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MNI Russia Business Report January 2014

Insight and data for better decisions

About MNI Indicators

Insight and data for better decisions

MNI Indicators offers unique macro-economic data and insight to businesses and the investment community. We produce data and intelligence that is unbiased, pertinent and responsive. Our data moves markets.

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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MNI Russia Business Report - January 2014

Contents

4	Editorial
6	Executive Summary
10	Economic Landscape
14	Indicators
15	MNI Russia Business Indicator
16	Production
17	New Orders
18	Export Orders
19	Productive Capacity
20	Order Backlogs
21	Employment
22	Inventories
23	Input Prices
24	Prices Received
25	Financial Position
27	Interest Rates Paid
28	Effect of Rouble Exchange Rate
29	Supplier Delivery Times
30	Availability of Credit
30	Data Tables
35	Methodology



A Happy Decline?

The fall in the currency could be a blessing for Russia, which saw growth fall to its lowest for four years in 2013.

The Russian Rouble has depreciated by nearly 14% against the US dollar and 18% against the euro since the start of 2013. Around 5% has been shaved off the euro-rouble rate in the past 10 days as global emerging markets have been flung into a tailspin over concerns about China and renewed fears of capital flight.

The fall in the currency could be a blessing for Russia, which saw growth fall to its lowest for four years in 2013. The depreciation should help domestic manufacturers by making imports more expensive. It should also help companies to regain some competitiveness in global markets, so much of which has been lost to weaker labour productivity. It could kick-start a rebalancing in the economy away from the country's dependence on natural resources – a cure for the Dutch disease which Russia has caught at least in part.

Our survey shows that companies are already benefiting from the rouble's decline, although it will take time for the full effect to feed through to the real economy.

The Russia authorities seem happy to see the rouble slide. Economy Minister Alexei Ulyukayev openly stated that the rouble was more likely to ease than strengthen given the deteriorating current account position. The depreciation should help to improve the trade position eventually.

The central bank has added to the weakness in the currency by halting its daily currency interventions as it moves towards a freely floating rouble in 2015. And this transition to a full float and an inflation targeting regime is likely to mean further weakness ahead for the rouble this year.

There are, though, downsides and risks to allowing the rouble to fall. First, continued depreciation will put more pressure on inflation, which is already at a high level. Central bank governor Elvira Nabiullina has made clear her will to combat inflation, and continued strength could prompt further rate hikes – potentially a price worth paying. Second, Russia needs to boost

investment drastically and a falling currency is not going to help to lure in international investors.

Finally, while Russia's reserve position suggests a 1998-style crisis is less likely to happen again, the current turmoil in emerging markets could prove very destabilising. The authorities need to ensure that a decline in the currency doesn't become a rout.

Philip Uglow
Chief Economist
MNI Indicators



Executive Summary

The MNI Russia Business Indicator bounced back sharply in January from a record low in December to the highest level since September 2013.

The MNI Russia Business Indicator bounced back sharply in January to 57.9 from a record low of 45.5 in December to stand at the highest level since September 2013.

The business data, though, is not seasonally adjusted, and the January rise in part reflects a seasonal boost after the holiday period. It is also possible that the Sochi Winter Olympics, which begin in February, have had a short-term positive impact on business sentiment.

The Future Expectations Indicator rose to 53.0 in January from 49.5 in December, the first time it has been above the breakeven 50 level since September.

Current and Future Expectations indicators for Production surged in January to their highest levels since October and September respectively.

After contracting in December, New Orders rebounded sharply in January to the highest since October. The New Orders Indicator rose to 57.6 in January, up from December's record low of 48.8, which was likely due to seasonal factors.

The indicator for Order Backlogs rose to 51.4 in January from 48.7 in December.

Following a small improvement in December, the Employment indicator fell slightly in January to 48.3 from 49.0 in December.

The Input Prices Indicator rose to 54.5 in January from 51.5 in December, pushing it back close to the series average.

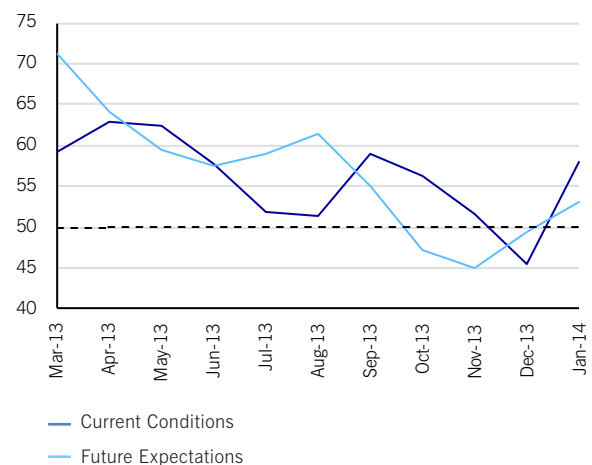
In spite of the economic downturn, the indicator measuring the Financial Position of firms has remained well above 50 and picked up in January to the highest since June 2013.

The proportion of companies reporting that the exchange rate is helping businesses increased

considerably compared with the previous month. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting their company, rose to a new record high of 56.9 in January from 55.4 in December, its fifth consecutive rise.

Although the indicator measuring credit availability has picked up noticeably since August, it fell in January to 55.0, back close to the series average of 53.3. The decline in January was broad-based, with falls seen in manufacturing, services and construction firms.

MNI Russia Business Indicator



Overview

	Nov -13	Dec -13	Jan-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	51.5	45.5	57.9	Sep-13	-	51.6	12.4	27.3%
Future Expectations	45.0	49.5	53.0	Sep-13	-	49.2	3.5	7.1%
Production								
Current Conditions	53.5	48.3	58.2	Oct-13	-	53.3	9.9	20.5%
Future Expectations	45.5	47.5	50.5	Sep-13	-	47.8	3.0	6.3%
New Orders								
Current Conditions	53.5	48.8	57.6	Oct-13	-	53.3	8.8	18.0%
Future Expectations	45.5	46.5	50.3	Sep-13	-	47.4	3.8	8.2%
Export Orders								
Current Conditions	48.7	49.2	50.8	Oct-13	-	49.6	1.6	3.3%
Future Expectations	42.1	41.7	46.3	Aug-13	-	43.4	4.6	11.0%
Productive Capacity								
Current Conditions	50.8	50.5	50.3	-	series low	50.5	-0.2	-0.4%
Future Expectations	48.5	49.7	49.7	Dec-13	-	49.3	0.0	0.0%
Order Backlogs								
Current Conditions	47.4	48.7	51.4	series high	-	49.2	2.7	5.5%
Future Expectations	40.9	41.5	42.7	Sep-13	-	41.7	1.2	2.9%
Employment								
Current Conditions	47.7	49.0	48.3	-	Nov-13	48.3	-0.7	-1.4%
Future Expectations	46.2	47.2	49.7	Aug-13	-	47.7	2.5	5.3%
Inventories								
Current Conditions	45.7	46.5	38.2	-	series low	43.5	-8.3	-17.8%
Future Expectations	42.6	45.7	43.8	-	Nov-13	44.0	-1.9	-4.2%
Input Prices								
Current Conditions	53.4	51.5	54.5	Sep-13	-	53.1	3.0	5.8%
Future Expectations	51.0	50.5	50.0	-	series low	50.5	-0.5	-1.0%
Prices Received								
Current Conditions	53.5	52.8	57.7	Oct-13	-	54.7	4.9	9.3%
Future Expectations	50.0	49.2	49.4	Nov-13	-	49.5	0.2	0.4%
Financial Position								
Current Conditions	58.6	59.1	62.6	Jun-13	-	60.1	3.5	5.9%
Future Expectations	56.2	57.8	56.9	-	Nov-13	57.0	-0.9	-1.6%
Interest Rates Paid								
Current Conditions	50.5	52.4	52.6	Aug-13	-	51.8	0.2	0.4%
Future Expectations	50.6	50.6	50.0	-	series low	50.4	-0.6	-1.2%
Effect of Rouble Exchange Rate								
Current Conditions	54.1	55.4	56.9	series high	-	55.5	1.5	2.7%
Future Expectations	50.0	50.0	50.0	Dec-13	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	49.7	49.5	51.7	series high	-	50.3	2.2	4.4%
Future Expectations	49.2	49.5	49.7	Aug-13	-	49.5	0.2	0.4%
Availability of Credit								
Current Conditions	58.0	57.9	55.0	-	Oct-13	57.0	-2.9	-5.0%
Future Expectations	52.0	51.1	50.9	-	series low	51.3	-0.2	-0.4%

Business sentiment bounced back sharply in January from a record low in December.

