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MNI Russia Business Report May 2014

Insight and data for better decisions

About MNI Indicators

Insight and data for better decisions

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MNI Indicators specialises in business and consumer focused macro-economic reports that give our customers the ability to make timely and relevant decisions. We strive to provide up-to-date information on business and consumer confidence on the economy.

MNI Indicators publishes data on a monthly basis. Our indicators are based on a unique and proprietary methodology and are designed to present an advance picture of the economic landscape as perceived by businesses and consumers every month.

Our monthly reports explore attitudes, perspectives and confidence across different countries and regions. They deliver in-depth analysis, highlight changing patterns and how these can affect potential developments in business and consumer activities.

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Written and researched by

Philip Uglow, Chief Economist

Shaily Mittal, Economist

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MNI Indicators | Deutsche Börse Group

Westferry House

11 Westferry Circus

London

E14 4HE

Tel: +44 (0)20 7862 7444

Email: info@mni-indicators.com

www.mni-indicators.com

@MNIIndicators

MNI Russia Business Report - May 2014

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A New Friend

Russia has long been looking to the East and this month came up trumps, as President Vladimir Putin signed a historic 30-year deal worth \$400 billion for the state-run gas producer Gazprom to supply natural gas to China.

Last month, our editorial was titled “Going Alone” as Russia faced increasing political and economic isolation from the US and EU. Russia has long been looking to the East and this month came up trumps, as President Vladimir Putin signed a historic 30-year deal worth \$400 billion for the state-run gas producer Gazprom to supply natural gas to China. One little caveat is that it would appear that while the signing ceremony took place there are quite a lot of details to be ironed out on the pricing front.

Still if it all goes ahead according to plan then it's a win for both sides as China secures the natural gas its economy needs, a helping hand to move away from more polluting coal, while Russia gets to diversify. Not, of course, from its age old dependence on the energy sector (it really does need to do this though) but away from its traditional European partners.

Not wanting to be pushed around by the US or European neighbours it's likely that Putin gave a fair bit of ground to China on the deal in order to push it through quickly. Sharing a platform with China's President Xi Jinping is certainly one way to show the world you're not isolated. But even if China has got a good deal, diversifying its supply network is a boon for Russia. It will also help not just China but possibly the rest of Asia, as Russia will be able to ship gas from the end of the pipeline in south-east Russia to other Asian countries. According to the International Energy Agency, Asia is the fastest growing region for natural gas consumption in the world and by 2015 it will become the second-largest market.

China will make as much as \$25 billion in advance payments to invest in the necessary infrastructure in Russia. Gazprom will invest \$55 billion developing giant gas fields in eastern Siberia and building the new pipeline. While this may be hailed as the much needed

investment Russia needs, it also needs to ensure that the proceeds of this deal are fed into investment in other areas of the economy as well. The danger is that a deal like this reinforces Russia's focus on the energy sector and may hold back the often talked about development of the high-tech manufacturing sector.

While Russia's eastern foray is strategically important, most of its trade is still with the EU. Our own business survey this month showed that the Ukraine crisis has inflicted clear damage on the confidence of Russian companies. For now, economic recovery in Russia depends more on it's old friends in the west than new ones in the east.

Shaily Mittal
Philip Uglow
MNI Indicators



Executive Summary

Russian business sentiment contracted sharply in May to the lowest level since December 2013, as businesses felt the heat of the standoff from the West over Russia's military intervention in Crimea.

Russian business sentiment contracted sharply in May to the lowest level since December 2013, as businesses felt the heat of the standoff from the West over Russia's military intervention in Crimea.

The MNI Russia Business Indicator fell to 49.2 in May from 55.6 in April, to stand 11.5% below the level seen in May 2013. The decline in the indicator below the 50 expansion/contraction level suggests a considerable dent has been made in Russian business confidence from what have only been limited sanctions imposed by the US and the EU.

Fewer companies expected their overall business conditions to improve in the following three months. The Expectations Indicator fell to 52.5 in May from 54.3 in April, the lowest in five months.

Current conditions for Production declined to the lowest in two months following a small rise in the previous month. The Production Indicator fell to 55.3 in May from 57.3 in April and was significantly below the 61.0 outturn seen in the same period a year ago.

The New Orders Indicator fell to the lowest since December and was well below the level witnessed in the same period a year earlier, highlighting the slowdown in the economy over the past year.

Given the current weak demand backdrop, Order Backlogs have remained in contraction for three months. The Order Backlogs Indicator rose to 42.3 from the record low level of 39.5 in April and was below the outturn seen in the same month a year ago.

Russian companies felt the pinch of the stand-off with the West amid the threat of further sanctions following Crimea's annexation. The indicator measuring the Financial Position of companies declined for the third consecutive month in May to the lowest since August 2013.

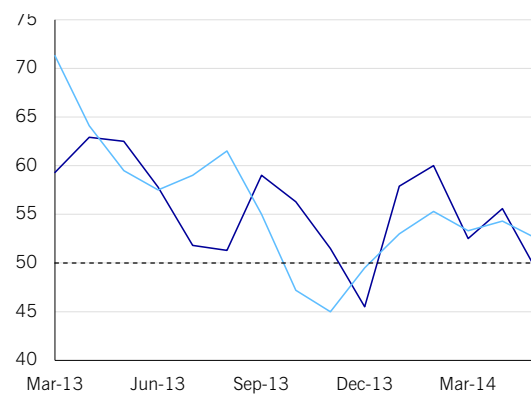
The Prices Received Indicator, which measures the prices that companies charge for their goods and services, declined to 50 in May from 50.5 in April.

The effect of the rate hike in late April has not yet been passed onto businesses, as the majority of companies reported no change in their interest costs. The indicator for Interest Rates Paid remained flat at 49.7 in April, the second month below the 50 expansion/contraction mark.

More companies reported that they had better access to credit in May, as the Availability of Credit Indicator increased significantly by 11.1% to 59.9 from 53.9 in the previous month, the highest on record.

The Effect of Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, increased for the first time in three months to 53.3 in May compared with 50.9 in

