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MNI Russia Business Report August 2014

Insight and data for better decisions

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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 - August 2014

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Russian Roulette

Annexation of Crimea, a possible invasion of east Ukraine and international sanctions, and yet the Russian MICEX is only down just over 3% since the start of the year. What exactly is keeping the stock market afloat?

Annexation of Crimea, a possible invasion of east Ukraine and international sanctions, and yet the Russian MICEX is only down just over 3% since the start of the year. What exactly is keeping the stock market afloat?

There hasn't been a lot of good news flowing out of Russia this year. Even before the military action in Ukraine, Russian economic growth was weakening. And, after the initial round of sanctions, our business survey showed sentiment taking a hit, while official economic data showed further weakness and mounting inflationary pressures given the depreciation of the rouble. Our August data showed sentiment was hit again with firms seeing their credit lines drying up.

On March 14, the MICEX Index hit a low of 1237.43, a fall of close to 18% since the end of 2013. Just a few months later and it had rallied to a nine-month high. There was another sharp fall after the downing of Malaysia Airlines flight MH17, but again this was followed by a rally which left the index not too far down on the year.

Prior to the annexation of Crimea a number of analysts had espoused the value in the Russian stock market. At a price to earnings ratio of just over five, Russian equities certainly look relatively cheap compared with other emerging markets which have a PE ratio of more than double that, or the US with a PE ratio of 16 or Mexico which is up at 26.

Still, to bite the bullet and invest in Russia now is only for the brave and only if you hold the view that we'll see a sudden outbreak of peace. And even if the situation in Ukraine does resolve, the reputational damage to Russia will need to be repaired, something that will take significant time. The significant rise in

bond yields since the start of the year makes the job of financing the recovery even more difficult. Meanwhile the government has yet to spell out a clear plan of action on how to kick start the economy and put a detailed reform agenda in place.

Philip Uglov
Chief Economist
MNI Indicators



Executive Summary

Russian business sentiment fell in August as the imposition of new tougher Tier 3 sanctions dented confidence, with Export Orders falling back into contraction.

Russian business sentiment fell in August as the imposition of new tougher Tier 3 sanctions dented confidence, with Export Orders falling back into contraction.

The MNI Russia Business Indicator declined 3.1 points to 51.5 in August from 54.6 in July. In July, we suggested that companies' concerns surrounding sanctions had begun to fade but warned that the downing of a Malaysia Airlines flight and the imposition of sectoral sanctions by the EU could see sentiment hurt again.

Companies were much more optimistic about future conditions compared with their current business conditions, with the Expectations Indicator rising by 10.7% to a one-year high of 59.8 in August from 54.0 in July. The proportion of companies expecting overall business conditions to improve in the following three months more than doubled from the previous month, whilst the proportion expecting conditions to be worse remained unchanged.

In spite of the implementation of additional sanctions against Russia, current conditions for Production among Russia's largest companies increased slightly while expectations over the coming three months rose significantly.

In contrast to Production, New Orders, which provide a guide to future demand, eased slightly in August to the lowest level since December 2013.

The impact of the new tougher sanctions hit exporters in August with Export Orders falling back into contraction having hit a five month high in July.

Given the current weak demand backdrop, Order Backlogs contracted for the sixth consecutive month with the indicator standing at 48.2 in August compared with 47.7 previously.

The Prices Received Indicator, which measures the prices that companies charge for their goods and services, increased to 50.0 in August after contracting

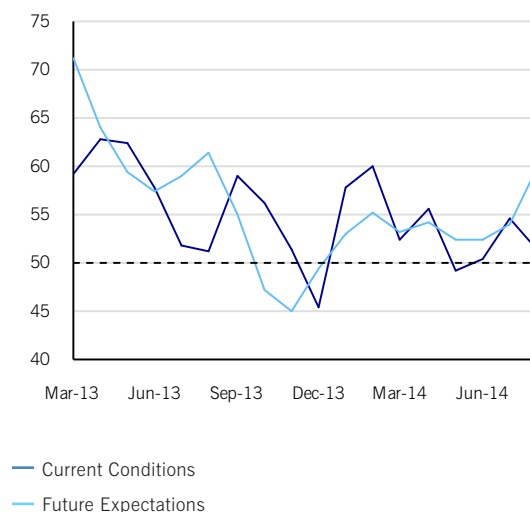
for the first time since the start of the series to 49.7 in the previous month.

The Financial Position Indicator fell by 3.3 points to 51.0 in August from 54.3 in July. In spite of the economic slowdown and weakness in the business environment, the Financial Position indicator has remained in expansion, averaging 59.1 across the entire series.

The time taken to deliver supplies to companies remained flat at 50.0 in August. It was significantly above the level seen a year ago suggesting that demand has picked up somewhat over the past year, although the pace of ascent has eased.

The Availability of Credit Indicator fell by 24.2% to 41.3 in August from 54.5 in July, the lowest since the series began in March 2013 and the first time below 50 for a year.

MNI Russia Business Indicator



Overview

	Jun-14	Jul-14	Aug-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	50.5	54.6	51.5	-	Jun-14	52.2	-3.1	-5.7%
Future Expectations	52.5	54.0	59.8	Aug-13	-	55.4	5.8	10.7%
Production								
Current Conditions	55.5	51.5	52.5	Jun-14	-	53.2	1.0	1.9%
Future Expectations	51.1	52.6	57.7	Aug-13	-	53.8	5.1	9.7%
New Orders								
Current Conditions	56.0	56.8	54.3	-	Dec-13	55.7	-2.5	-4.4%
Future Expectations	51.9	51.8	56.0	Sep-13	-	53.2	4.2	8.1%
Export Orders								
Current Conditions	49.0	53.3	48.0	-	May-14	50.1	-5.3	-9.9%
Future Expectations	44.3	50.4	52.6	Aug-13	-	49.1	2.2	4.4%
Productive Capacity								
Current Conditions	50.5	50.5	50.3	-	Apr-14	50.4	-0.2	-0.4%
Future Expectations	50.0	50.0	52.0	Jul-13	-	50.7	2.0	4.0%
Order Backlogs								
Current Conditions	45.4	47.7	48.2	Feb-14	-	47.1	0.5	1.0%
Future Expectations	44.4	45.4	45.9	Aug-13	-	45.2	0.5	1.1%
Employment								
Current Conditions	50.5	50.3	50.3	Jul-14	-	50.4	0.0	0.0%
Future Expectations	50.0	50.0	51.3	Jul-13	-	50.4	1.3	2.6%
Inventories								
Current Conditions	48.0	48.6	49.3	Sep-13	-	48.6	0.7	1.4%
Future Expectations	46.5	47.3	48.6	Oct-13	-	47.5	1.3	2.7%
Input Prices								
Current Conditions	50.5	50.0	50.0	Jul-14	-	50.2	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Jul-14	-	50.0	0.0	0.0%
Prices Received								
Current Conditions	51.3	49.7	50.0	Jun-14	-	50.3	0.3	0.6%
Future Expectations	50.3	50.3	50.3	Jul-14	-	50.3	0.0	0.0%
Financial Position								
Current Conditions	54.3	54.3	51.0	-	series low	53.2	-3.3	-6.1%
Future Expectations	52.7	53.9	56.8	Feb-14	-	54.5	2.9	5.4%
Interest Rates Paid								
Current Conditions	49.7	50.0	50.0	Jul-14	-	49.9	0.0	0.0%
Future Expectations	49.7	49.7	49.7	Jul-14	-	49.7	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	50.3	50.0	49.7	-	Aug-13	50.0	-0.3	-0.6%
Future Expectations	50.0	50.0	50.0	Jul-14	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	50.3	50.0	50.0	Jul-14	-	50.1	0.0	0.0%
Future Expectations	49.7	50.0	50.0	Jul-14	-	49.9	0.0	0.0%
Availability of Credit								
Current Conditions	57.7	54.5	41.3	-	series low	51.2	-13.2	-24.2%
Future Expectations	50.8	51.0	55.1	Mar-13	-	52.3	4.1	8.0%

Russian business sentiment fell in August as new tougher sanctions dented confidence.