The rise partly reflected a seasonal boost after the holiday period.



Economic Landscape

The Russian economy is mired in weak growth and high inflation. In addition, the currency has come under pressure in recent days given the fallout in emerging markets around the world.

Latest data has continued to show the Russian economy mired in weak growth and high inflation. Industrial output fell slightly in 2013, although the December data showed the first positive outturn after two months of contraction. Retail sales growth decelerated to 3.8% on the year in December, while fixed capital investment rose just 0.3% compared with the same month a year earlier. Inflation has remained stubbornly high and while the central bank expects it to ease during 2014 it remained at 6.5% in December. Real wage growth, though, rose only 1.9% in December on the year, the weakest since February 2011.

The currency has come under pressure in recent days given the fallout in emerging markets around the world. The central bank appears happy to let the rouble depreciate further as it moves towards a fully free-floating currency and it sees the potential growth benefits of a fall in the rouble.

Low GDP growth expected

The Economy ministry has revised down its 2013 forecast for GDP four times since the start of last year and the Economy Minister, Alexei Ulyukayev, said that Russia's economy is likely to grow by 1.4% over the full year. Growth for 2014 was also cut to 2.5% from 3% previously and to 2.8% in 2015 from 3.1%, mainly due to weak investment. The IMF expects to see even weaker growth next year of 2%. With the economy close to its potential, the IMF has warned that structural reforms to reduce oil revenue dependence, improve infrastructure, ease credit access and improve the business climate are urgently needed.

Industrial production contracts in 2013

Industrial production contracted by 0.2% in 2013 compared with 2012, after expanding in the past three years.

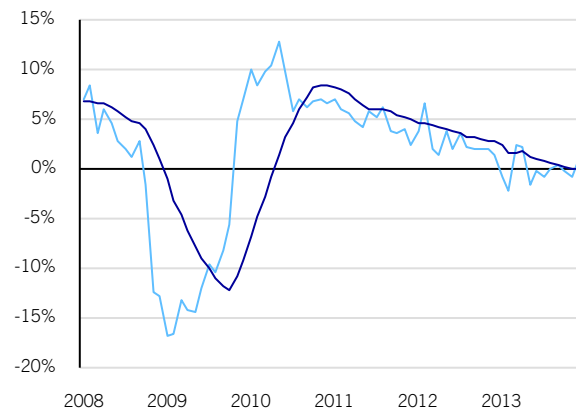
The December data, however, returned to positive territory, a small ray of hope that the economy could be recovering. After a decline of 0.1% in the 12 months to November, industrial production grew in December by 0.8% on the year. The small rise was

driven by an improvement in manufacturing, with output rising 1.6% on the year, the first positive monthly growth following seven months of decline.

Utilities output declined further for the second consecutive month in December, down 7.9% compared with last year, a deterioration from the decline of 4.6% seen in November.

Mining and quarrying output expanded 1.5% in December compared with a year ago, up from 1.1% in November.

Industrial Production



— Industrial Production Annual Average
 — Industrial Production y/y %

Source: Federal State Statistics Service of Russia

Car sales post surprise rise

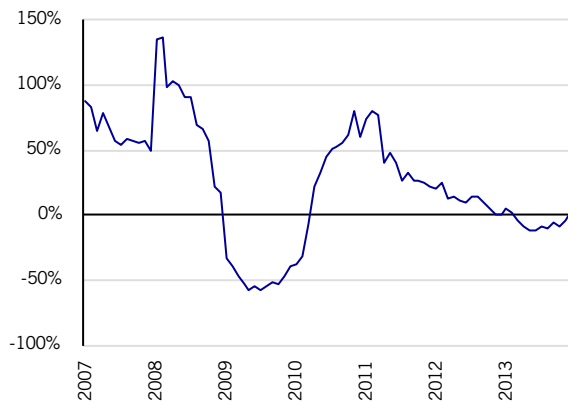
Sales of new cars fell 5.5% in 2013, the first fall in four years, in the second largest car market in Europe. A total of 2.78 million new cars were sold in Russia last year, below the record level of 2.94 million set in 2012, according to the Association of European Businesses (AEB).

Figures for December, however, showed that sales rose a surprisingly strong 4.4% compared with the same period last year, breaking the trend of nine consecutive negative monthly growth rates. The AEB remains cautious about the outlook and has forecast sales of 2.73 million in 2014. The government has

given consumers cheap credit on cars to help the car industry in the second half of the year, without which car sales might have been worse. It is considering renewing the scheme in 2014 if sales prove disappointing.

by a half point in each of the following two years, according to its three-year monetary policy plan. A freeze on fees charged by state monopolies such as natural gas producer Gazprom and Russian Railways in 2014 should also help to ease inflation.

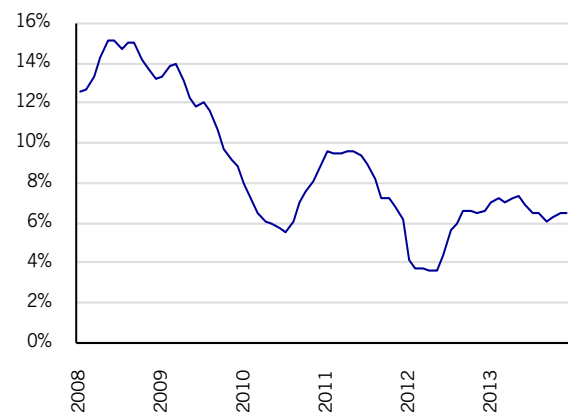
Car Sales



— Car and Light Commercial Vehicle Sales Growth y/y %

Source: Federal State Statistics Service of Russia

Inflation



— CPI Growth y/y %

Source: Federal State Statistics Service of Russia

Sticky inflation

Consumer price inflation stood at 6.5% in December compared with the same period a year back, unchanged from November. Food inflation eased slightly from 7.5% in November to 7.3% in December. Core consumer price inflation, which excludes food and energy, remained unchanged at November's 5.6%.

The Economy Ministry had revised up its inflation forecast for 2013 to 6.2% from 6% given the acceleration in food prices in recent months.

Inflation expectations remained elevated in December, according to the quarterly central bank survey of 2,000 adults across Russia. The central bank expects that inflation will start declining in the first half of 2014 as food price inflation eases, before reaching their target of 5% in the second half of the year as it prepares to shift to formal inflation targeting in 2015. The central bank has said it will drop the target rate

Monetary policy: Key rates unchanged

The central bank left its key rate – the one-week repo rate at which it lends money to financial institutions – on hold at 5.5% after the policy meeting on December 13. It said that the pace of economic growth remains low and slightly below its potential, with production and investment subdued and business confidence indicators not improving.