MNI Russia Business Indicator



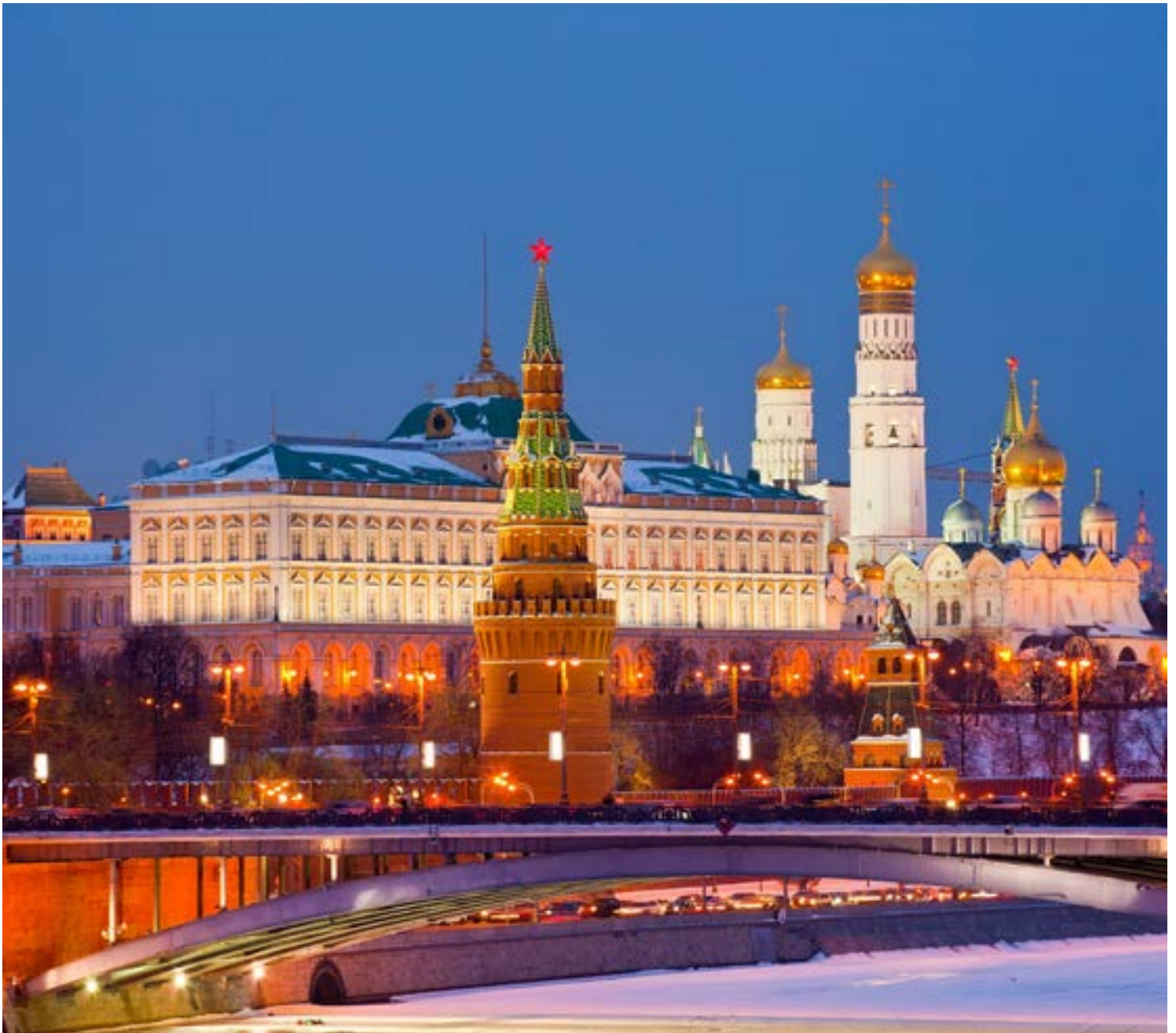
— Current Conditions
— Future Expectations

Overview

	Mar-14	Apr-14	May-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	52.5	55.6	49.2	-	Dec-13	52.4	-6.4	-11.5%
Future Expectations	53.3	54.3	52.5	-	Dec-13	53.4	-1.8	-3.3%
Production								
Current Conditions	52.5	57.3	55.3	-	Mar-14	55.0	-2.0	-3.5%
Future Expectations	50.8	52.0	51.7	-	Mar-14	51.5	-0.3	-0.6%
New Orders								
Current Conditions	57.5	58.8	54.8	-	Dec-13	57.0	-4.0	-6.8%
Future Expectations	51.8	52.2	52.7	Sep-13	-	52.2	0.5	1.0%
Export Orders								
Current Conditions	48.3	44.4	46.9	Mar-14	-	46.5	2.5	5.6%
Future Expectations	43.0	43.5	43.0	-	Dec-13	43.2	-0.5	-1.1%
Productive Capacity								
Current Conditions	50.3	50.0	51.5	Oct-13	-	50.6	1.5	3.0%
Future Expectations	49.7	49.7	50.3	Aug-13	-	49.9	0.6	1.2%
Order Backlogs								
Current Conditions	47.4	39.5	42.3	Mar-14	-	43.1	2.8	7.1%
Future Expectations	43.0	42.5	43.3	Feb-14	-	42.9	0.8	1.9%
Employment								
Current Conditions	50.0	50.8	52.8	Jun-13	-	51.2	2.0	3.9%
Future Expectations	50.5	50.0	50.5	Mar-14	-	50.3	0.5	1.0%
Inventories								
Current Conditions	40.4	32.2	39.2	Mar-14	-	37.3	7.0	21.7%
Future Expectations	40.2	41.2	43.4	Feb-14	-	41.6	2.2	5.3%
Input Prices								
Current Conditions	52.1	51.8	51.0	-	Aug-13	51.6	-0.8	-1.5%
Future Expectations	52.1	50.3	50.0	-	series low	50.8	-0.3	-0.6%
Prices Received								
Current Conditions	53.1	50.5	50.0	-	Mar-13	51.2	-0.5	-1.0%
Future Expectations	51.3	51.3	51.0	-	Feb-14	51.2	-0.3	-0.6%
Financial Position								
Current Conditions	60.1	59.8	56.3	-	Aug-13	58.7	-3.5	-5.9%
Future Expectations	55.6	54.4	53.6	-	series low	54.5	-0.8	-1.5%
Interest Rates Paid								
Current Conditions	50.0	49.7	49.7	Apr-14	-	49.8	0.0	0.0%
Future Expectations	49.4	49.4	49.7	Feb-14	-	49.5	0.3	0.6%
Effect of Rouble Exchange Rate								
Current Conditions	53.7	50.9	53.3	Mar-14	-	52.6	2.4	4.7%
Future Expectations	50.0	50.0	50.0	Apr-14	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	50.0	49.5	51.8	series high	-	50.4	2.3	4.6%
Future Expectations	49.7	49.7	49.7	Apr-14	-	49.7	0.0	0.0%
Availability of Credit								
Current Conditions	53.0	53.9	59.9	series high	-	55.6	6.0	11.1%
Future Expectations	50.0	51.5	50.6	-	Mar-14	50.7	-0.9	-1.7%

Russian business sentiment contracted sharply in May to the lowest level since December.

Decline in the indicator below the 50 level suggests a considerable dent has been made in business confidence from what have only been limited sanctions imposed by the US and the EU.



Economic Landscape

The IMF recently reported that Russia was in recession and warned that growth will further contract if the West imposed any further sanctions.

The geo-political turmoil in Ukraine has thrown Russian into economic crisis and growth for the full year has been revised down to just 0.5%. The IMF recently reported that Russia was in recession and warned that growth will further contract if the West imposed any further sanctions. Moreover the rise in the key policy rate by the central bank, to address inflationary issues and stem the slide in the rouble and capital flow leakage, comes at the cost of much needed growth.

On a more positive note, industrial production expanded and manufacturing output posted the highest growth in five months. The rouble has gained slightly from the previous month, but is still 12% below the level compared with the previous year. Russia and China signed a gas deal worth \$400 billion which will help to boost infrastructure investment in Russia and comes at a time when western economies threaten more sanctions against it.

