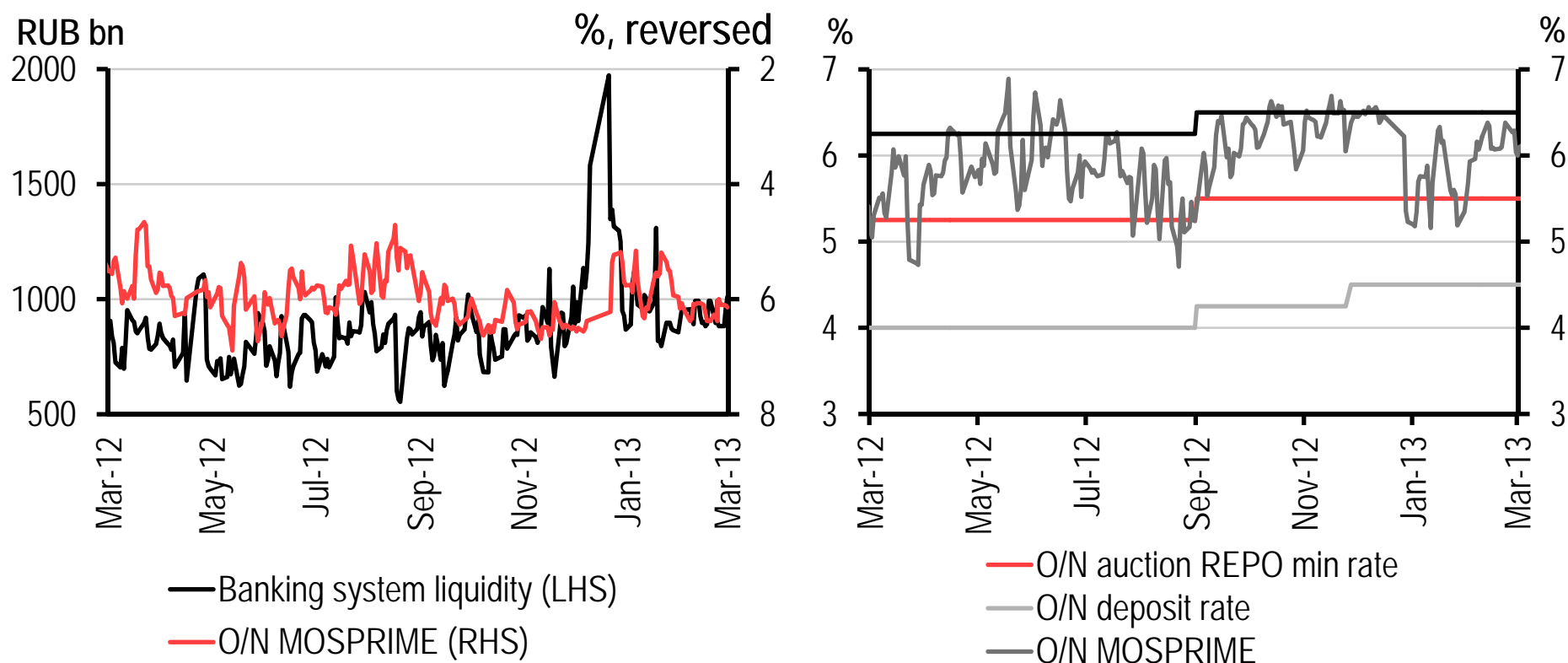
Source: Rosstat, CBR, HSBC

Monetary policy's cross on a road to inflation targeting