The bank says its top priority is to bring annual consumer inflation to record low levels of 4% to 5%. That would make borrowing more affordable and lead to longer-term investment, which in turn should support economic growth.

The bank expects inflation to decline this year but warned that inflation expectations need to ease in order to meet their forecasts for this year. The next monetary policy meeting will be held in February and it is expected that rates will remain unchanged

as inflation remains at a high level and the rouble is under pressure given the turmoil in emerging markets.

In addition to conducting credit and monetary policy in co-operation with the government, the central bank is now overseeing stock, derivatives and bond markets. The central bank has put more effort into limiting capital flight by combating money laundering in the banking system. It has revoked more than two dozen bank licences since Elvira Nabiullina took over as governor and is expected to close more lenders.

Less intervention in the FX market

The central bank took further measures towards a free float of the rouble, which is expected in 2015. In December, the bank cut the cumulative volume of interventions in the currency market from \$400 million to \$350 million. This added to October's decision to halve the bank's daily intervention in the currency market to \$60 million from \$120 million.

The central bank is shifting its monetary policy to focus completely on controlling stubborn inflation rather than the exchange rate by 2015. The move towards a free float has been pushed by Governor Nabiullina in order to improve the effectiveness of monetary policy. A free-floating rouble could help Russia to proceed with its plan to make the rouble a regional currency. Many neighbouring countries already use rouble to settle big payments. Kseniya Yudayeva, first deputy governor of the central bank, recently said that there is a need to develop financial market instruments and financial infrastructure and lower inflation to increase the role of the rouble.

The rouble is expected to weaken further in 2014 given the move to a free floating currency and the weak economy. It has already fallen nearly 14% against the US dollar since January 2013. Recent gyrations in emerging markets have also put further pressure on the rouble.

Trade surplus rises in November

The trade surplus stood at \$16.6 billion in November, up from \$12.7 billion in October, and almost 13% above the level seen a year earlier.

Exports rose to \$46.7 billion in November, 7.3% up from October. Compared with the same month last year, exports were up by 3.2%. Shipments to countries outside the Commonwealth of Independent States rose 4.2%, while those to the CIS countries fell 1.8%.

Imports dropped 2.2% over the previous month to \$30.2 billion in November and fell 1.3% compared with the same period a year back.

The central bank recently warned that the current account surplus, which was over 10% of GDP a decade ago, will disappear altogether by 2016.

Labour market

The unemployment rate in December ticked up to 5.6% from 5.4% recorded in November. For the whole year, the unemployment rate was 5.5%, unchanged from 2012, although a considerable improvement from an unemployment rate of 10.4% recorded in 2000.

The Russian government has set a goal to create tens of millions of new jobs in high-tech sectors while gradually cutting low-efficient obsolete jobs. Autovaz, Russia's largest carmaker, announced plans to cut 7,500 jobs in 2014 due to shrinking demand in Russia's car market. According to Deputy Prime Minister Olga Golodets, about 150,000 jobs will be cut in Russia in 2014.

Real wage growth fell sharply in December to 1.9% on the year from 4.1% in November. This was the lowest since February 2011 and extended the downward trend seen since August 2013.



Indicators

The MNI Russia Business Indicator bounced back sharply in January to the highest level since September 2013 providing hope of some recovery in the Russian economy.

MNI Russia Business Indicator Rises Markedly



Business sentiment among the largest Russian companies bounced back sharply in January from a record low in December to the highest level since September 2013.

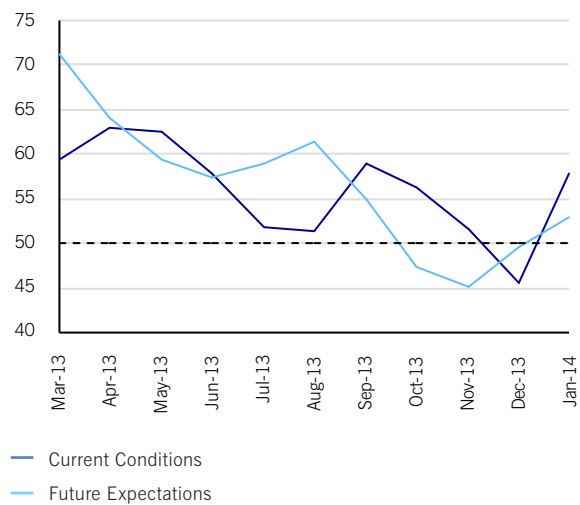
The MNI Russia Business Indicator increased to 57.9 in January from 45.5 in December. The significant gain in January reversed the downward trend seen since the end of the third quarter, and provides hope of some recovery in the Russian economy. In total, 11 out of 15 current conditions indicators increased on the month, of which Order Backlogs, Effect of the Rouble Exchange Rate and Supplier Delivery Times hit series highs.

The business data, though, is not seasonally adjusted, and the January rise in part reflects a seasonal boost after the holiday period. It is also possible that the Sochi Winter Olympics, which begin in February, have had a short-term positive impact on business sentiment.

Business sentiment improved across all sectors. For service sector companies the indicator rose significantly and was up for the first time in five months, while for manufacturing it climbed back into expansion, having fallen into contraction in December. Sentiment among construction companies rose strongly, but remained in contraction.

There was a fall in the proportion of companies that thought business conditions would worsen in the next three months compared with the December survey. The Expectations Indicator rose to 53.0 in January from 49.5 in December, the first time it has been

MNI Russia Business Indicator



above the breakeven 50 level since September.

Expectations in the construction sector rose the most, lifting back into expansion for the first time since August 2013. Manufacturing companies were also more optimistic about future business conditions, while expectations for service sector companies remained broadly stable with the indicator close to 50.

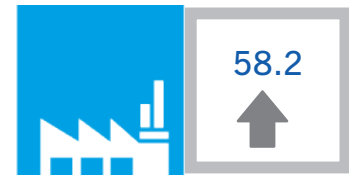
In January, eight out of the 15 future expectations indicators increased, five declined and two remained flat compared with the previous month.

MNI Russia Business Indicator

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.8	51.3	59.0	56.3	51.5	45.5	57.9
Future Expectations	59.0	61.5	55.0	47.2	45.0	49.5	53.0

Production

Back into Expansion



Both Current and Future Expectations indicators for Production surged in January to their highest levels since October and September respectively.

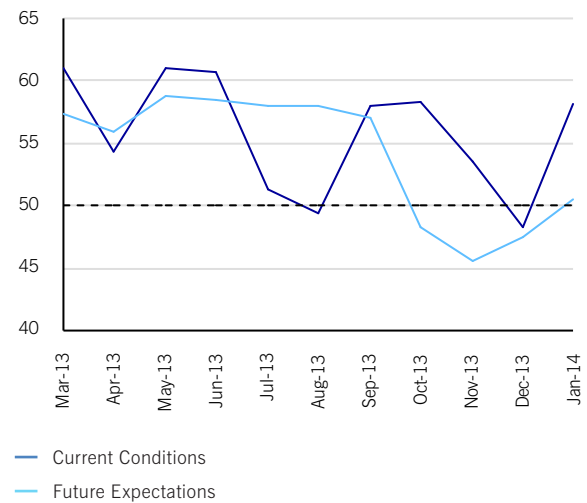
The Production Indicator increased sharply in January to 58.2 from December's record low of 48.3. As with most indicators in the report this month, the rise in Production in January was likely in part due to a seasonal bounce back and we are likely to get a better guide to underlying growth over the next couple of months.