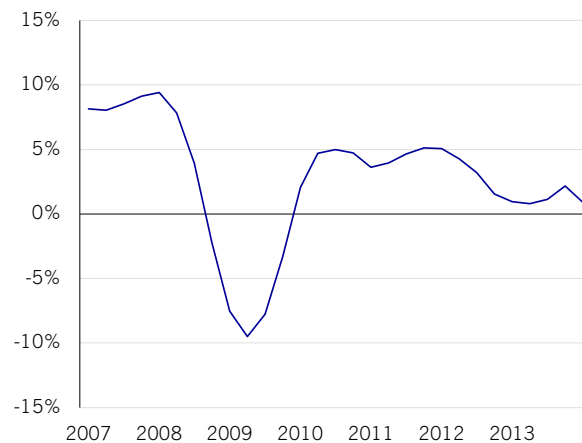
Low economic growth

Economic growth remained extremely weak at the beginning of 2014, slowing to 0.9% in Q1 compared with a year earlier, down from growth of 2% in Q4 2013 and 1.3% in Q1 2013. According to the Economy Ministry, capital investment contracted by 4.8% in Q1 compared with a year earlier. Consumption remained relatively firm, but it reflected a one-off public sector pay increase and so is unlikely to be sustained.

Russian ministers had predicted GDP growth of 2.5% this year before the Ukrainian turmoil. However, this has been dramatically reduced to just 0.5%, following a paltry 1.3% growth in 2013. In April, Central Bank governor Elvira Nabiullina also revised the growth rate for 2014 to below 1% from 1.5-1.8% previously.

The International Monetary Fund thinks that Russia is already in recession as U.S. and EU leaders warn that

Economic Growth



— GDP Growth y/y %

Source: Federal State Statistics Service of Russia

they are ready to take further measures if the situation in Ukraine is not de-escalated.

Industrial production expands in April

Industrial production accelerated by 2.4% on the year in April, up from 1.4% in March due to a rise in the output of mining and quarrying which expanded by 1.1% compared with growth of just 0.6% in the previous month. Manufacturing output growth added to the expansion, increasing by 3.9% in April, the highest in five months, and up from growth of 3.5% in March. Utilities output continued to contract for the sixth consecutive month, declining by 1.9% compared with a fall of 6.6% in March.

In the first four months of 2014, industrial production grew 1.4% on the year after contracting 0.6% in the same period a year ago. The economy ministry expects industrial output to increase by 1.3% this year after it showed no growth in 2013.

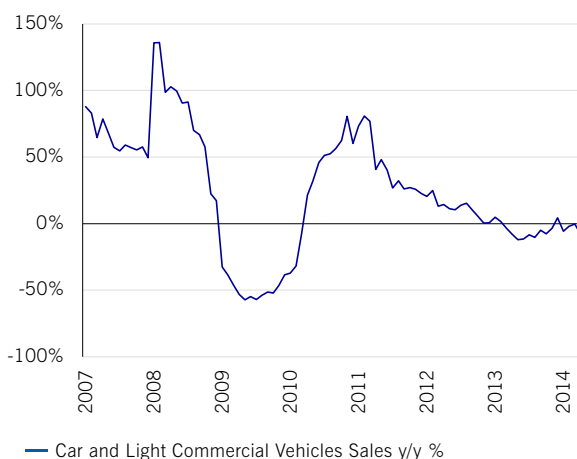
Car sales fall in April

In April, 226,526 cars were sold, 7.7% below the levels in the same month a year earlier, according to the Association of European Businesses (AEB). Higher inflation and a weaker rouble are having a negative impact on consumer spending. The pace of the decline in car sales had eased until March when sales declined by just 0.4%, but the market is showing signs of distress again. The four months to April saw a decline of almost 4% in car sales compared with the same period a year earlier.

A major blow to the Russian Automotive Industry came when Ford Sollers, a joint venture between Ford and Russian carmaker Sollers, announced it would cut production and 950 jobs at two of its three factories in Russia due to the country's deteriorating economy and weaker rouble.

The AEB remains cautious about the outlook and has forecast that car sales will decline by 1.6% in 2014 following a drop of 5.5% in the previous year.

Car Sales



Source: Federal State Statistics Service of Russia

Higher inflation in April

Consumer price inflation rose to 7.3% in April from 6.9% in March as food prices rose by 9% on the year, compared with 8.4% in the previous month. A ban on pork imports from the European Union has affected the cost of meat products. Even after stripping out the cost of food and fuel, core inflation accelerated to 6.5% from 6% in the previous month.

Russia imports a large amount of consumer goods and food items, and the depreciation of the currency has pushed up prices, forcing the central bank to tighten its monetary policy.

The central bank governor now expects inflation to stand between 5% and 6% in 2014, above the target of 5%.

Inflation



Source: Federal State Statistics Service of Russia

Hike in key policy rate

On April 25, the Russian central bank raised its benchmark interest rate to 7.5% from 7%, given the rise in inflation. The increase followed a hike on March 3 from 5.5% to 7% that the bank had described as temporary.

The surprise rate hike came despite stalling economic growth. While the central bank's stated concern was inflation, the move was also a pre-emptive strike to ward off further capital outflows and help support the currency.

The Central Bank increased its inflation forecast to 6%, above the 5% target. However, it expects that the additional policy tightening will help inflation to return to a downward path from the second half of the year and put it back on target in subsequent years.

Depreciation in the rouble

So far this year, the rouble has been one of the worst performing emerging market currencies due to alarming levels of capital flowing out of the country following Russia's annexation of Crimea and fears of further escalation in the situation. In May, the rouble was 12.1% below the level seen in the same period a year ago. However, as international tensions have eased a bit, the rouble has strengthened over the past two months and has gained 1.6% compared with April.

Russia had a healthy \$482.7 billion in international currency reserves in April, but that was down from \$493 billion in March and \$522 billion in October 2013 as the country has tried to protect the rouble from capital flight.

Capital outflows from Russia's private sector stood at \$63.7 billion in Q1 2014 owing to the financial instability. This compared with an outflow of \$59.7 billion during the whole of 2013. Recently, the Russian Economic Development Ministry increased its estimate of capital flight to \$150 billion, up from an already revised estimate to \$100 billion, post Ukraine crisis, \$25 billion being the original estimate.

The Central Bank has cut the size of the interventions it carries out to support the rouble, a return to the policy of allowing the rouble to float more freely. Previously the bank spent \$400 million a day when

the rouble was within 95 kopecks (\$0.028) of the upper edge of the top range of the corridor, or \$200 million when it was trading in a range of one rouble below that. These amounts will now be reduced to \$300 million and \$100 million, respectively.

The bank aims to adopt inflation targeting from the start of next year. It was forced to pause the shift towards inflation targeting in early March in order to halt the rouble's decline after Russia annexed Crimea.

Trade surplus widens in March

Russia's trade surplus widened to \$20 billion in March, from \$12.4 billion a month earlier and from \$15.7 billion in the same month a year ago, as exports rose by the most since February 2012 due to the sharp depreciation of the rouble.

After declining for the first time in four months, exports recovered to \$46.9 billion in March, 5.5% below the same period a year ago. Imports declined for the third consecutive month to \$26.9 billion, down by 6.6% on the year, although smaller than the 9.4% decline recorded in February.

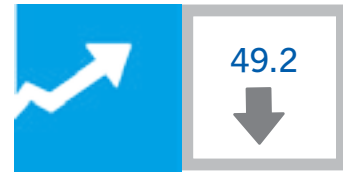


Indicators

The MNI Russia Business Indicator fell below the 50 expansion/contraction level suggesting a considerable dent has been made in Russian business confidence from what have only been limited sanctions imposed by the US and the EU.