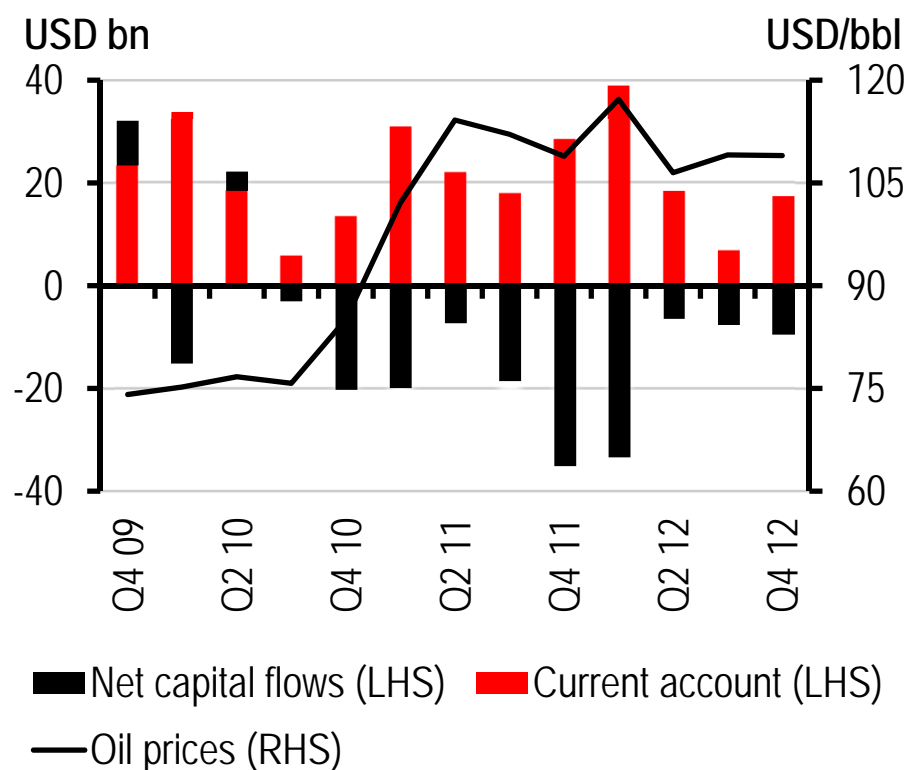
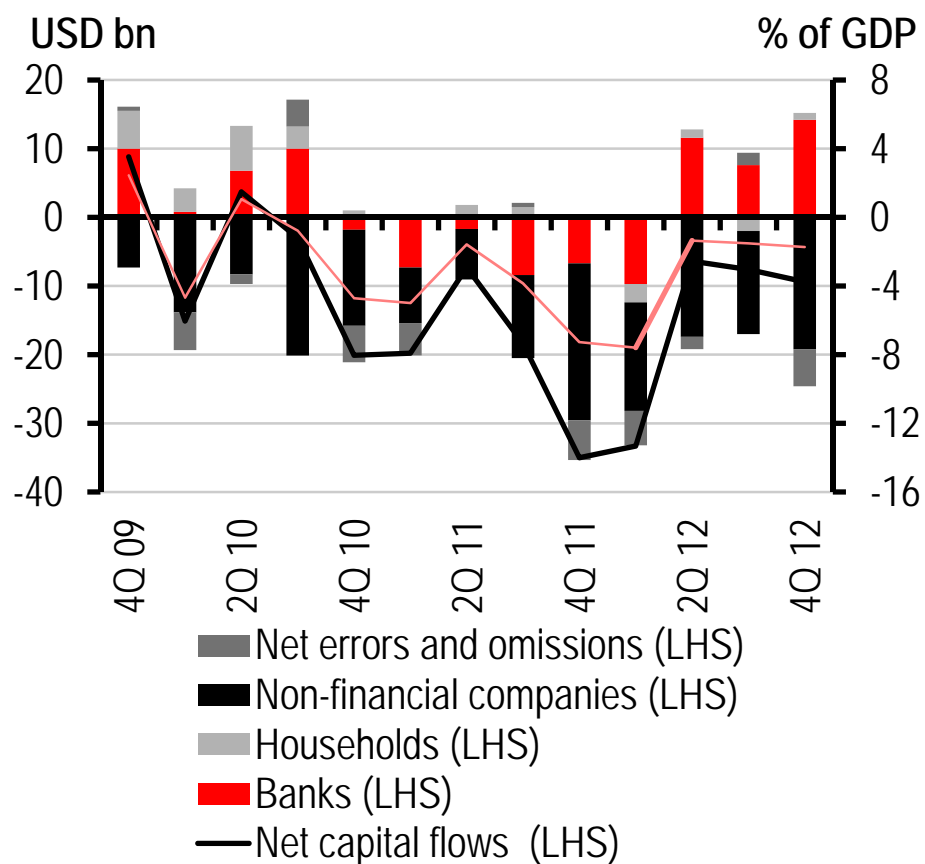
Source: Rosstat, CBR, HSBC