Both services and manufacturing firms rose further into expansion. The Production Indicator for construction companies rose sharply, but remained in contraction for the third month in a row.

The Future Expectations Indicator jumped above the 50 mark, having been in contraction for the past three months. The indicator rose for the second consecutive month, to 50.5 in January from 47.5 in December.

Expectations about future production levels remained around the breakeven level for manufacturing and service sector companies. Construction firms saw a sharp rise to just below 50.

Production



Production

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.3	49.3	58.0	58.3	53.5	48.3	58.2
Future Expectations	58.0	58.0	57.0	48.3	45.5	47.5	50.5

New Orders Above 50 Again



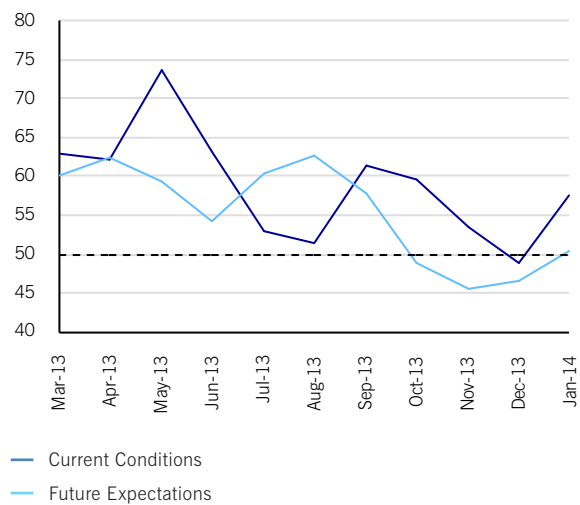
After falling into contraction for the first time in December, New Orders rebounded sharply in January to the highest since October. The New Orders Indicator rose to 57.6 in January, up from December's record low of 48.8, boosted by seasonal factors.

The increase in new orders was broad-based, with the indicator for the service sector rising sharply in January further above the breakeven level. Manufacturing saw a small increase to move a little above 50, while New Orders for construction rose sharply, but were still in contraction.

Companies' expectations for New Orders in three months' time improved significantly in January, with the indicator rising from 46.5 in December to 50.3, the first time above the breakeven 50 level since September.

December's improvement was led mainly by construction and manufacturing companies, although the former remained below 50. The Future Expectations Indicator for service sector companies declined slightly to around the breakeven level.

New Orders



New Orders

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	53.0	51.5	61.5	59.5	53.5	48.8	57.6
Future Expectations	60.3	62.8	57.8	48.8	45.5	46.5	50.3

Export Orders Move into Expansion



The Export Orders Indicator rose back into expansion in January, having been in contraction for the previous two months.

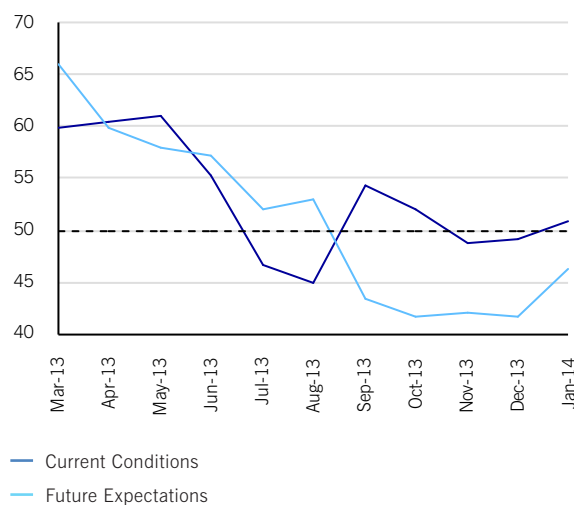
The indicator increased 3.3% to 50.8 in January from 49.2 in December, pushing Export Orders above the three-month average of 49.6, although it was below the series average of 53.0.

Export Orders for manufacturing companies fell back into contraction in January, having picked up in December, as a higher proportion of companies said they had fewer orders compared with the previous month. Both construction and service sector companies saw export orders increase, with the former standing at around 50 and the latter moving further above the 50 contraction/expansion mark.

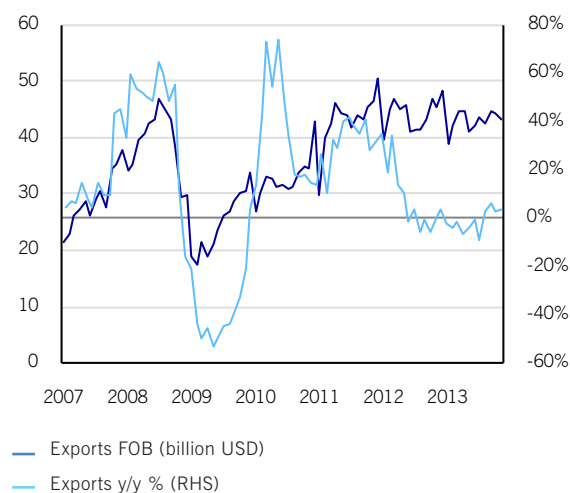
Future Expectations for Export Orders also improved, though remained in contraction. The indicator increased by 11% from a near-record low of 41.7 in December to 46.3 in January. The Future Expectations indicator has trended downwards since the series started in March and has been below the 50 mark since September.

Companies have reported that the depreciation in the exchange rate is benefiting their businesses more in recent months, although it might take some time for this to feed through to actual orders and production.

Export Orders



Exports



Source: Federal State Statistics Service of Russia

Export Orders

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	46.6	44.9	54.3	52.1	48.7	49.2	50.8
Future Expectations	52.1	53.0	43.3	41.6	42.1	41.7	46.3

Productive Capacity Hits Record Low

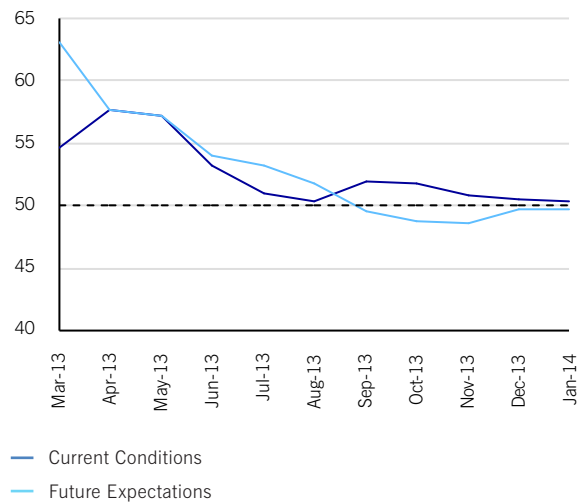


The Productive Capacity Indicator has been broadly stable since June, hovering around 51, but has gradually declined every month since September to mark a series low in January.

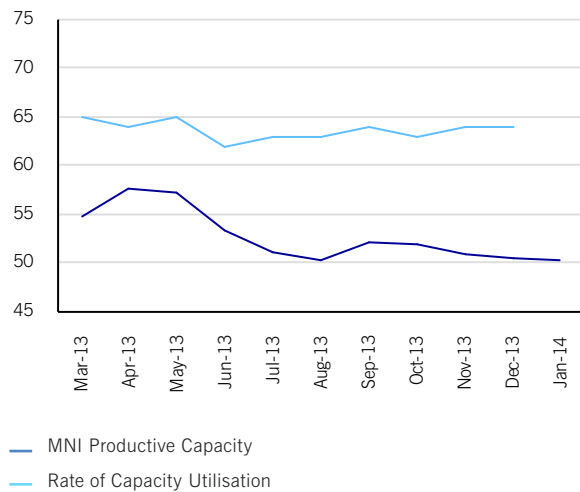
The indicator stood at 50.3 in January compared with 50.5 in December. The Productive Capacity indicator was around the breakeven level for all the sectors.