MNI Russia Business Indicator

Contracts Amid Uncertainty



Russian business sentiment contracted sharply in May to the lowest level since December 2013, as businesses felt the heat of the standoff from the West over Russia’s military intervention in Crimea.

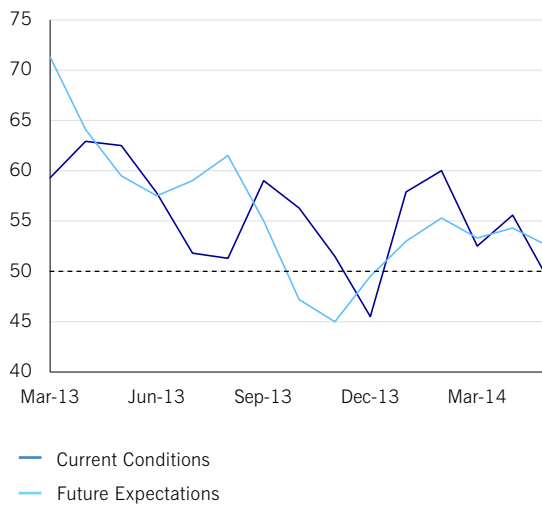
The MNI Russia Business Indicator fell to 49.2 in May from 55.6 in April, to stand 11.5% below the level seen in May 2013. The decline in the indicator below the 50 expansion/contraction level suggests a considerable dent has been made in Russian business confidence from what have only been limited sanctions imposed by the US and the EU.

Six out of the 15 current conditions indicators included in the survey declined between April and May.

Business confidence was weak across the board and it fell sharply among service and manufacturing companies, with the Business Indicator sinking into contraction. Construction companies were also less optimistic about current business conditions, although the majority reported that they remained broadly stable compared with the previous month.

Fewer companies expected their overall business conditions to improve in the following three months. The Expectations Indicator fell to 52.5 in May from 54.3 in April, the lowest in five months. Expectations among manufacturing companies contracted and fell to the lowest in 10 months. The Expectations Indicator for construction companies fell while it remained broadly stable for service sector firms.

MNI Russia Business Indicator



While asset freezes and travel bans have already been imposed on members of Russian president Vladimir Putin’s inner circle, who have been accused of supporting the country’s efforts against Ukraine, the EU and US have repeatedly warned that wide-ranging sectoral sanctions would be imposed if the country refuses to de-escalate the situation in Ukraine.

In May, seven out of the 15 future expectations indicators fell while two remained unchanged from April.

MNI Russia Business Indicator

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	62.5	45.5	57.9	60.0	52.5	55.6	49.2
Future Expectations	59.5	49.5	53.0	55.3	53.3	54.3	52.5

Production Declines in May



Current conditions for Production declined to the lowest in two months following a small rise in the previous month. The Production Indicator fell to 55.3 in May from 57.3 in April and was significantly below the 61.0 outturn seen in the same period a year ago.

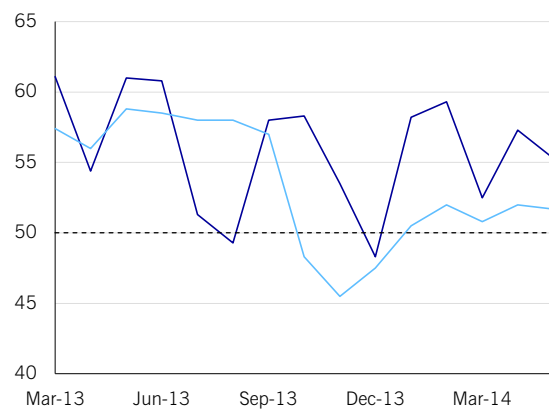
There have been some limited signs of a pick-up in the economy with industrial production growing for the third consecutive month in April, by 2.4% on the year, following growth of 1.4% in March, although it still remains weak.

The Production Indicator declined for manufacturing and service companies and remained stable among construction companies.

Companies were more optimistic about the next three months, with the Future Expectations Indicator broadly stable at 51.7 compared with 52.0 in April, albeit 12% below the level in the same period a year earlier.

Expectations about Production levels in the next three months remained flat for service sector companies while they declined for manufacturing and construction sector companies.

Production



— Current Conditions
— Future Expectations

Production

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	61.0	48.3	58.2	59.3	52.5	57.3	55.3
Future Expectations	58.8	47.5	50.5	52.0	50.8	52.0	51.7

New Orders

Lowest Since December

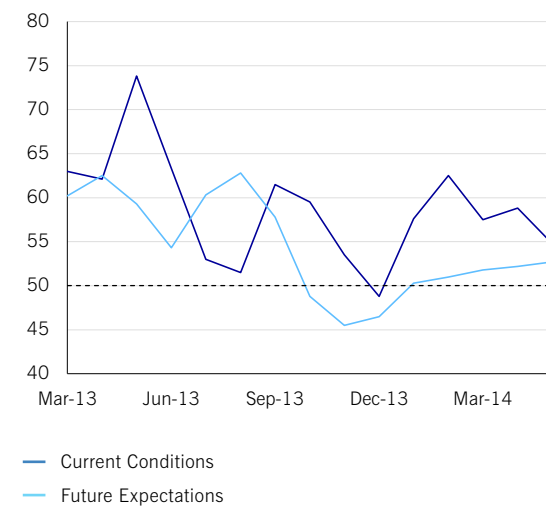


The New Orders Indicator fell to the lowest since December and was well below the level witnessed in the same period a year earlier, highlighting the slowdown in the economy over the past year.

The New Orders Indicator declined to 54.8 in May from 58.8 in the previous month, a decline of 6.8% on the month. The fall in New Orders was across all three sectors (manufacturing, construction, and service).

Under the growing threat of more widespread sanctions, expectations of companies for New Orders in three months' time remained low and were 11.1% below the same period a year ago. The Expectations Indicator rose marginally to 52.7 in May from 52.2 in the previous month.

New Orders



New Orders

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	73.8	48.8	57.6	62.5	57.5	58.8	54.8
Future Expectations	59.3	46.5	50.3	51.0	51.8	52.2	52.7

Export Orders Remain Below 50



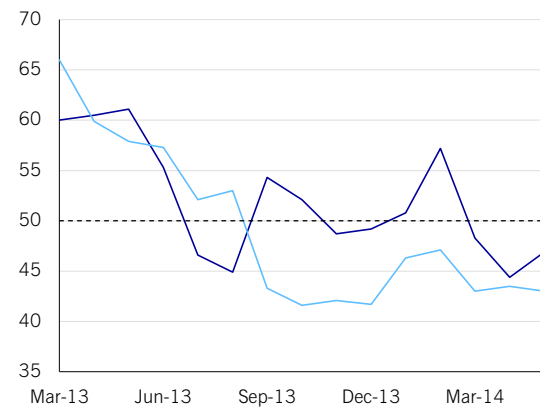
The Export Orders Indicator increased for the first time in three months in May after falling to a record low level in the previous month in the wake of rising tensions with the EU and US over the situation in Ukraine.