However, companies were much more optimistic about future conditions compared with their current business conditions.



Economic Landscape

Russia's retaliation to western Tier 3 sectoral sanctions, by banning imports of a wide range of foodstuffs, also threatens to push food price inflation higher, making life for the central bank more difficult.

A small improvement in industrial output in July and easing in inflation provided some good news over the past month, although the Economics Ministry said that the economy as a whole likely contracted in July. Russia's retaliation to western Tier 3 sectoral sanctions, by banning imports of a wide range of foodstuffs, also threatens to push food price inflation higher, making life for the central bank more difficult. The list of banned produce includes meat, fish, fruits, vegetables, and dairy products from the US, EU, Canada, Norway and Australia. The Economy Ministry upped its expectation for inflation this year, directly blaming the sanctions.

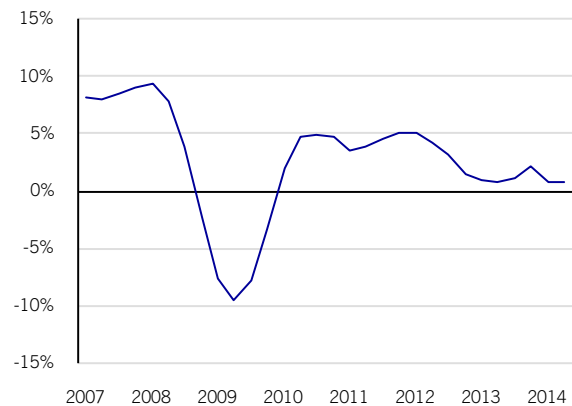
The Russian Central Bank recently widened its trading corridor for the rouble and reduced the intervention threshold, confirming that it still intends to make the currency freely-floating by the end of the year as it moves to a full inflation targeting regime. Continued pressure on inflation coupled with geopolitical risks to the currency leaves monetary policy on a tightening bias for the time being.

Economic growth slows

The latest update from the Economy Ministry suggests GDP contracted 0.2% in July compared with a year earlier, a poor start to Q3. Moreover, it revised its June estimate to a fall of 0.1% compared with the originally estimated 0.6% increase. The upshot could be a downward revision to overall Q2 GDP which was initially estimated at 0.8%, only slightly below the 0.9% outturn seen in Q1. While the Russian economy may have so far escaped slipping into a technical recession (two quarters of negative growth), it's far too early to conclude that it is out of the woods yet.

Russian ministers had predicted GDP growth of 2.5% this year before the turmoil in Ukraine. This has, though, been dramatically reduced to just 0.5%, following paltry growth of 1.3% in 2013. Despite recently estimating that the economy has contracted for two consecutive months, it has retained the same

Economic Growth



— GDP Growth y/y %

Source: Federal State Statistics Service of Russia

forecast for 2014 although it has halved its economic growth forecast for 2015 to 1% from 2% previously.

Central Bank governor Elvira Nabiullina has revised the growth rate for 2014 down to 0.4%, a little below the government's forecast, although expects a slight acceleration in the second half of the year.

Industrial production grows in July

Industrial production accelerated to 1.6% on the year in July from 0.4% in June, due to a rebound in manufacturing output growth. Manufacturing output was up 2.4% on the year in July compared with muted growth of 0.3% in the previous month. Mining and quarrying output, slowed to 0.2% on the year in July compared with a growth of 0.8% in the previous month. Utilities output reversed eight consecutive months of contraction, growing by 0.8% on the year following a decline of 0.8% in the previous month.

In the first six months of 2014, industrial production grew 1.5% on the year having contracted by 0.2% in

the same period a year ago. The economy ministry expects industrial output to increase by about 1% this year after it failed to grow in 2013.

Car sales plummet in July

In July, 180,767 cars were sold in Russia, 22.9% below the level in the same month a year earlier, according to the Association of European Businesses (AEB). The combination of a weaker rouble and increased cost of credit, a result of the central bank raising the key interest rate three times since the start of the year, has had a significant dampening effect on consumer spending on cars.

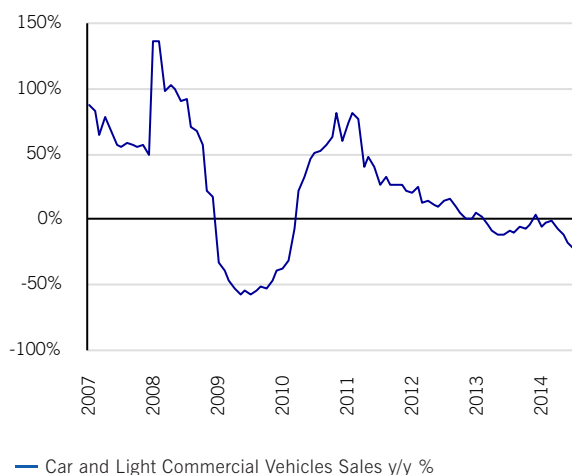
The pace of the decline in car sales had been easing up to March when sales declined by just 0.4%, but the market has subsequently showed signs of distress again. The seven months to July saw a decline of 9.9% in car sales compared with the same period a year earlier.

The AEB left their full year forecast unchanged, following a sharp downward revision last month to a decline in car sales of 12% during 2014 following a drop of 5.5% in the previous year. It expects that the opening of the Moscow Motor Show in late August will boost on car purchases, as it has done in previous years, but remains cautious given geopolitical concerns.

Inflation eases slightly in July

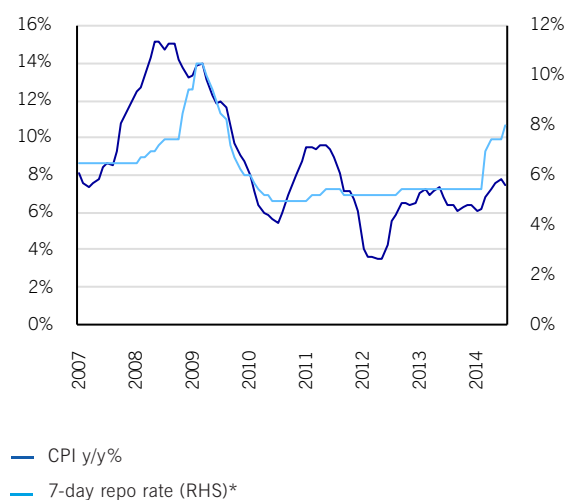
Consumer price inflation decelerated for the first time this year, easing to 7.5% in July from 7.8% in June. The introduction of a cap on regulated utility tariffs from July 1 likely helped to restrain inflation. From next year, however, administrative regions will be able to enact a sales tax of up to 3% on top of the current 18% federal VAT in order to cover any budget shortfalls which will push the CPI up. Moreover, the renewed depreciation in the currency since the end of June, will place upward pressure on inflation.