The Expectations Indicator remained flat at 49.7 in January, significantly below the series average of 53.0. The indicator has been trending downwards since the series started in March, and has been in contraction since August.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



Source: Federal State Statistics Service of Russia

Productive Capacity

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.0	50.3	52.0	51.8	50.8	50.5	50.3
Future Expectations	53.3	51.8	49.5	48.7	48.5	49.7	49.7

Order Backlogs

Series High



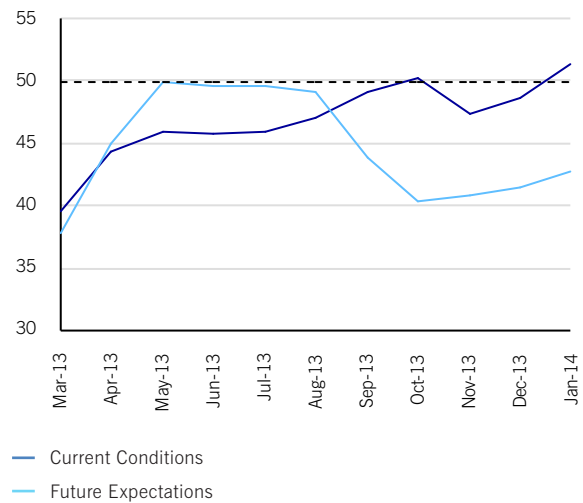
Order Backlogs increased above the 50 mark in January, continuing the long-term trend rise seen since the series began in March.

The indicator for Order Backlogs rose to 51.4 in January from 48.7 in December. Increases in backlogs usually indicate a pick-up in demand, although may also reflect a lack of capacity to meet current orders.

December's rise was led by construction and service-sector companies, with the latter rising well above the 50 breakeven level. The Indicator for manufacturing companies fell between December and January to move further below 50.

Future Expectations for backlogs remained in contraction, but picked up a touch in January to 42.7 from 41.5 in December. Expectations have been low during the course of 2013, especially during the second half of the year. Except for May, when the future expectations indicator was exactly 50, expectations for Order Backlogs have always been in contraction.

Order Backlogs



Order Backlogs

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	45.9	47.1	49.2	50.3	47.4	48.7	51.4
Future Expectations	49.7	49.2	43.8	40.4	40.9	41.5	42.7

Employment Falls Slightly



Following a small improvement in December, the Employment indicator fell slightly in January to 48.3 from 49.0 in December.

The Employment Indicator has been below the breakeven 50 level for the past three months, having trended down since the series began in March 2013, when it stood at 56.5.

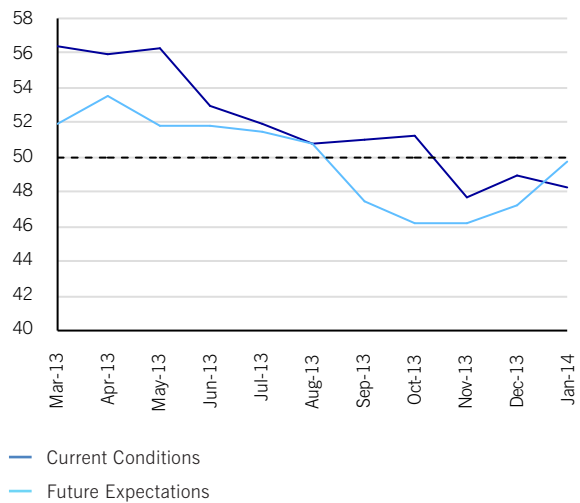
Some press reports have pointed to companies laying off workers at the start of the year, with a number of job losses in the Chelyabinsk region.

Service and manufacturing sector companies reported that the number of employees they currently had, and intended to have in three months' time, was "just right", with the Employment Indicator remaining broadly stable around 50. Construction companies reported a decline, with the indicator slipping further into contraction.

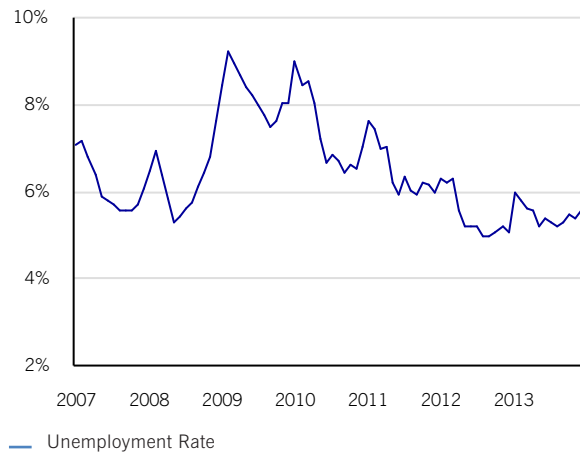
Companies were a little more optimistic about future conditions, although the Future Expectations Indicator remained below 50 for the fifth consecutive month, increasing to 49.7 in January from 47.2 in December, the highest since August. Since the start of the survey, future expectations about employment have been broadly stable, very close to the breakeven level.

Official data shows that the unemployment rate averaged 5.5% in 2013, unchanged from 2012 but an improvement from 2002-2011, when the unemployment rate on average was 7.4%.

Employment



Unemployment



Source: Federal State Statistics Service of Russia

Employment

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	52.0	50.8	51.0	51.3	47.7	49.0	48.3
Future Expectations	51.5	50.8	47.5	46.2	46.2	47.2	49.7

Inventories

Hit a Series Low



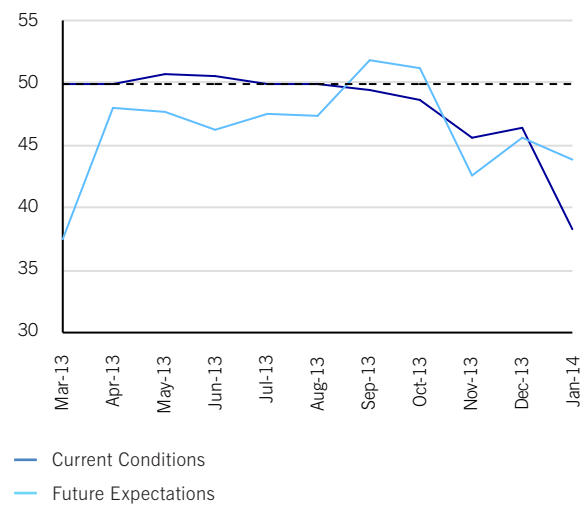
Companies destocked in January at the fastest pace since the series began, with the Inventories Indicator falling to 38.2 from 46.5 in December.

Our survey companies began destocking in September last year, but the pace picked up sharply at the start of 2014. Firms were potentially caught short by the seasonal pick-up in demand in January, causing a significant draw-down in inventories, although the decline probably represents the ongoing weakness in the economy.

The decline in inventories was led by manufacturing sector companies, where the indicator fell further into contraction. In contrast, a higher proportion of construction companies reported a rise in their inventory level compared with the previous month.

The Expectations indicator for inventories in three months' time also fell on the month, declining to 43.8 in January from 45.7 in December, its third consecutive month in contraction.