CBR's repo rates remain a *New Normal*



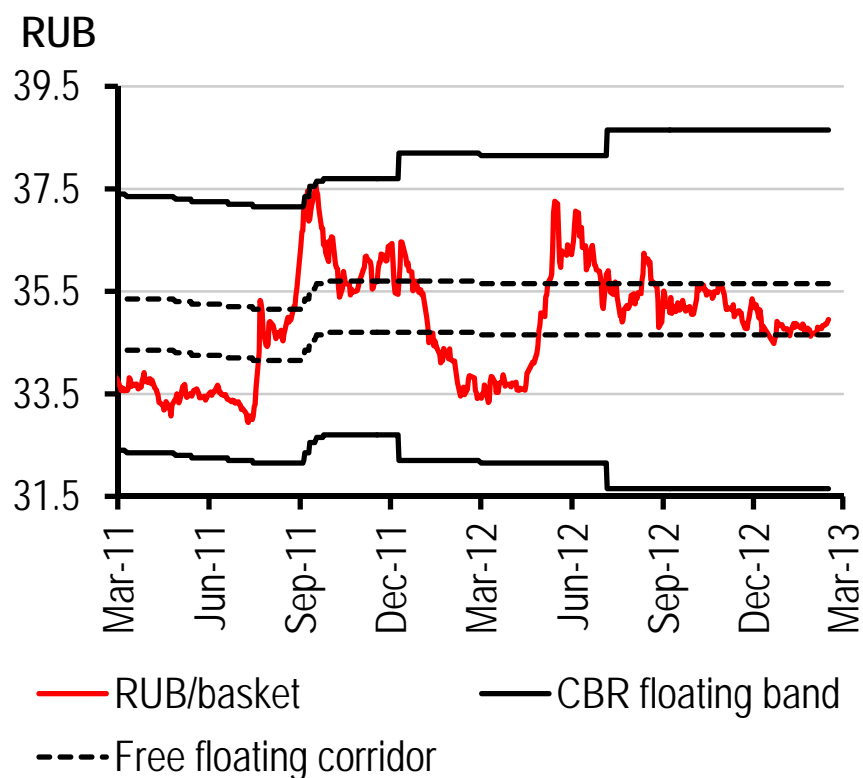
Source: Rosstat, CBR, HSBC

Persistent capital outflows demand positive current account

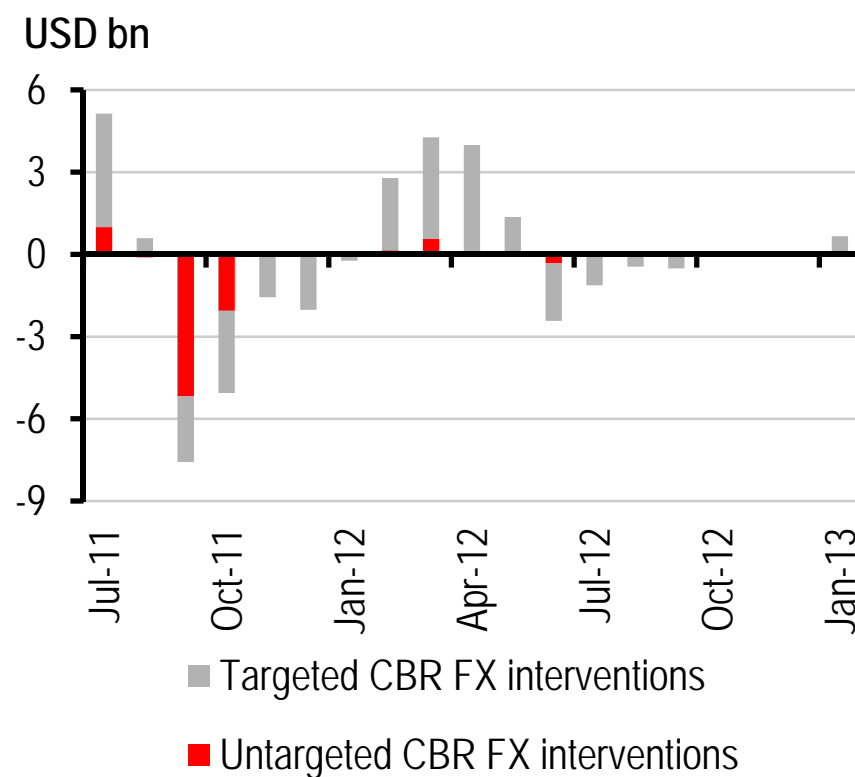


Source: CBR, HSBC