Car Sales



Source: Federal State Statistics Service of Russia

Inflation and Interest Rate



Source: Federal State Statistics Service of Russia, *Central Bank of Russia

Hike in the key policy rate

On July 25, the Russian central bank raised its benchmark interest rate by 50 basis points to 8% from 7.5% previously, the third increase since the start of the year.

The bank's central case is that consumer price inflation will ease to 6-6.5% by the end of the year, as the impact of the rouble decline wanes and lower administered price hikes, a good harvest and weak aggregate demand all bear down on inflation. Against this though, negative shocks from increased geopolitical tensions and the global monetary policy impact (a hike in rates by the US Federal Reserve for example) on the rouble, as well as changes to tax and tariffs policy, could push inflation up.

The central bank made clear that should the high rate of inflation persist, it will tighten monetary policy further in order to meet their inflation target.

Depreciation in the rouble

The rouble has continued to depreciate over the past month, falling to 36.1495 against the dollar on August 26 from 35.6867 at the end of July. Since the end of June the currency has fallen by more than 6%.

Foreign exchange reserves in Russia decreased to \$468.8 billion in July from \$478.3 billion in June, despite a boost in gold reserves for the fourth consecutive month to the highest in over two decades. The decline might be due to a Russian tax deadline in June, which boosted demand for the rouble from some companies, which provided a temporary rebound in the currency.

The Russian Central Bank recently widened its trading corridor for the rouble and reduced the intervention threshold as it moves towards making the currency free-floating by the end of the year in order to adopt a full inflation targeting regime next year.

Trade surplus sinks to an 11-month low in June

Russia's trade surplus sharply contracted to \$14 billion in June, from \$18.3 billion a month earlier, although above \$13.6 billion recorded a year earlier.

Exports eased to \$40.7 billion in June, 8% below May's reading of \$44.3 billion, and were 2.6% below the same month a year earlier. Imports reversed five consecutive months of decline, rising marginally to \$26.8 billion, although were down by 5.2% on the year. The decline in exports was mainly due to the decision by Russian energy producer Gazprom to cut off natural gas supplies to Ukraine, following non-payment of a \$2 billion invoice, while the weakened rouble in June caused imports to rise slightly.

Russia has retaliated to the latest round of Western sanctions by introducing bans on certain agricultural imports from the West, and plans to meet any shortfall in the food supply by ramping up domestic production and by increasing imports from alternative trading partners.



Indicators

Russian business sentiment fell in August as the imposition of new tougher Tier 3 sanctions dented confidence.

MNI Russia Business Indicator

Sanctions Dent Sentiment



Russian business sentiment fell in August as the imposition of new tougher Tier 3 sanctions dented confidence, with Export Orders falling back into contraction.

The MNI Russia Business Indicator declined 3.1 points to 51.5 in August from 54.6 in July. Last month, we suggested that companies' concerns surrounding sanctions had begun to fade but warned that the downing of a Malaysia Airlines flight and the imposition of sectoral sanctions by the EU could see sentiment hurt again.

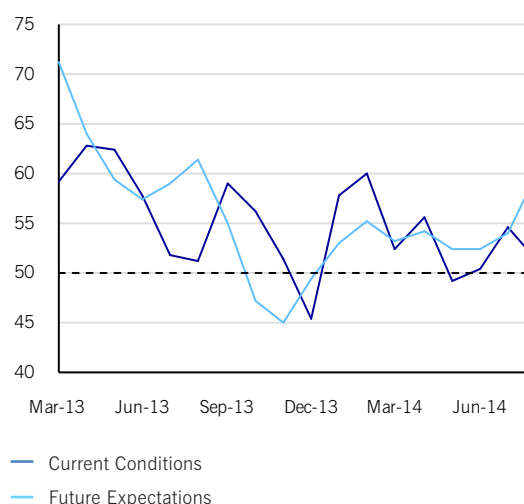
The new sanctions from both the EU and US targeted Russia's finance, energy and weapons industries. Russia has retaliated by introducing bans on certain agricultural imports from the West, and has planned to fill the gap by ramping up domestic production and increasing imports from alternative trading partners in order to meet any shortfall.

Although economic growth of 0.8% on the year in Q2 meant that the Russian economy escaped falling into a technical recession, there has been little cheer in other economic data which showed inflation hitting a three-year high in June before easing slightly in July.

Both manufacturing and services sector companies reported a fall in business sentiment in August. The decline in confidence was led by service sector companies, with the proportion of companies reporting that business conditions had worsened quadrupling compared with the previous month.

Companies were much more optimistic about future conditions compared with their current business

MNI Russia Business Indicator



conditions, with the Expectations Indicator rising by 10.7% to a one-year high of 59.8 in August from 54.0 in July. The proportion of companies expecting overall business conditions to improve in the following three months more than doubled from the previous month, whilst the proportion expecting conditions to be worse remained unchanged.

In August, seven out of the 15 current conditions indicators included in the survey decreased, while four of them remain unchanged. Companies were more optimistic about future conditions, possibly expecting some resolution to the Ukraine conflict, with 10 future conditions indicators rising on the month.

MNI Russia Business Indicator

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	51.3	52.5	55.6	49.2	50.5	54.6	51.5
Future Expectations	61.5	53.3	54.3	52.5	52.5	54.0	59.8

Production

Future Expectations Highest Since August 2013



In spite of the implementation of additional sanctions against the Russian economy, current conditions for Production among Russia's largest companies increased slightly while expectations over the coming three months rose significantly.

After declining to a seven month low of 51.5 in July, companies were generally more optimistic about their output in August, with the Production Indicator picking up slightly by 1.9% to 52.5 in August.

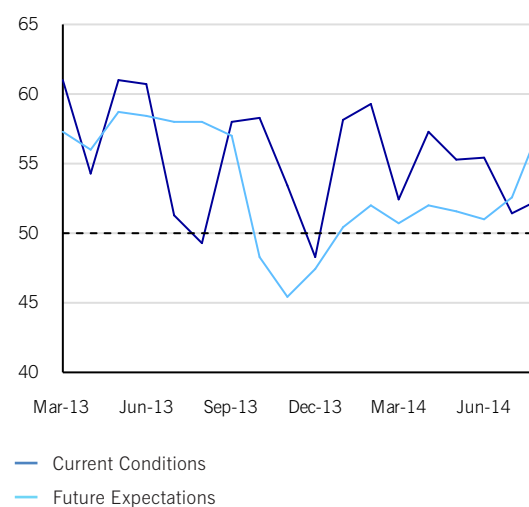
Industrial production grew for the sixth consecutive month in July, accelerating to 1.6% on the year from 0.4% previously. On a monthly basis, industrial production grew by 2.2% after three consecutive months of decline. Manufacturing output was up by 2.4% on the year compared with muted growth of 0.3% in June.