Inventories



Inventories

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	50.0	50.0	49.4	48.7	45.7	46.5	38.2
Future Expectations	47.5	47.4	51.9	51.3	42.6	45.7	43.8

Input Prices

Highest since September



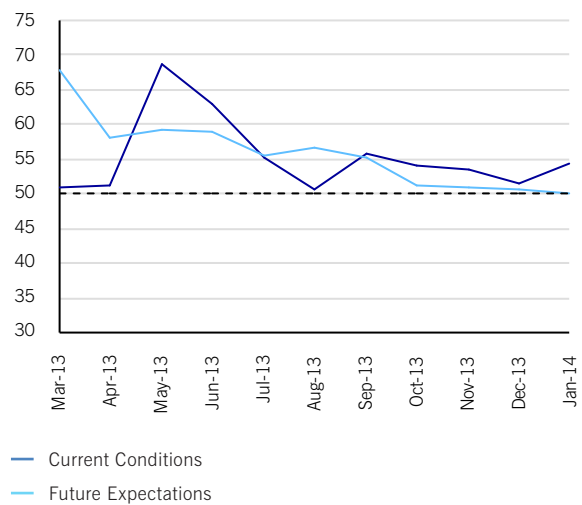
Input Prices surged in January following a dip in the previous month as crude oil prices have risen over 4% since December, approaching \$100 per barrel.

The Input Prices Indicator rose to 54.5 in January from 51.5 in December, pushing it back close to the series average.

The rise was led by manufacturing and service sector companies. Construction firms continued to report stable input prices at the 50 mark.

Companies expected input prices in the next three months to remain stable, with the indicator declining from 50.5 in December to 50.0 in January, the lowest level on record. Expectations for three months' time have been on a declining trend since the series began in March.

Input Prices



Input Prices

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	55.2	50.5	55.8	54.2	53.4	51.5	54.5
Future Expectations	55.5	56.6	55.3	51.3	51.0	50.5	50.0

Prices Received Highest since October



Prices Received pushed higher in January, suggesting that inflationary pressures, which have kept the Russian central bank on a tightening bias, remain.

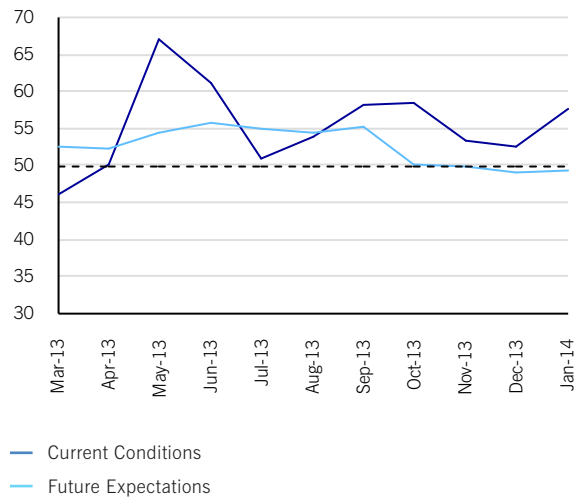
The Prices Received Indicator, which measures prices that companies charge for their goods and services, increased significantly from 52.8 in December to 57.7 in January, the highest since October.

The latest rise was driven by a bounceback in prices charged by manufacturing and services companies, with the indicator pushing further above 50, having eased somewhat in the past two months. Prices Received for the construction sector remained stable at 50, where they have been for the past few months.

Companies continued to expect that prices charged would ease in the next three months, with the Future Expectations Indicator increasing slightly to 49.4 in January from 49.2 in December.

Official data showed that consumer price inflation remained unchanged at 6.5% in December. The Russian central bank has forecast that inflation will start declining in the first half of 2014, before reaching the target of 5% in the second half of year.

Prices Received



Prices Received and CPI



*Source: Federal State Statistics Service of Russia

Prices Received

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.0	54.0	58.3	58.5	53.5	52.8	57.7
Future Expectations	55.1	54.6	55.3	50.3	50.0	49.2	49.4

Financial Position

Highest since June

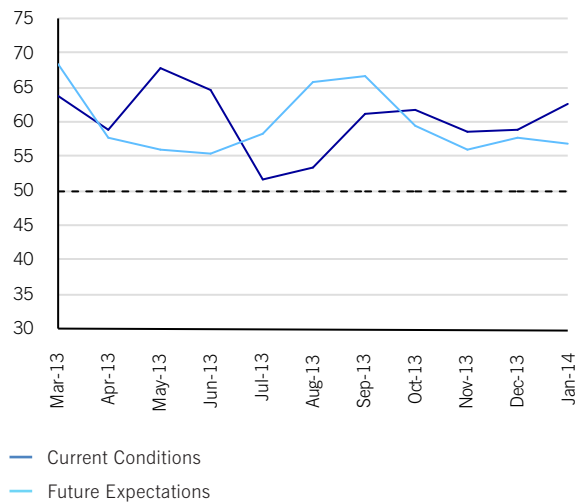


In spite of the economic downturn, the indicator measuring the Financial Position of firms has remained well above 50 and picked up in January to the highest since June 2013.

The Financial Position Indicator increased to 62.6 in January from 59.1 in December, led by improvement in both manufacturing and services. Construction companies' financial position remained flat at the breakeven level.

Expectations for three months' time fell to 56.9 from 57.8 in December, mainly due to a fall in the Future Expectations Indicator for service sector companies.

Financial Position



Financial Position

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.8	53.6	61.4	61.9	58.6	59.1	62.6
Future Expectations	58.3	65.8	66.9	59.7	56.2	57.8	56.9

The Financial Position of firms improved in January to the highest since June 2013.

The Financial Position Indicator increased to 62.6 in January from 59.1 in December, led by improvement in both manufacturing and services.

Interest Rates Paid Broadly Stable



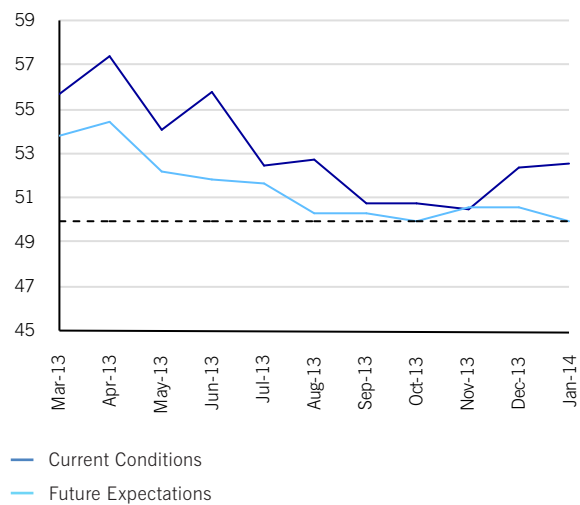
The indicator for Interest Rates Paid had been on a downward trend since the start of the survey in March, and fell to the lowest level on record in November. It has subsequently picked up slightly, rising to 52.6 in January from 52.4 in December.

The rise in the Interest Rates Paid Indicator was mainly due to an increase in credit costs of services companies.

Russia’s central bank has maintained its unchanged policy stance at 5.5% since October 2012 given the high rate of consumer prices inflation. The yield on the Russian 10-year government bond stood at 7.71% on January 28, down from 7.81% on December 17, while the three-month interbank rate declined to 6.87% between December and January.

For the next three months, companies expected their borrowing costs to fall. The Future Expectations Indicator fell to 50.0 in January from 50.6 in December, as fewer companies expected interest rates paid to increase.

Interest Rates Paid



Interest Rates Paid

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	52.5	52.8	50.8	50.8	50.5	52.4	52.6
Future Expectations	51.7	50.3	50.3	50.0	50.6	50.6	50.0

Effect of Rouble Exchange Rate

More Companies say Exchange Rate is Beneficial



The proportion of companies reporting that the exchange rate is helping business increased considerably compared with the previous month. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting their company, rose to a new record high of 56.9 in January from 55.4 in December, its fifth consecutive rise.