CBR reduced FX interventions as RUB volatility declined



Source: CBR, HSBC



RUB to face depreciation pressures from weaker current account

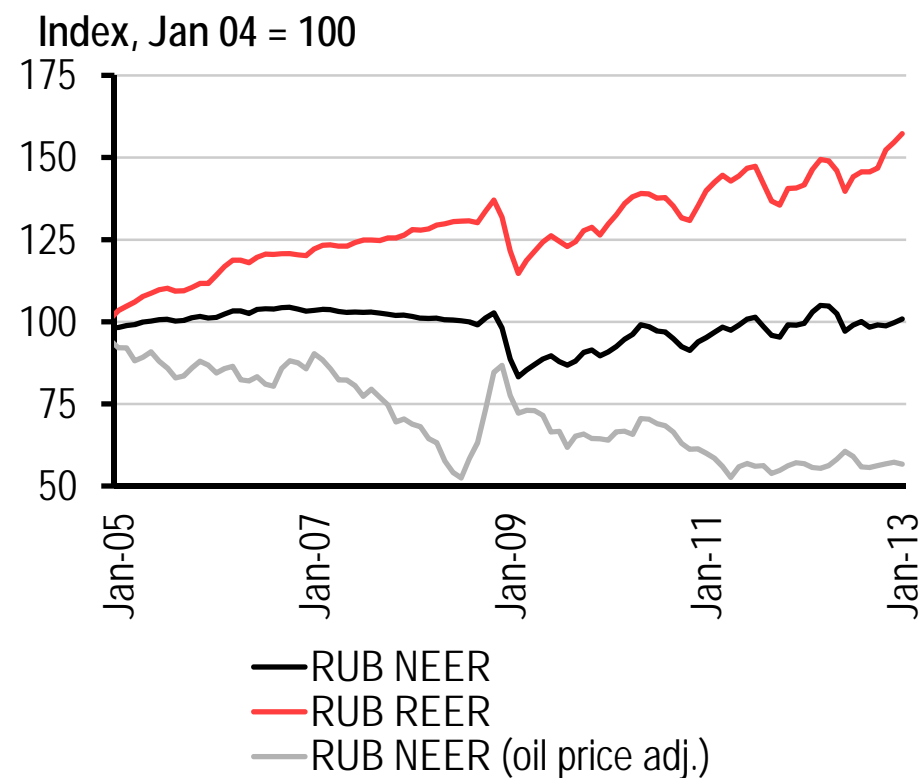
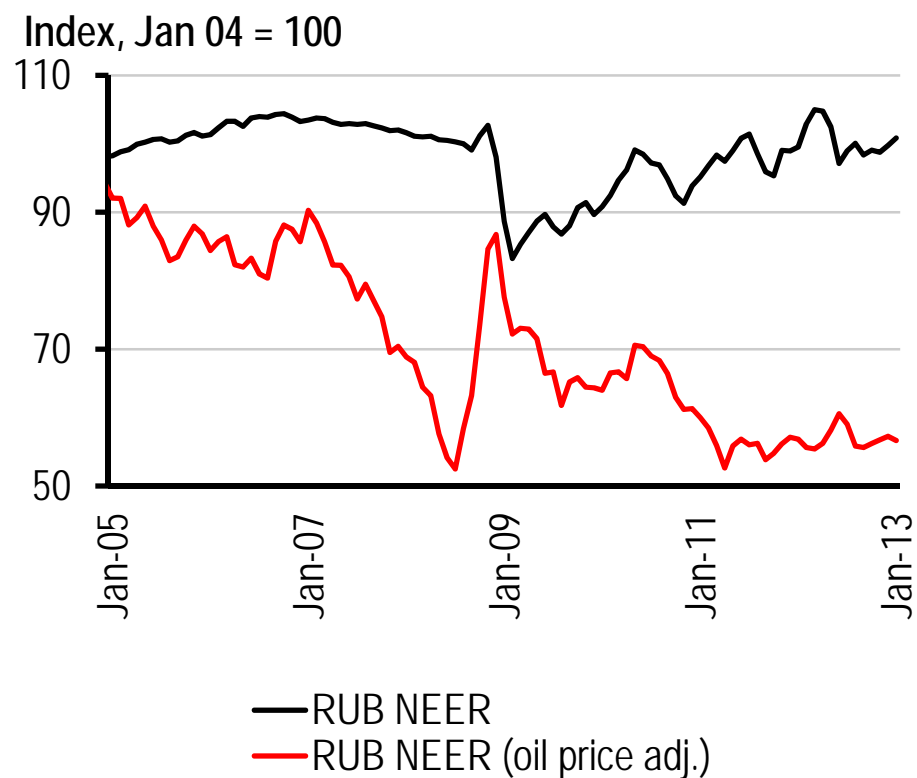
Monthly current account surplus (*USD bn*)