The Export Orders Indicator rose by 5.6% on the month to 46.9 in May from 44.4 in the previous month. Tensions in the region have led to a clear reduction in overseas orders with the indicator down by 23.2% from the same period a year ago.

All three sectors reported a rise in Export Orders, although the indicator remained below the 50 mark among services and manufacturing companies.

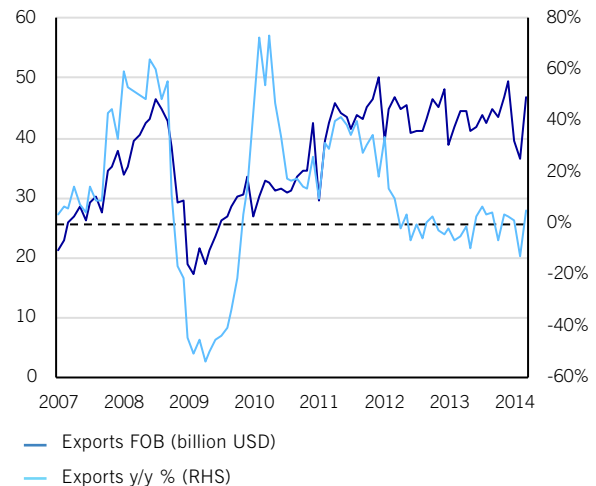
Companies were less optimistic about future Export Orders and the indicator remained in contraction for the ninth consecutive month, not least as there were few signs of a resolution of the situation in Ukraine. The Expectations Indicator declined to 43.0 in May from 43.5 in the previous month.

Export Orders



— Current Conditions
— Future Expectations

Trend in Exports



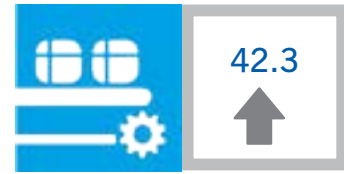
— Exports FOB (billion USD)
— Exports y/y % (RHS)

*Source: The Central Bank of the Russian Federation

Export Orders

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	61.1	49.2	50.8	57.2	48.3	44.4	46.9
Future Expectations	57.9	41.7	46.3	47.1	43.0	43.5	43.0

Order Backlogs Remain in Contraction

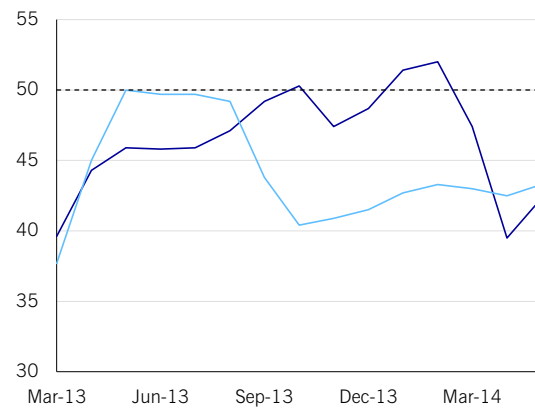


Given the current weak demand backdrop, Order Backlogs have remained in contraction for three months. The Order Backlogs Indicator rose to 42.3 from the record low level of 39.5 in April and was below the outturn seen in the same month a year ago.

The indicator for Order Backlogs increased to the breakeven 50 level in May for construction companies while manufacturing companies remained in contraction. The slowdown in the economy has resulted in a greater degree of excess capacity, which means companies are better placed to meet any new demand swiftly.

Future Expectations for backlogs remained firmly in contraction and increased slightly to 43.3 from 42.5 in April. Except for May last year, when the Future Expectations Indicator was exactly 50, expectations for Order Backlogs have always been in contraction, although have trended up gradually since October.

Order Backlogs



— Current Conditions
— Future Expectations

Order Backlogs

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	45.9	48.7	51.4	52.0	47.4	39.5	42.3
Future Expectations	50.0	41.5	42.7	43.3	43.0	42.5	43.3

Employment

Highest Since June 2013



The majority of companies continued to report that the number of employees they had was just right, although the Employment Indicator increased for the second month in a row to 52.8 from 50.8 in the previous month.

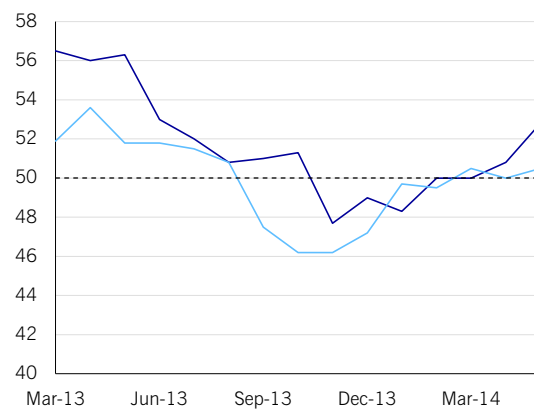
Firms are asked whether they have too few, too many or just the right number of employees. A reading below 50 indicates they have too many, above that they have too few, while 50 is seen as neutral.

Over the past year, companies' hiring has reduced considerably with the Employment Indicator down by 6.2% in line with the downturn in the economy.

There was a sharp rise in the Employment Indicator for construction companies in May as the proportion of those who said their employment levels were not enough rose sharply. Manufacturing firms reported a smaller increase while the indicator for service companies remained flat close to the 50 expansion/contraction mark.

Companies in our panel were slightly more optimistic about employment in the next three months as the Expectations Indicator rose to 50.5 from 50.0 in April, the highest since March.

Employment



— Current Conditions
— Future Expectations

Employment

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	56.3	49.0	48.3	50.0	50.0	50.8	52.8
Future Expectations	51.8	47.2	49.7	49.5	50.5	50.0	50.5

Inventories

Rise Significantly



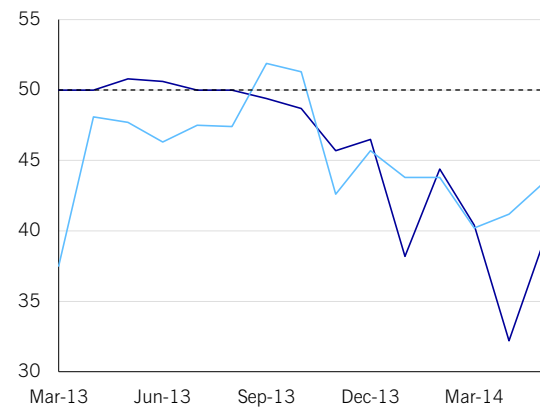
The Inventories Indicator rose sharply to 39.2 following a significant fall in the previous month to 32.2, although it was the ninth consecutive month it has been in contraction, indicating a continued fall in stock levels of finished goods.

The current weak economic environment, coupled with the tensions in Ukraine, have created a highly uncertain environment for many companies that have chosen to run down stocks.

The rise in inventories was led by manufacturing and construction companies, although both remained well below the 50 expansion/contraction level.

Companies expected to raise their inventories slightly in three months' time with the Future Expectations indicator increasing to 43.4 in May from 41.2 in the previous month. Companies began destocking in September last year and their expectations for the future turned negative in November and have remained in contraction since then.