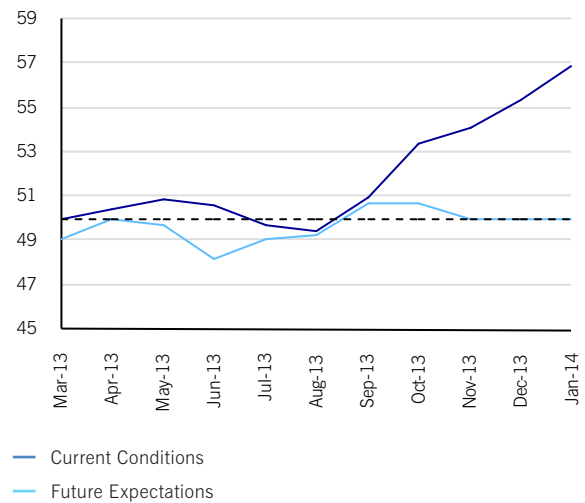
The rouble has fallen nearly 14% against the US dollar over the past year. Part of the depreciation in the currency is because the central bank has reduced its currency market interventions as it aims to eventually move to a fully free-floating currency. The central bank raised the exchange rate band it targets for interventions against the basket on January 17 from R33.30 to R40.30.

While companies have reported that the lower exchange rate is helping business, this has yet to translate into a significant change in the Export Orders Indicator.

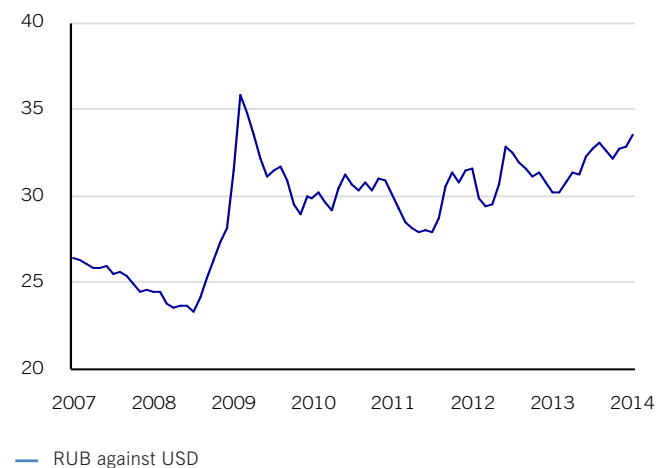
Manufacturing companies saw the largest rise in the Effect of the Rouble Exchange Rate Indicator, while service-sector firms saw a small fall, but from a high level last month.

Expectations for three months' time remained at 50.0 for the third consecutive month, having stood at 50.7 in September and October. The expectations indicator has been broadly stable around the breakeven level since the series started in March.

Effect of Rouble Exchange Rate



Exchange Rate



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	49.7	49.4	51.0	53.4	54.1	55.4	56.9
Future Expectations	49.1	49.3	50.7	50.7	50.0	50.0	50.0

Supplier Delivery Times Above 50



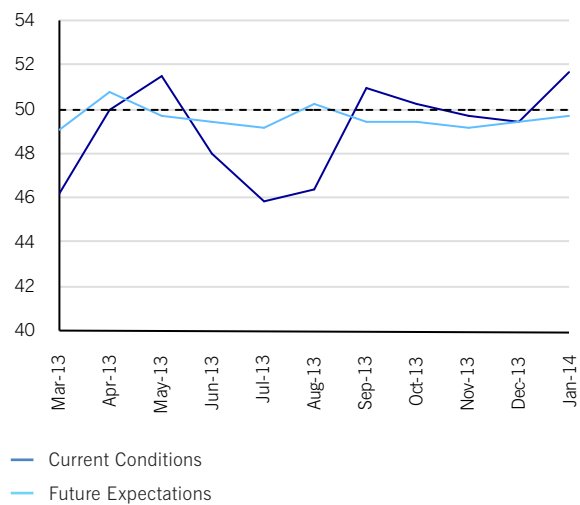
The time taken to deliver supplies to companies lengthened, having remained in contraction for the previous two months, with the Supplier Deliveries Indicator increasing to a series high of 51.7 in January from 49.5 in December.

The expansion in Supplier Delivery Times was in line with the hike in New Orders and Export Orders on the month.

The Supplier Delivery Times Indicator moved a little further above 50 for both manufacturing and services companies, while it remained flat at the breakeven level for construction firms.

Expectations for three months' time remained broadly stable at 49.7 in January compared with 49.5 in December. Future expectations have remained broadly stable since March with the series averaging 49.6, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	45.9	46.4	51.0	50.3	49.7	49.5	51.7
Future Expectations	49.2	50.3	49.5	49.5	49.2	49.5	49.7

Availability of Credit Slight Tightening

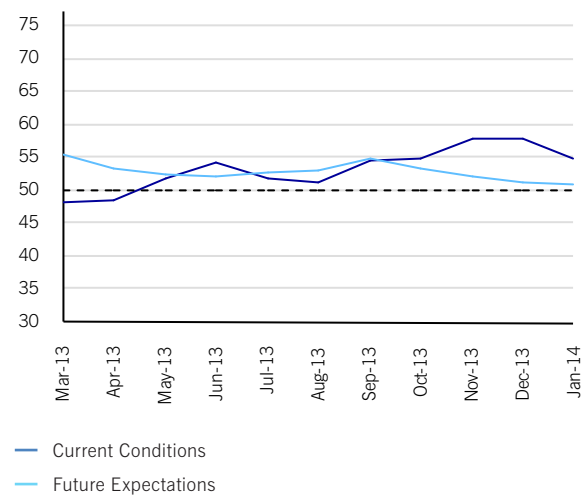


Firms reported a slight tightening in credit conditions in January, with the Availability of Credit Indicator falling to 55.0 from 57.9 in December, the lowest since October.

Credit availability has picked up noticeably since August, rising to a series high of 58.0 in November, but the January fall puts it back close to the series average of 53.3. The decline in January was broad-based with falls seen in manufacturing, services and construction firms.

Businesses expected credit availability in three months' time to worsen slightly, with the Future Expectations Indicator dropping to 50.9 in January from 51.1 in December, the fourth consecutive monthly fall.

Availability of Credit



Availability of Credit

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Current Conditions	51.9	51.1	54.7	54.9	58.0	57.9	55.0
Future Expectations	52.7	53.1	54.9	53.4	52.0	51.1	50.9



Data Tables

-
- 32 Historical Summary
 - 33 Historical Records
 - 34 Historical Records - Quarterly