	CA 10	CA 11	CA 12	CA 13
January	12.4	8.9	14.9	12.0
February	10.9	12.2	13.5	7.5
March	10.3	9.7	10.7	8.0
April	9.7	12.4	9.7	5.0
May	6.8	8.9	10.0	7.0
June	2	0.6	-3.2	-2.5
July	3.1	5.9	1.0	0.5
August	-0.5	4.6	-1.6	-2.5
September	2.8	7.4	6.8	5.0
October	3	9.7	5.1	3.0
November	3.3	9.4	6.5	4.5
December	6.4	9.2	1.2	4.5

	RUB positive
	RUB neutral
	RUB negative

Source: CBR, HSBC

RUB looks expensive in real effective terms

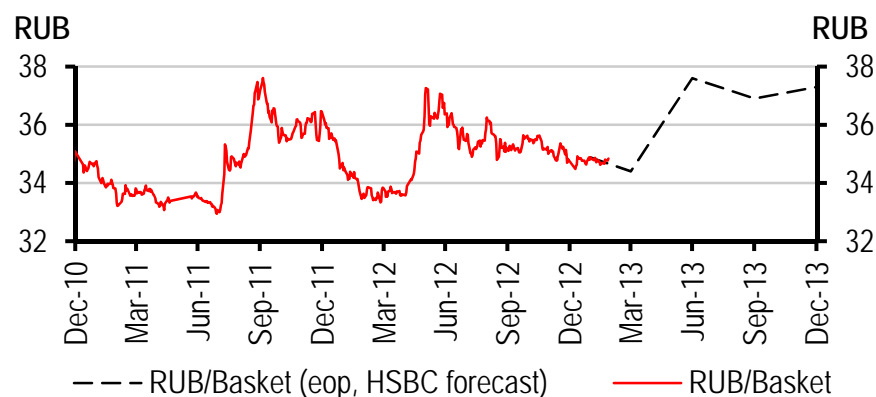


Source: CBR, HSBC

HSBC is the most accurate RUB forecaster in 2012 - Bloomberg

RUSSIAN RUBLE/U.S. DOLLAR

Rank	Firm	AME*
1	HSBC Holdings Plc	4.70%
2	Petrocommerce Bank	4.76%
3	Credit Agricole SA	4.82%
4	Bank of America Merrill Lynch	5.16%
5	Nomura Holdings Inc.	5.27%



Source: Bloomberg, Reuters, HSBC

METHODOLOGY: To identify the most accurate EMEA foreign-exchange forecasters for the six quarters ending on December 31, 2012, we used Bloomberg's Foreign Exchange Forecasts (FXFC) function along with Bloomberg indexes that track historical forecasts by firm.

We looked at forecasts made for six quarters, starting with the third quarter of 2011 through the fourth quarter of 2012. To test forecasters' long-term accuracy we added one annual forecast, which was made on December 31, 2011 for December 31, 2012 exchange rates. Each of these seven forecasts was weighted equally. Our rankings show the top five forecasters for each major currency pair ranked by their average margin of error, which was calculated by subtracting the forecast from the actual spot rate and dividing the result by the actual spot rate.

To qualify for each currency-pair ranking, a firm had to submit at least four forecasts. In all, 32 firms submitted enough forecasts to be ranked in at least one currency. To appear in the Best Overall, firms had to qualify in at least six out of eleven pairs. Twenty-four firms were eligible to be ranked in the overall category.

Summary

- **Economic growth:** Stabilization at 2.0-3.0%
- **Inflation:** Deceleration trend to start from June
- **Monetary policy:** Easing to start in 2H 13
- **External accounts:** Sizeable capital outflows continue
- **FX:** Moderate yet sustainable weakening