The proportion of construction companies that reported increased output between August and July doubled, although the proportion of manufacturing companies decreased marginally. Production in the service sector improved to the 50 breakeven level.

Companies' optimism about Production in the next three months improved significantly, with the Future Expectations indicator rising to 57.7 in August, the highest since August 2013, compared with 51.1 in July.

Following the introduction of a Russian ban on certain food imports from the West, the government has said it plans to boost domestic agricultural output in order

Production



to meet the shortfall in food supply. A significant rapid boost to agricultural production, however, is unlikely and will take years to achieve.

Production

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	49.3	52.5	57.3	55.3	55.5	51.5	52.5
Future Expectations	58.0	50.8	52.0	51.7	51.1	52.6	57.7

New Orders

Lowest Since December 2013



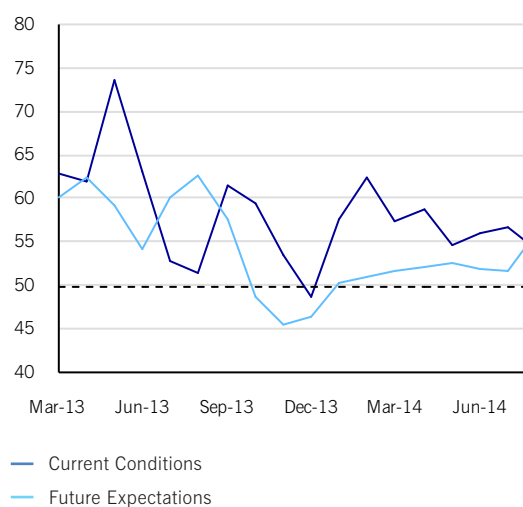
In contrast to Production, New Orders, which provide a guide to future demand, eased slightly in August to the lowest level since December 2013.

The New Orders Indicator fell to 54.3 in August from 56.8 in July, with the decline led by manufacturing companies, while orders continued to expand among services and construction companies.

Faced with a highly uncertain business environment, companies' order books have been weakened, with the three month trend for New Orders averaging 55.7 in August, the lowest since the onset of the Ukraine crisis.

Companies' expectations for New Orders in three months' time were higher than current conditions for the first time in two years, expanding to 56.0 in August from 51.8 in July, although they were still considerably lower than the outturn of 62.8 recorded in the same month a year earlier.

New Orders



New Orders

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	51.5	57.5	58.8	54.8	56.0	56.8	54.3
Future Expectations	62.8	51.8	52.2	52.7	51.9	51.8	56.0

Export Orders Contract Sharply



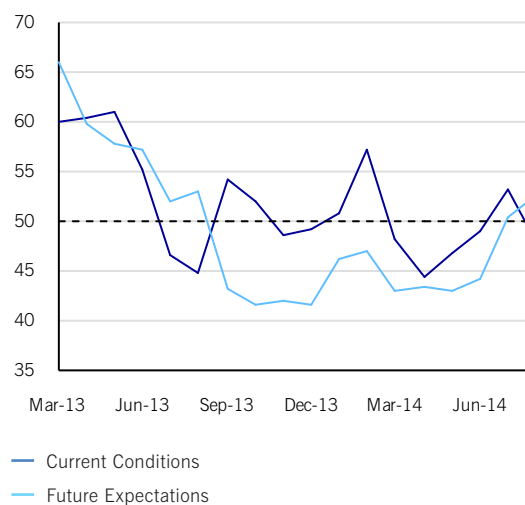
The impact of the new tougher sanctions hit exporters in August with Export Orders falling back into contraction having hit a five month high in July.

The Export Orders Indicator fell by 9.9% on the month to 48.0 in August from 53.3 in July, the lowest since May.

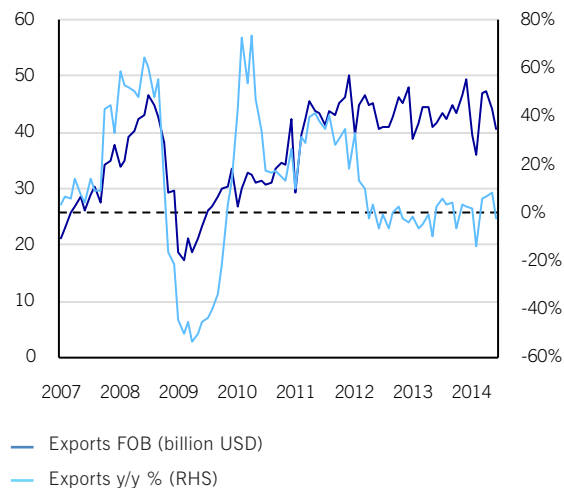
Manufacturing and service sector companies led the decline in Export Orders, while agriculture and construction remained at the 50 threshold that separates expansion from contraction in companies' confidence.

Surprisingly, companies were increasingly optimistic about the next three months with the Future Expectations Indicator expanding for the second consecutive month to 52.6 in August from 50.4 in July, the highest since August 2013.

Export Orders



Trend in Exports



*Source: The Central Bank of the Russian Federation

Export Orders

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	44.9	48.3	44.4	46.9	49.0	53.3	48.0
Future Expectations	53.0	43.0	43.5	43.0	44.3	50.4	52.6

Productive Capacity

Future Expectations Highest Since July 2013

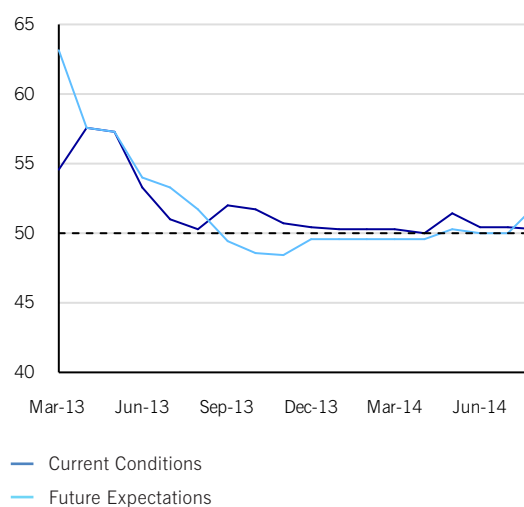


Weak consumer demand and weak economic conditions have left many companies with a high degree of excess capacity and evidence from the survey suggests that firms have done little to cut back in recent months.

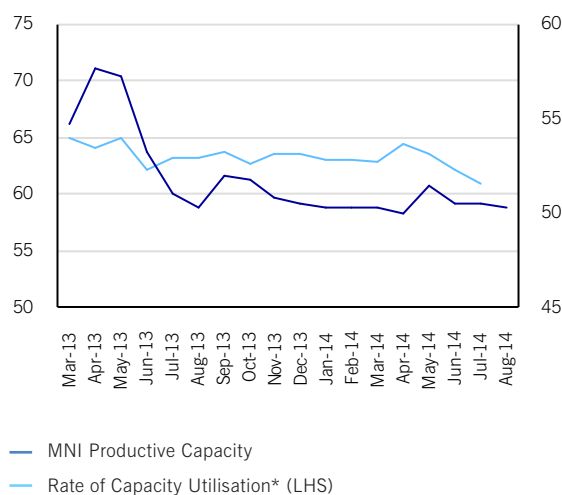
Productive Capacity has remained broadly stable over the past eight months, with only a marginal decline in the Productive Capacity Indicator to 50.3 in August from 50.5 in the previous month.