Inventories



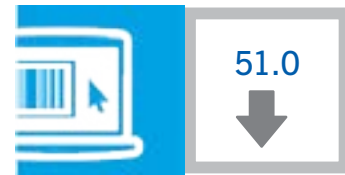
— Current Conditions
— Future Expectations

Inventories

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	50.8	46.5	38.2	44.4	40.4	32.2	39.2
Future Expectations	47.7	45.7	43.8	43.8	40.2	41.2	43.4

Input Prices

Lowest Since August 2013

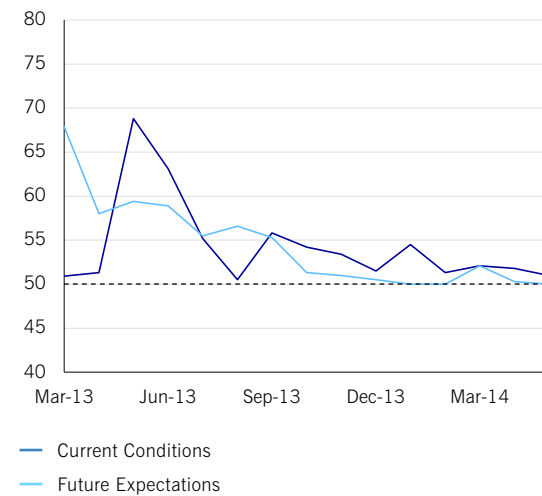


The Input Prices Indicator declined slightly for the second month in a row to 51.0 in May from 51.8 in April, below the series average of 54.4. The decline was mainly led by construction companies where the proportion of those who reported higher input prices declined sharply.

The three month trend in Input Prices has declined significantly since the summer of 2013 and has been flat in recent months.

Companies expected input prices in the next three months to fall slightly. The Expectations Indicator declined to a series low of 50.0 from 50.3 in the previous month.

Input Prices



Input Prices

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	68.8	51.5	54.5	51.3	52.1	51.8	51.0
Future Expectations	59.4	50.5	50.0	50.0	52.1	50.3	50.0

Prices Received Falls to 50



The Prices Received Indicator, which measures the prices that companies charge for their goods and services, declined to 50 in May from 50.5 in April.

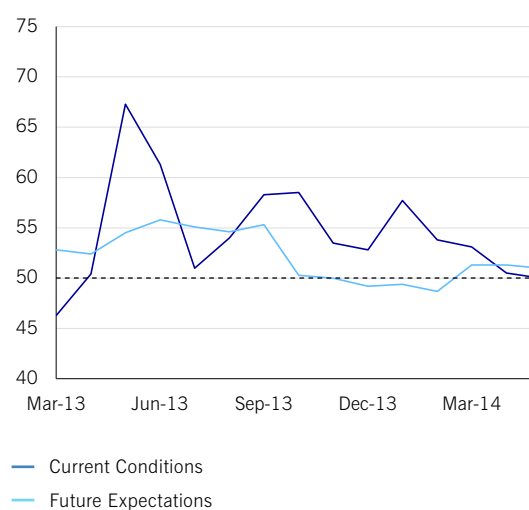
There was a drop in the proportion of manufacturing companies who charged higher prices compared with the previous month. The Prices Received Indicator for construction companies increased above the breakeven level after remaining at the 50 mark for the past six months in a row. There was a rise in the proportion of service sector firms who reported a decline in Prices Received compared with the previous month.

The Future Expectations indicator remained broadly stable at 51.0 in May compared with 51.3 in April, as the majority of the companies reported that they expected their prices would remain the same.

This was the second consecutive month that the indicator for Prices Received was lower than their future expectations indicating some future inflationary pressure remains.

Consumer price inflation rose sharply to 7.3% in April, from 6.9% in March, as food price inflation accelerated to 9% from 8.4% in the previous month. The central bank governor, Elvira Nabiullina, now expects inflation of 5-6% in 2014, missing the 5% target set for 2014. The recent weakening of the rouble has fuelled inflation, although planned lower hikes in administered prices and tariffs should provide some relief.

Prices Received



Prices Received

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	67.3	52.8	57.7	53.8	53.1	50.5	50.0
Future Expectations	54.5	49.2	49.4	48.7	51.3	51.3	51.0

Financial Position

Future Expectations Hit a Record Low



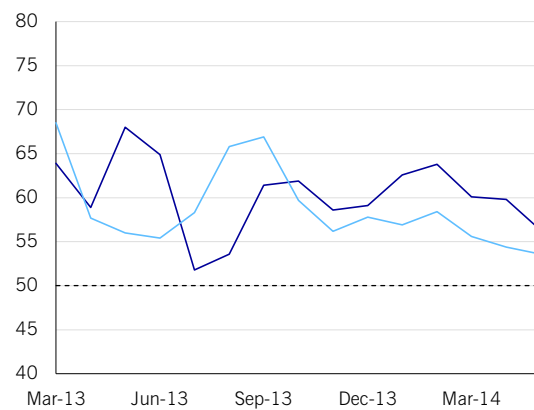
Russian companies felt the pinch of the stand-off with the West amid the threat of further sanctions following Crimea’s annexation. The indicator measuring the Financial Position of companies declined for the third consecutive month in May to the lowest since August 2013.

The Financial Position Indicator declined by almost 6% to 56.3 in May from 59.8 in April. The decline put the indicator significantly below the level seen in the same period a year earlier. Since March 2013, when the survey started, the financial position of Russian companies has remained fairly healthy in spite of the economic slowdown, with the indicator averaging 60.3.

On May 19, the MICEX traded above 1,400 points for the first time since March 3 as President Putin ordered troops to return to their bases.

Companies remained nervous about the future course of events and the impact on their Financial Position. The Indicator for Future Expectations fell to a record low of 53.6 in May from 54.4 in the previous month, mainly led by service sector companies.

Financial Position

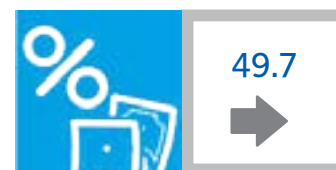


— Current Conditions
 — Future Expectations

Financial Position

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	68.0	59.1	62.6	63.8	60.1	59.8	56.3
Future Expectations	56.0	57.8	56.9	58.4	55.6	54.4	53.6

Interest Rates Paid Remains Flat



The indicator for Interest Rates Paid remained flat at 49.7 in April, the second month below the 50 expansion/contraction mark.

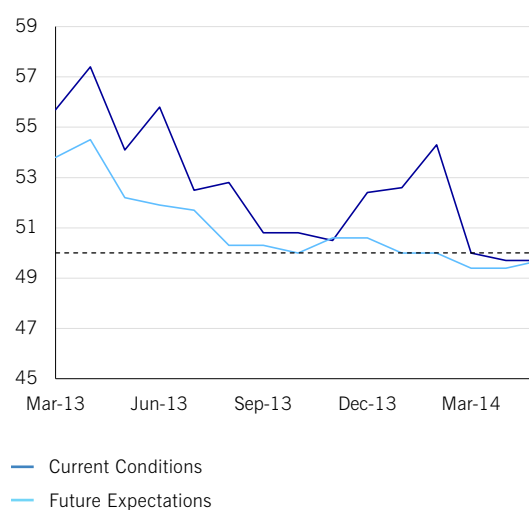
The effect of the rate hike in late April has not yet been passed onto businesses, as the majority of companies reported no change in their interest costs. In a surprise move, the central bank raised its key rate to 7.5% from 7% at the end of April and said that it does not expect to cut rates in the coming months. While the bank pointed to the continued high level of inflation as the main reason for the tightening its monetary policy, the rise came soon after S&P cut Russia's sovereign rating and looked like a move to stem the negative impact, especially on the currency

The yield on the Russian 10-year government bond increased significantly to 9.47% on May 21, up from 8.93% on April 16, while the three month interbank rate increased to 9.1% from 9% in April.