Historical Summary

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
MNI Russia Business Indicator											
Current Conditions	59.3	62.9	62.5	57.8	51.8	51.3	59.0	56.3	51.5	45.5	57.9
Future Expectations	71.3	64.1	59.5	57.5	59.0	61.5	55.0	47.2	45.0	49.5	53.0
Production											
Current Conditions	61.1	54.4	61.0	60.8	51.3	49.3	58.0	58.3	53.5	48.3	58.2
Future Expectations	57.4	56.0	58.8	58.5	58.0	58.0	57.0	48.3	45.5	47.5	50.5
New Orders											
Current Conditions	63.0	62.1	73.8	63.3	53.0	51.5	61.5	59.5	53.5	48.8	57.6
Future Expectations	60.2	62.5	59.3	54.3	60.3	62.8	57.8	48.8	45.5	46.5	50.3
Export Orders											
Current Conditions	60.0	60.5	61.1	55.3	46.6	44.9	54.3	52.1	48.7	49.2	50.8
Future Expectations	66.0	59.9	57.9	57.3	52.1	53.0	43.3	41.6	42.1	41.7	46.3
Productive Capacity											
Current Conditions	54.7	57.7	57.3	53.3	51.0	50.3	52.0	51.8	50.8	50.5	50.3
Future Expectations	63.2	57.7	57.3	54.0	53.3	51.8	49.5	48.7	48.5	49.7	49.7
Order Backlogs											
Current Conditions	39.6	44.3	45.9	45.8	45.9	47.1	49.2	50.3	47.4	48.7	51.4
Future Expectations	37.7	45.0	50.0	49.7	49.7	49.2	43.8	40.4	40.9	41.5	42.7
Employment											
Current Conditions	56.5	56.0	56.3	53.0	52.0	50.8	51.0	51.3	47.7	49.0	48.3
Future Expectations	51.9	53.6	51.8	51.8	51.5	50.8	47.5	46.2	46.2	47.2	49.7
Inventories											
Current Conditions	50.0	50.0	50.8	50.6	50.0	50.0	49.4	48.7	45.7	46.5	38.2
Future Expectations	37.5	48.1	47.7	46.3	47.5	47.4	51.9	51.3	42.6	45.7	43.8
Input Prices											
Current Conditions	50.9	51.3	68.8	63.1	55.2	50.5	55.8	54.2	53.4	51.5	54.5
Future Expectations	67.9	58.0	59.4	58.9	55.5	56.6	55.3	51.3	51.0	50.5	50.0
Prices Received											
Current Conditions	46.3	50.4	67.3	61.3	51.0	54.0	58.3	58.5	53.5	52.8	57.7
Future Expectations	52.8	52.4	54.5	55.8	55.1	54.6	55.3	50.3	50.0	49.2	49.4
Financial Position											
Current Conditions	63.9	58.9	68.0	64.9	51.8	53.6	61.4	61.9	58.6	59.1	62.6
Future Expectations	68.5	57.7	56.0	55.4	58.3	65.8	66.9	59.7	56.2	57.8	56.9
Interest Rates Paid											
Current Conditions	55.7	57.4	54.1	55.8	52.5	52.8	50.8	50.8	50.5	52.4	52.6
Future Expectations	53.8	54.5	52.2	51.9	51.7	50.3	50.3	50.0	50.6	50.6	50.0
Effect of Rouble Exchange Rate											
Current Conditions	50.0	50.4	50.9	50.6	49.7	49.4	51.0	53.4	54.1	55.4	56.9
Future Expectations	49.1	50.0	49.7	48.2	49.1	49.3	50.7	50.7	50.0	50.0	50.0
Supplier Delivery Time											
Current Conditions	46.2	50.0	51.5	48.0	45.9	46.4	51.0	50.3	49.7	49.5	51.7
Future Expectations	49.1	50.8	49.7	49.5	49.2	50.3	49.5	49.5	49.2	49.5	49.7
Availability of Credit											
Current Conditions	48.1	48.4	51.7	54.4	51.9	51.1	54.7	54.9	58.0	57.9	55.0
Future Expectations	55.6	53.3	52.5	52.2	52.7	53.1	54.9	53.4	52.0	51.1	50.9

Historical Records

	Minimum	Maximum	Median	Mean
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	56.0	57.8
Future Expectations	45.0	71.3	56.6	57.5
Production				
Current Conditions	48.3	61.1	55.8	58.0
Future Expectations	45.5	58.8	54.1	57.0
New Orders				
Current Conditions	48.8	73.8	58.9	59.5
Future Expectations	45.5	62.8	55.3	57.8
Export Orders				
Current Conditions	44.9	61.1	53.0	52.1
Future Expectations	41.6	66.0	51.0	52.1
Productive Capacity				
Current Conditions	50.3	57.7	52.7	51.8
Future Expectations	48.5	63.2	53.0	51.8
Order Backlogs				
Current Conditions	39.6	51.4	46.9	47.1
Future Expectations	37.7	50.0	44.6	43.8
Employment				
Current Conditions	47.7	56.5	52.0	51.3
Future Expectations	46.2	53.6	49.8	50.8
Inventories				
Current Conditions	38.2	50.8	48.2	50.0
Future Expectations	37.5	51.9	46.3	47.4
Input Prices				
Current Conditions	50.5	68.8	55.4	54.2
Future Expectations	50.0	67.9	55.9	55.5
Prices Received				
Current Conditions	46.3	67.3	55.6	54.0
Future Expectations	49.2	55.8	52.7	52.8
Financial Position				
Current Conditions	51.8	68.0	60.4	61.4
Future Expectations	55.4	68.5	59.9	57.8
Interest Rates Paid				
Current Conditions	50.5	57.4	53.2	52.6
Future Expectations	50.0	54.5	51.4	50.6
Effect of Rouble Exchange Rate				
Current Conditions	49.4	56.9	52.0	50.9
Future Expectations	48.2	50.7	49.7	50.0
Supplier Delivery Time				
Current Conditions	45.9	51.7	49.1	49.7
Future Expectations	49.1	50.8	49.6	49.5
Availability of Credit				
Current Conditions	48.1	58.0	53.3	54.4
Future Expectations	50.9	55.6	52.9	52.7

Historical Records - Quarterly

	Q3 13	Q4 13	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator				
Current Conditions	54.0	51.1	-2.9	-5.4%
Future Expectations	58.5	47.2	-11.3	-19.3%
Production				
Current Conditions	52.9	53.4	0.5	0.9%
Future Expectations	57.7	47.1	-10.6	-18.4%
New Orders				
Current Conditions	55.3	53.9	-1.4	-2.5%
Future Expectations	60.3	46.9	-13.4	-22.2%
Export Orders				
Current Conditions	48.6	50.0	1.4	2.9%
Future Expectations	49.5	41.8	-7.7	-15.6%
Productive Capacity				
Current Conditions	51.1	51.0	-0.1	-0.2%
Future Expectations	51.5	49.0	-2.5	-4.9%
Order Backlogs				
Current Conditions	47.4	48.8	1.4	3.0%
Future Expectations	47.6	40.9	-6.7	-14.1%
Employment				
Current Conditions	51.3	49.3	-2.0	-3.9%
Future Expectations	49.9	46.5	-3.4	-6.8%
Inventories				
Current Conditions	49.8	47.0	-2.8	-5.6%
Future Expectations	48.9	46.5	-2.4	-4.9%
Input Prices				
Current Conditions	53.8	53.0	-0.8	-1.5%
Future Expectations	55.8	50.9	-4.9	-8.8%
Prices Received				
Current Conditions	54.4	54.9	0.5	0.9%
Future Expectations	55.0	49.8	-5.2	-9.5%
Financial Position				
Current Conditions	55.6	59.9	4.3	7.7%
Future Expectations	63.7	57.9	-5.8	-9.1%
Interest Rates Paid				
Current Conditions	52.0	51.2	-0.8	-1.5%
Future Expectations	50.8	50.4	-0.4	-0.8%
Effect of Rouble Exchange Rate				
Current Conditions	50.0	54.3	4.3	8.6%
Future Expectations	49.7	50.2	0.5	1.0%
Supplier Delivery Time				
Current Conditions	47.8	49.8	2.0	4.2%
Future Expectations	49.7	49.4	-0.3	-0.6%
Availability of Credit				
Current Conditions	52.6	56.9	4.3	8.2%
Future Expectations	53.6	52.2	-1.4	-2.6%

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.

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