The Expectations Indicator picked up to 52.0 in August, the highest since July 2013, following two consecutive months at the 50 neutral level.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



*Source: Federal State Statistics Service of Russia

Productive Capacity

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	50.3	50.3	50.0	51.5	50.5	50.5	50.3
Future Expectations	51.8	49.7	49.7	50.3	50.0	50.0	52.0

Order Backlogs

Continue to Contract

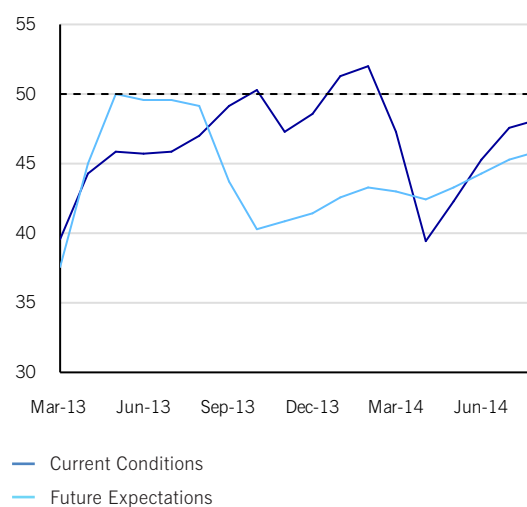


Given the current weak demand backdrop, Order Backlogs contracted for the sixth consecutive month with the indicator standing at 48.2 in August compared with 47.7 previously.

Manufacturing companies' backlogs continued to rise in August, although failed to breach the 50 breakeven level, whilst construction companies' backlogs remained unchanged at 50.0.

Companies remained pessimistic about demand conditions over the next three months, with future expectations for backlogs remaining firmly in contraction albeit marginally increasing to 45.9 from 45.4 in July, the highest since August 2013. Except for May last year, when the Future Expectations Indicator was exactly 50.0, expectations for Order Backlogs have always been in contraction, although have trended up gradually since October.

Order Backlogs



Order Backlogs

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	47.1	47.4	39.5	42.3	45.4	47.7	48.2
Future Expectations	49.2	43.0	42.5	43.3	44.4	45.4	45.9

Employment

Future Expectations Improve

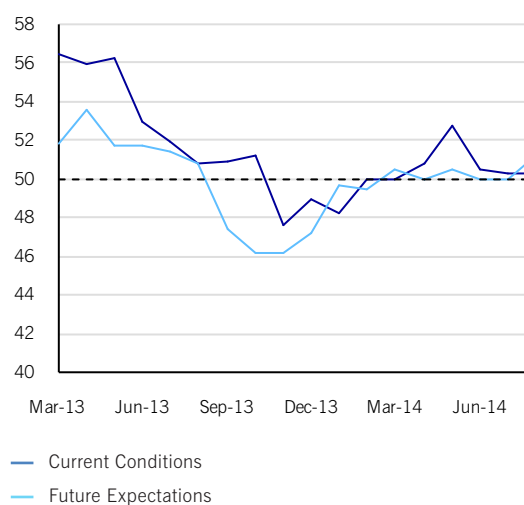


Employment has remained relatively flat over the past 12 months with the indicator staying close to the 50 breakeven level. It was a similar picture in August, with the Employment Indicator unchanged at 50.3 from July.

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. Companies' employment situation has on the whole remained resilient in the face of the slowdown, a reflection of Russia's overstaffing and low levels of productivity.

Companies in our panel were slightly more optimistic about employment in the next three months, with the Expectations Indicator increasing to 51.3 in August from 50.0 in the previous month. After hitting a series low at the end of 2013, expectations picked up in 2014 and have remained broadly stable in the three months to August.

Employment



Employment

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	50.8	50.0	50.8	52.8	50.5	50.3	50.3
Future Expectations	50.8	50.5	50.0	50.5	50.0	50.0	51.3

Inventories

Highest Since September



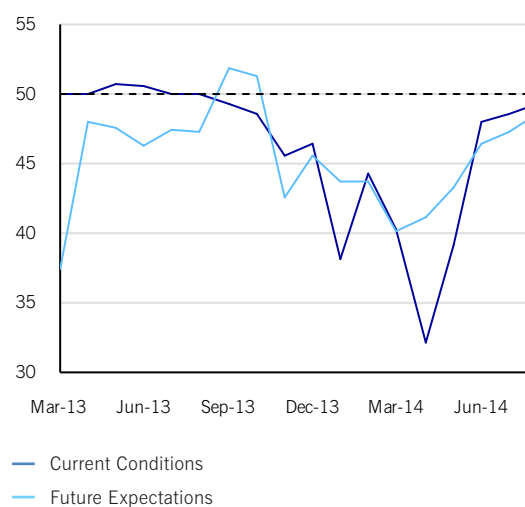
The Inventories Indicator increased to 49.3 from 48.0 in the previous month, although has been in contraction for a year.

Companies had been aggressively destocking in the face of weak domestic and external demand, particularly since the introduction of additional sanctions on the Russian economy. However, the pace of the inventory drawdown has slowed, with the Inventories Indicator picking up slightly in August to just below the neutral level.

Construction companies were neutral at the 50 mark for the third consecutive month, while inventories for manufacturing firms improved slightly on the month but remained in contraction.

Companies began destocking in September last year, before Russia's annexation of Crimea in March, with their expectations for the future turning negative in November and have remained in contraction since then. The Future Expectations Indicator rose slightly to 48.6 in August from 47.3 in the previous month.

Inventories



Inventories

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	50.0	40.4	32.2	39.2	48.0	48.6	49.3
Future Expectations	47.4	40.2	41.2	43.4	46.5	47.3	48.6

Input Prices

Series Low for Second Consecutive Month

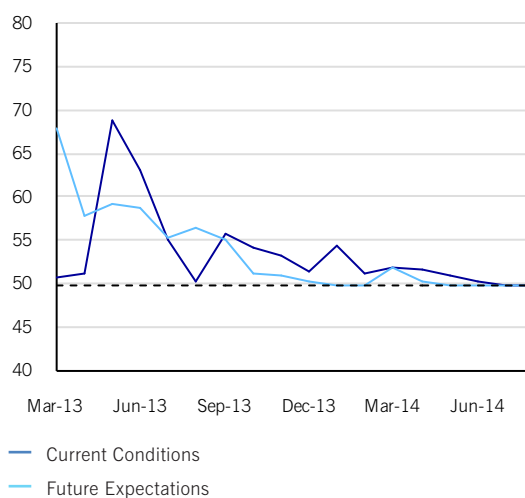


In spite of an acceleration in consumer price inflation over recent months, Input Prices have remained broadly stable and they stood at the 50 neutral level for the second consecutive month.

The three month trend in Input Prices has declined significantly since the summer of 2013, with the indicator falling below the series' average of 53.7 in August. In spite of the rouble's depreciation over the past year, input costs have remained subdued, a possible indication of just how weak the demand backdrop is.