The indicators for manufacturing and construction sector companies were close to the expansion/contraction line, while for services companies it remained below 50, although the majority said they paid the same interest rates as in the previous month.

Companies expected Interest Rates Paid over the coming three months to remain in contraction territory and broadly stable at 49.7 compared with 49.4 in April.

Interest Rates Paid



Interest Rates Paid

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	54.1	52.4	52.6	54.3	50.0	49.7	49.7
Future Expectations	52.2	50.6	50.0	50.0	49.4	49.4	49.7

Supplier Delivery Times Series High

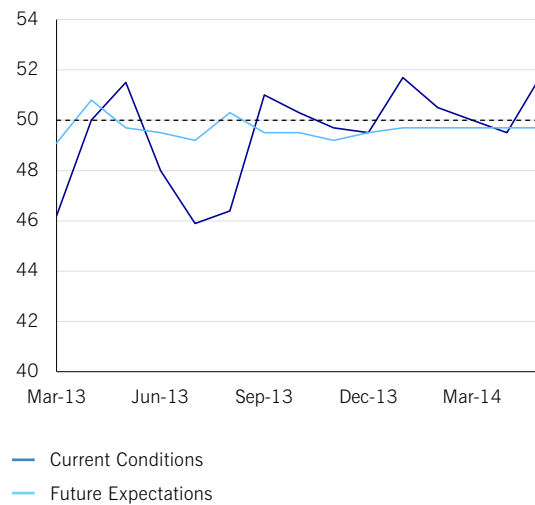


The time taken to deliver supplies to companies lengthened in May. The Indicator for Supplier Delivery Times rose above the breakeven level to 51.8 from 49.5 in the previous month.

The rise in the indicator was led by manufacturing companies as there was a sharp rise in the proportion of companies who said supplier delivery times were longer, although the majority still said they were the same.

Expectations for three months' time remained unchanged in May at 49.7 for the fifth consecutive month. Future expectations have remained broadly stable since March last year, when the survey started, with the series averaging 49.7, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	51.5	49.5	51.7	50.5	50.0	49.5	51.8
Future Expectations	49.7	49.5	49.7	49.7	49.7	49.7	49.7

Availability of Credit Hits Series High



More companies reported that they had better access to credit in May, as the Availability of Credit Indicator increased significantly by 11.1% to 59.9 from 53.9 in the previous month, the highest on record.

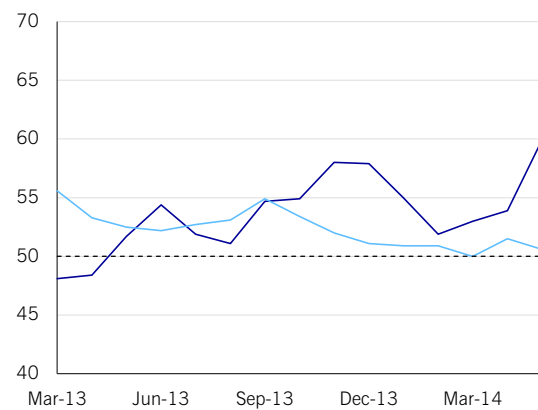
Credit availability had risen gradually in 2013 and it subsequently dipped towards the end of the year before picking up again in March. The gain on the month put it almost 16% above the level seen in May a year earlier.

The improvement in credit availability was across all sectors with the indicator for manufacturing and construction companies hitting the highest in 10 months.

Businesses were less optimistic about credit availability in the next three months time as the Expectations Indicator declined slightly to 50.6 from 51.5 in the previous month.

International credit rating agency S&P cut Russia's rating to one notch above junk status after repeated warnings, as foreign investors continued to take money out of the country amid tensions in Ukraine. It warned that further downgrades were possible if the West imposed tighter sanctions against Moscow as wider financial sanctions could cut off Russia's credit lines, raising concerns that firms may not be able to refinance debt without the state's support.

Availability of Credit



— Current Conditions
— Future Expectations

Availability of Credit

	May-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Current Conditions	51.7	57.9	55.0	51.9	53.0	53.9	59.9
Future Expectations	52.5	51.1	50.9	50.9	50.0	51.5	50.6



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Historical Summary

	2013								2014				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
MNI Russia Business Indicator													
Current Conditions	62.5	57.8	51.8	51.3	59.0	56.3	51.5	45.5	57.9	60.0	52.5	55.6	49.2
Future Expectations	59.5	57.5	59.0	61.5	55.0	47.2	45.0	49.5	53.0	55.3	53.3	54.3	52.5
Production													
Current Conditions	61.0	60.8	51.3	49.3	58.0	58.3	53.5	48.3	58.2	59.3	52.5	57.3	55.3
Future Expectations	58.8	58.5	58.0	58.0	57.0	48.3	45.5	47.5	50.5	52.0	50.8	52.0	51.7
New Orders													
Current Conditions	73.8	63.3	53.0	51.5	61.5	59.5	53.5	48.8	57.6	62.5	57.5	58.8	54.8
Future Expectations	59.3	54.3	60.3	62.8	57.8	48.8	45.5	46.5	50.3	51.0	51.8	52.2	52.7
Export Orders													
Current Conditions	61.1	55.3	46.6	44.9	54.3	52.1	48.7	49.2	50.8	57.2	48.3	44.4	46.9
Future Expectations	57.9	57.3	52.1	53.0	43.3	41.6	42.1	41.7	46.3	47.1	43.0	43.5	43.0
Productive Capacity													
Current Conditions	57.3	53.3	51.0	50.3	52.0	51.8	50.8	50.5	50.3	50.3	50.3	50.0	51.5
Future Expectations	57.3	54.0	53.3	51.8	49.5	48.7	48.5	49.7	49.7	49.7	49.7	49.7	50.3
Order Backlogs													
Current Conditions	45.9	45.8	45.9	47.1	49.2	50.3	47.4	48.7	51.4	52.0	47.4	39.5	42.3
Future Expectations	50.0	49.7	49.7	49.2	43.8	40.4	40.9	41.5	42.7	43.3	43.0	42.5	43.3
Employment													
Current Conditions	56.3	53.0	52.0	50.8	51.0	51.3	47.7	49.0	48.3	50.0	50.0	50.8	52.8
Future Expectations	51.8	51.8	51.5	50.8	47.5	46.2	46.2	47.2	49.7	49.5	50.5	50.0	50.5
Inventories													
Current Conditions	50.8	50.6	50.0	50.0	49.4	48.7	45.7	46.5	38.2	44.4	40.4	32.2	39.2
Future Expectations	47.7	46.3	47.5	47.4	51.9	51.3	42.6	45.7	43.8	43.8	40.2	41.2	43.4
Input Prices													
Current Conditions	68.8	63.1	55.2	50.5	55.8	54.2	53.4	51.5	54.5	51.3	52.1	51.8	51.0
Future Expectations	59.4	58.9	55.5	56.6	55.3	51.3	51.0	50.5	50.0	50.0	52.1	50.3	50.0
Prices Received													
Current Conditions	67.3	61.3	51.0	54.0	58.3	58.5	53.5	52.8	57.7	53.8	53.1	50.5	50.0
Future Expectations	54.5	55.8	55.1	54.6	55.3	50.3	50.0	49.2	49.4	48.7	51.3	51.3	51.0
Financial Position													
Current Conditions	68.0	64.9	51.8	53.6	61.4	61.9	58.6	59.1	62.6	63.8	60.1	59.8	56.3
Future Expectations	56.0	55.4	58.3	65.8	66.9	59.7	56.2	57.8	56.9	58.4	55.6	54.4	53.6
Interest Rates Paid													
Current Conditions	54.1	55.8	52.5	52.8	50.8	50.8	50.5	52.4	52.6	54.3	50.0	49.7	49.7
Future Expectations	52.2	51.9	51.7	50.3	50.3	50.0	50.6	50.6	50.0	50.0	49.4	49.4	49.7
Effect of Rouble Exchange Rate													
Current Conditions	50.9	50.6	49.7	49.4	51.0	53.4	54.1	55.4	56.9	61.0	53.7	50.9	53.3
Future Expectations	49.7	48.2	49.1	49.3	50.7	50.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Supplier Delivery Time													
Current Conditions	51.5	48.0	45.9	46.4	51.0	50.3	49.7	49.5	51.7	50.5	50.0	49.5	51.8
Future Expectations	49.7	49.5	49.2	50.3	49.5	49.5	49.2	49.5	49.7	49.7	49.7	49.7	49.7
Availability of Credit													
Current Conditions	51.7	54.4	51.9	51.1	54.7	54.9	58.0	57.9	55.0	51.9	53.0	53.9	59.9
Future Expectations	52.5	52.2	52.7	53.1	54.9	53.4	52.0	51.1	50.9	50.9	50.0	51.5	50.6