Companies expected input prices in the next three months to remain stable, with the Expectations Indicator remaining flat at 50.0 for the fourth month in a row. Companies were probably hopeful that the central bank's tight monetary policy stance would help to curb inflation in the coming months.

Input Prices



Input Prices

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	50.5	52.1	51.8	51.0	50.5	50.0	50.0
Future Expectations	56.6	52.1	50.3	50.0	50.0	50.0	50.0

Prices Received Improve Slightly



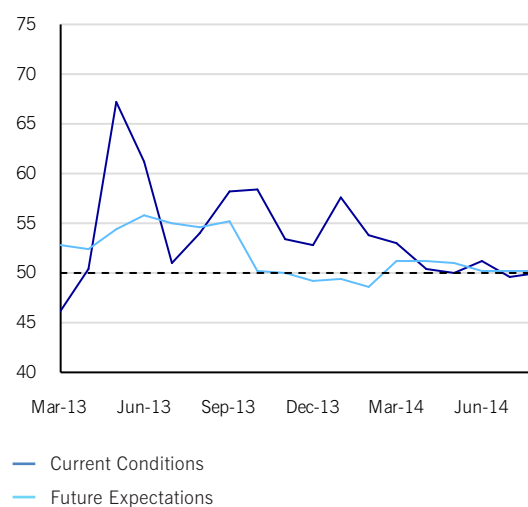
The Prices Received Indicator, which measures the prices that companies charge for their goods and services, increased to 50.0 in August after contracting for the first time since the start of the series to 49.7 in the previous month.

Consumer price inflation decelerated for the first time this year, easing to 7.5% in July from 7.8% in June. The introduction of a cap on regulated utility tariffs from July 1 possibly helped to restrain stubborn inflation. The central bank has raised interest rates three times this year in a bid to counter rising prices and expects inflation to ease in the second half of the year under the scenario of no further negative shocks, although it has warned that it will tighten policy further if inflation remains too high.

After falling into contraction in July, Prices Charged by service sector companies expanded again. The indicator for manufacturing and construction companies stood stable at the 50 threshold that separates expansion from contraction in companies' confidence.

The Future Expectations indicator remained flat at 50.3 in July for the third consecutive month, with the majority of companies reporting that they expected their prices to remain the same.

Prices Received



Prices Received

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	54.0	53.1	50.5	50.0	51.3	49.7	50.0
Future Expectations	54.6	51.3	51.3	51.0	50.3	50.3	50.3

Financial Position

Series Low



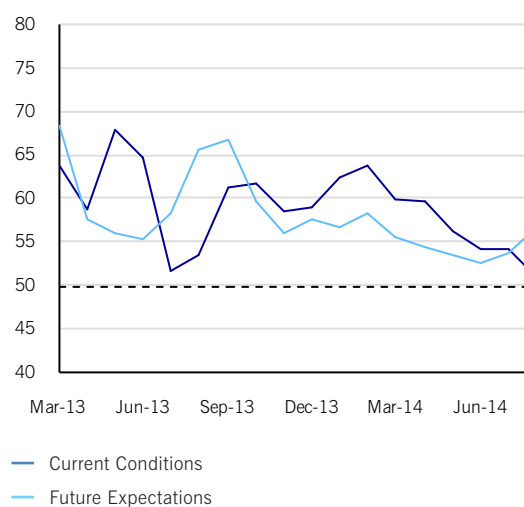
The financial health of our panel of companies has shown a downward trend since the start of the year, exacerbated by Russia's stand-off with the west, and it declined to a series low in August suggesting more companies were probably hurt by the sanctions.

The Financial Position Indicator fell by 3.3 points to 51.0 in August from 54.3 in July. In spite of the economic slowdown and weakness in the business environment, the Financial Position indicator has remained in expansion, averaging 59.1 across the entire series.

Immediately after Tier 3 sanctions were imposed by western nations, Russia's state-controlled energy company Rosneft asked the Russian government for a \$42 billion loan, suggesting that they feared the impact of sanctions on their financial position.

However, companies were more optimistic about their financial position in the coming three months. The Future Expectations Indicator rose to 56.8 from 53.9 in July, the highest since February. In spite of the month's rise, companies' expectations have weakened over the past year and in August it was 13.7% below the level seen in the same period a year ago.

Financial Position



Financial Position

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	53.6	60.1	59.8	56.3	54.3	54.3	51.0
Future Expectations	65.8	55.6	54.4	53.6	52.7	53.9	56.8

Interest Rates Paid Remain Unchanged



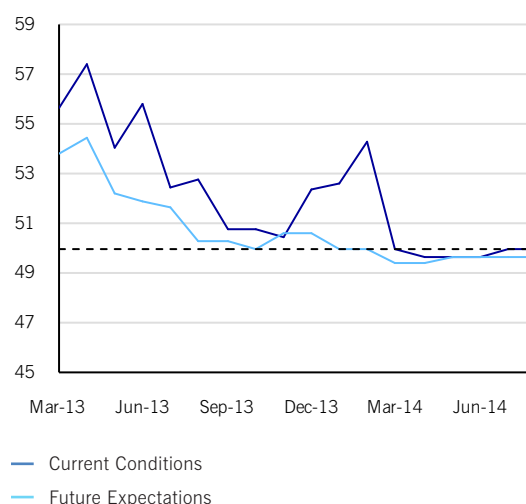
The indicator for Interest Rates Paid stood flat at 50.0 in August, slightly below the series average of 52.2.

For the time being, the effect of the recent rate hikes does not seem to have been passed onto businesses, as the majority of companies polled reported no change in their interest costs. The central bank raised its key rate to 8% from 7.5% on July 25 after leaving it unchanged at its June meeting. The central bank has raised interest rates twice since early March when Russia's annexation of Crimea boosted capital flight and caused the rouble to tumble to a record low and inflation to accelerate. The central bank has hinted that further tightening is possible if inflation fails to ease.

On August 21, the yield on the Russian 10-year government bond increased to 9.51% from 8.33% in the previous month, while the three month interbank rate eased slightly to 9.33% from 9.52% previously.

Companies expected that the Interest Rates they would pay over the coming three months will fall, with the indicator remaining in contraction and flat at 49.7.

Interest Rates Paid



Interest Rates Paid

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	52.8	50.0	49.7	49.7	49.7	50.0	50.0
Future Expectations	50.3	49.4	49.4	49.7	49.7	49.7	49.7

Effect of Rouble Exchange Rate Lowest Since August 2013



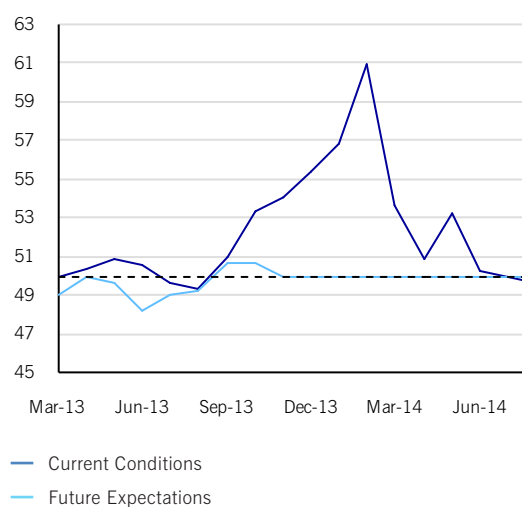
The Effect of Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, fell into contraction to 49.7 in August from 50.0 in the previous month.

A value above 50 shows more firms reported that the exchange rate was helping, while a reading below 50 shows the exchange rate was hurting.

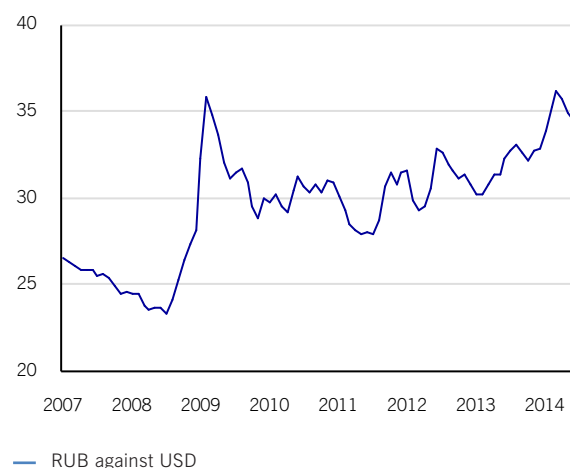
The rouble has fallen 9% against the US dollar compared with a year ago and the rapid descent has raised fears of economic instability among companies. The indicator hit a series high in February before falling sharply as the rouble depreciated amid large capital outflows following Russia's annexation of Crimea. Since the start of the year, companies were 12.7% less optimistic about the positive impact of the exchange rate on their businesses.

The rouble has depreciated 4% to the lowest since March following the implementation of Tier 3 sanctions on the Russian economy by the West. As a result, a higher number of companies are looking to substitute their imports with domestic goods and services in order to have a minimal impact on their future costs. The Expectations Indicator remained at 50.0 for the 10th consecutive month, having stood slightly above the breakeven level in September and October 2013.

Effect of Rouble Exchange Rate



Depreciation in the Rouble



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	49.4	53.7	50.9	53.3	50.3	50.0	49.7
Future Expectations	49.3	50.0	50.0	50.0	50.0	50.0	50.0

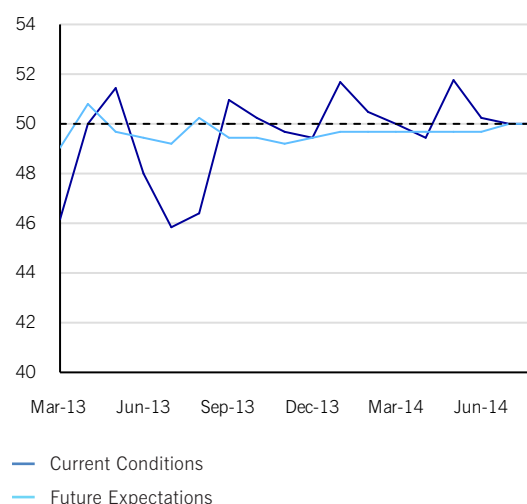
Supplier Delivery Times Remain Unchanged



The time taken to deliver supplies to companies remained flat at 50.0 in August. It was significantly above the level seen a year ago suggesting that demand has picked up somewhat over the past year, although the pace of ascent has eased.

Companies' expectations for three months' time also remained flat at 50.0, the second consecutive month it has been at the neutral level after remaining in contraction for the previous 10 months. Future expectations have remained broadly stable since the beginning of the survey in March last year, with the series averaging 49.7.

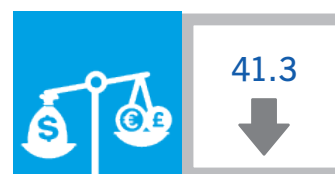
Supplier Delivery Times



Supplier Delivery Times

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	46.4	50.0	49.5	51.8	50.3	50.0	50.0
Future Expectations	50.3	49.7	49.7	49.7	49.7	50.0	50.0

Availability of Credit Series Low



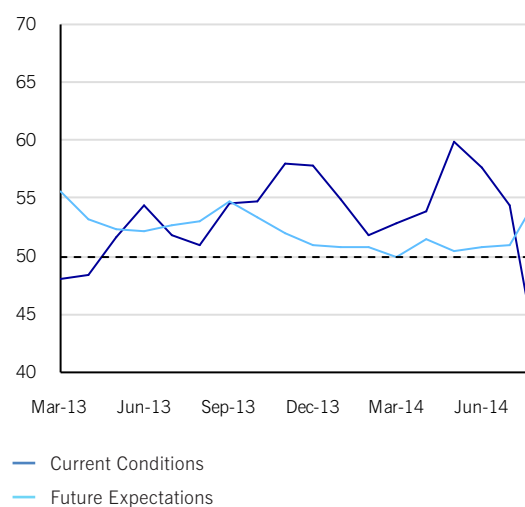
Availability of credit shrunk to a record low in August as Russian companies faced sanctions imposed by the West that limited their access to foreign capital.

The Availability of Credit Indicator fell by 24.2% to 41.3 in August from 54.5 in July, the lowest since the series began in March 2013 and the first time below 50 for a year.

Several EU and US banks had reduced their lending to Russian businesses since the annexation of Crimea in March. Following the downing of Malaysia Airlines flight MH17 last month, Western nations have stepped up economic sanctions against Russia. Restrictions on Russian access to capital markets were extended and also included the major state-owned banks VTB Bank, Bank of Moscow and Russian Agricultural Bank.

Companies possibly expected some resolution to the Ukraine conflict and more assistance from the Russian central bank, with the Expectations Indicator rising by 4.1 points to 55.1 from 51.0 in the previous month, the highest since March 2013. More manufacturing and services sector companies were optimistic about credit conditions over the coming three months, with the indicator for the former rising above the 50 level in August.

Availability of Credit



Availability of Credit

	Aug-13	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Current Conditions	51.1	53.0	53.9	59.9	57.7	54.5	41.3
Future Expectations	53.1	50.0	51.5	50.6	50.8	51.0	55.1