Historical Records

	2013- Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	55.5	56.3
Future Expectations	45.0	71.3	55.9	55.0
Production				
Current Conditions	48.3	61.1	55.9	57.3
Future Expectations	45.5	58.8	53.5	52.0
New Orders				
Current Conditions	48.8	73.8	58.7	58.8
Future Expectations	45.5	62.8	54.4	52.7
Export Orders				
Current Conditions	44.4	61.1	52.0	50.8
Future Expectations	41.6	66.0	49.2	46.3
Productive Capacity				
Current Conditions	50.0	57.7	52.1	51.0
Future Expectations	48.5	63.2	52.2	49.7
Order Backlogs				
Current Conditions	39.5	52.0	46.5	47.1
Future Expectations	37.7	50.0	44.2	43.3
Employment				
Current Conditions	47.7	56.5	51.7	51.0
Future Expectations	46.2	53.6	49.9	50.5
Inventories				
Current Conditions	32.2	50.8	45.7	48.7
Future Expectations	37.5	51.9	45.2	45.7
Input Prices				
Current Conditions	50.5	68.8	54.4	52.1
Future Expectations	50.0	67.9	54.5	52.1
Prices Received				
Current Conditions	46.3	67.3	54.6	53.5
Future Expectations	48.7	55.8	52.1	51.3
Financial Position				
Current Conditions	51.8	68.0	60.3	60.1
Future Expectations	53.6	68.5	58.7	57.7
Interest Rates Paid				
Current Conditions	49.7	57.4	52.6	52.5
Future Expectations	49.4	54.5	51.0	50.3
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.7	51.0
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Time				
Current Conditions	45.9	51.8	49.5	50.0
Future Expectations	49.1	50.8	49.7	49.7
Availability of Credit				
Current Conditions	48.1	59.9	53.7	53.9
Future Expectations	50.0	55.6	52.3	52.2

Historical Records - Quarterly

	Q3 13	Q4 13	Q1 14	Quarterly Change	Quarterly % Change
Current Conditions	54.0	51.1	56.8	5.7	11.2%
Future Expectations	58.5	47.2	53.9	6.7	14.2%
Production					
Current Conditions	52.9	53.4	56.7	3.3	6.2%
Future Expectations	57.7	47.1	51.1	4.0	8.5%
New Orders					
Current Conditions	55.3	53.9	59.2	5.3	9.8%
Future Expectations	60.3	46.9	51.0	4.1	8.7%
Export Orders					
Current Conditions	48.6	50.0	52.1	2.1	4.2%
Future Expectations	49.5	41.8	45.5	3.7	8.9%
Productive Capacity					
Current Conditions	51.1	51.0	50.3	-0.7	-1.4%
Future Expectations	51.5	49.0	49.7	0.7	1.4%
Order Backlogs					
Current Conditions	47.4	48.8	50.3	1.5	3.1%
Future Expectations	47.6	40.9	43.0	2.1	5.1%
Employment					
Current Conditions	51.3	49.3	49.4	0.1	0.2%
Future Expectations	49.9	46.5	49.9	3.4	7.3%
Inventories					
Current Conditions	49.8	47.0	41.0	-6.0	-12.8%
Future Expectations	48.9	46.5	42.6	-3.9	-8.4%
Input Prices					
Current Conditions	53.8	53.0	52.6	-0.4	-0.8%
Future Expectations	55.8	50.9	50.7	-0.2	-0.4%
Prices Received					
Current Conditions	54.4	54.9	54.9	0.0	0.0%
Future Expectations	55.0	49.8	49.8	0.0	0.0%
Financial Position					
Current Conditions	55.6	59.9	62.2	2.3	3.8%
Future Expectations	63.7	57.9	57.0	-0.9	-1.6%
Interest Rates Paid					
Current Conditions	52.0	51.2	52.3	1.1	2.1%
Future Expectations	50.8	50.4	49.8	-0.6	-1.2%
Effect of Rouble Exchange Rate					
Current Conditions	50.0	54.3	57.2	2.9	5.3%
Future Expectations	49.7	50.2	50.0	-0.2	-0.4%
Supplier Delivery Time					
Current Conditions	47.8	49.8	50.7	0.9	1.8%
Future Expectations	49.7	49.4	49.7	0.3	0.6%
Availability of Credit					
Current Conditions	52.6	56.9	53.3	-3.6	-6.3%
Future Expectations	53.6	52.2	50.6	-1.6	-3.1%

Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange. Companies are a mix of manufacturing, service, construction and agricultural firms.

Respondents are asked their opinion on whether a particular business activity has increased, decreased or remained the same compared with the previous month as well as their expectations for three months ahead, e.g. Is Production Higher/Same/Lower compared with a month ago?

A diffusion indicator is then calculated by adding the percentage share of positive responses to half the percentage of those respondents reporting no change. An indicator reading above 50 shows expansion, below 50 indicates contraction and a result of 50 means no change.

Data is collected through computer aided telephone interviews and around 200 companies are surveyed each month.

Discovering trends in Emerging Markets

MNI's Emerging Markets Indicators explore attitudes, perspectives and confidence in Russia, India and China. Our data and monthly reports present an advance picture of the economic landscape as perceived by businesses and consumers.

Our indicators allow investors, economists, analysts, and companies to identify economic trends and make informed investment and business decisions. Our data moves markets.

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