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Historical Summary

	2013					2014							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
MNI Russia Business Indicator													
Current Conditions	51.3	59.0	56.3	51.5	45.5	57.9	60.0	52.5	55.6	49.2	50.5	54.6	51.5
Future Expectations	61.5	55.0	47.2	45.0	49.5	53.0	55.3	53.3	54.3	52.5	52.5	54.0	59.8
Production													
Current Conditions	49.3	58.0	58.3	53.5	48.3	58.2	59.3	52.5	57.3	55.3	55.5	51.5	52.5
Future Expectations	58.0	57.0	48.3	45.5	47.5	50.5	52.0	50.8	52.0	51.7	51.1	52.6	57.7
New Orders													
Current Conditions	51.5	61.5	59.5	53.5	48.8	57.6	62.5	57.5	58.8	54.8	56.0	56.8	54.3
Future Expectations	62.8	57.8	48.8	45.5	46.5	50.3	51.0	51.8	52.2	52.7	51.9	51.8	56.0
Export Orders													
Current Conditions	44.9	54.3	52.1	48.7	49.2	50.8	57.2	48.3	44.4	46.9	49.0	53.3	48.0
Future Expectations	53.0	43.3	41.6	42.1	41.7	46.3	47.1	43.0	43.5	43.0	44.3	50.4	52.6
Productive Capacity													
Current Conditions	50.3	52.0	51.8	50.8	50.5	50.3	50.3	50.3	50.0	51.5	50.5	50.5	50.3
Future Expectations	51.8	49.5	48.7	48.5	49.7	49.7	49.7	49.7	49.7	50.3	50.0	50.0	52.0
Order Backlogs													
Current Conditions	47.1	49.2	50.3	47.4	48.7	51.4	52.0	47.4	39.5	42.3	45.4	47.7	48.2
Future Expectations	49.2	43.8	40.4	40.9	41.5	42.7	43.3	43.0	42.5	43.3	44.4	45.4	45.9
Employment													
Current Conditions	50.8	51.0	51.3	47.7	49.0	48.3	50.0	50.0	50.8	52.8	50.5	50.3	50.3
Future Expectations	50.8	47.5	46.2	46.2	47.2	49.7	49.5	50.5	50.0	50.5	50.0	50.0	51.3
Inventories													
Current Conditions	50.0	49.4	48.7	45.7	46.5	38.2	44.4	40.4	32.2	39.2	48.0	48.6	49.3
Future Expectations	47.4	51.9	51.3	42.6	45.7	43.8	43.8	40.2	41.2	43.4	46.5	47.3	48.6
Input Prices													
Current Conditions	50.5	55.8	54.2	53.4	51.5	54.5	51.3	52.1	51.8	51.0	50.5	50.0	50.0
Future Expectations	56.6	55.3	51.3	51.0	50.5	50.0	50.0	52.1	50.3	50.0	50.0	50.0	50.0
Prices Received													
Current Conditions	54.0	58.3	58.5	53.5	52.8	57.7	53.8	53.1	50.5	50.0	51.3	49.7	50.0
Future Expectations	54.6	55.3	50.3	50.0	49.2	49.4	48.7	51.3	51.3	51.0	50.3	50.3	50.3
Financial Position													
Current Conditions	53.6	61.4	61.9	58.6	59.1	62.6	63.8	60.1	59.8	56.3	54.3	54.3	51.0
Future Expectations	65.8	66.9	59.7	56.2	57.8	56.9	58.4	55.6	54.4	53.6	52.7	53.9	56.8
Interest Rates Paid													
Current Conditions	52.8	50.8	50.8	50.5	52.4	52.6	54.3	50.0	49.7	49.7	49.7	50.0	50.0
Future Expectations	50.3	50.3	50.0	50.6	50.6	50.0	50.0	49.4	49.4	49.7	49.7	49.7	49.7
Effect of Rouble Exchange Rate													
Current Conditions	49.4	51.0	53.4	54.1	55.4	56.9	61.0	53.7	50.9	53.3	50.3	50.0	49.7
Future Expectations	49.3	50.7	50.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Supplier Delivery Time													
Current Conditions	46.4	51.0	50.3	49.7	49.5	51.7	50.5	50.0	49.5	51.8	50.3	50.0	50.0
Future Expectations	50.3	49.5	49.5	49.2	49.5	49.7	49.7	49.7	49.7	49.7	49.7	50.0	50.0
Availability of Credit													
Current Conditions	51.1	54.7	54.9	58.0	57.9	55.0	51.9	53.0	53.9	59.9	57.7	54.5	41.3
Future Expectations	53.1	54.9	53.4	52.0	51.1	50.9	50.9	50.0	51.5	50.6	50.8	51.0	55.1

Historical Records

	2013- Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	55.0	55.1
Future Expectations	45.0	71.3	55.8	54.7
Production				
Current Conditions	48.3	61.1	55.5	55.4
Future Expectations	45.5	58.8	53.5	52.3
New Orders				
Current Conditions	48.8	73.8	58.2	57.6
Future Expectations	45.5	62.8	54.2	52.5
Export Orders				
Current Conditions	44.4	61.1	51.7	50.0
Future Expectations	41.6	66.0	49.2	46.7
Productive Capacity				
Current Conditions	50.0	57.7	51.8	50.7
Future Expectations	48.5	63.2	51.9	50.0
Order Backlogs				
Current Conditions	39.5	52.0	46.6	47.3
Future Expectations	37.7	50.0	44.4	43.6
Employment				
Current Conditions	47.7	56.5	51.5	50.8
Future Expectations	46.2	53.6	50.0	50.3
Inventories				
Current Conditions	32.2	50.8	46.2	48.7
Future Expectations	37.5	51.9	45.6	46.4
Input Prices				
Current Conditions	50.0	68.8	53.7	51.7
Future Expectations	50.0	67.9	53.7	51.2
Prices Received				
Current Conditions	46.3	67.3	53.9	53.0
Future Expectations	48.7	55.8	51.8	51.2
Financial Position				
Current Conditions	51.0	68.0	59.1	59.5
Future Expectations	52.7	68.5	58.0	56.9
Interest Rates Paid				
Current Conditions	49.7	57.4	52.2	51.6
Future Expectations	49.4	54.5	50.8	50.2
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.3	50.9
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Time				
Current Conditions	45.9	51.8	49.6	50.0
Future Expectations	49.1	50.8	49.7	49.7
Availability of Credit				
Current Conditions	41.3	59.9	53.2	54.2
Future Expectations	50.0	55.6	52.3	52.1

Historical Records - Quarterly

	Q4 13	Q1 14	Q2 14	Quarterly Change	Quarterly % Change
Current Conditions	51.1	56.8	51.8	-5.0	-8.8%
Future Expectations	47.2	53.9	53.1	-0.8	-1.5%
Production					
Current Conditions	53.4	56.7	56.0	-0.7	-1.2%
Future Expectations	47.1	51.1	51.6	0.5	1.0%
New Orders					
Current Conditions	53.9	59.2	56.5	-2.7	-4.6%
Future Expectations	46.9	51.0	52.3	1.3	2.5%
Export Orders					
Current Conditions	50.0	52.1	46.8	-5.3	-10.2%
Future Expectations	41.8	45.5	43.6	-1.9	-4.2%
Productive Capacity					
Current Conditions	51.0	50.3	50.7	0.4	0.8%
Future Expectations	49.0	49.7	50.0	0.3	0.6%
Order Backlogs					
Current Conditions	48.8	50.3	42.4	-7.9	-15.7%
Future Expectations	40.9	43.0	43.4	0.4	0.9%
Employment					
Current Conditions	49.3	49.4	51.4	2.0	4.0%
Future Expectations	46.5	49.9	50.2	0.3	0.6%
Inventories					
Current Conditions	47.0	41.0	39.8	-1.2	-2.9%
Future Expectations	46.5	42.6	43.7	1.1	2.6%
Input Prices					
Current Conditions	53.0	52.6	51.1	-1.5	-2.9%
Future Expectations	50.9	50.7	50.1	-0.6	-1.2%
Prices Received					
Current Conditions	54.9	54.9	50.6	-4.3	-7.8%
Future Expectations	49.8	49.8	50.9	1.1	2.2%
Financial Position					
Current Conditions	59.9	62.2	56.8	-5.4	-8.7%
Future Expectations	57.9	57.0	53.6	-3.4	-6.0%
Interest Rates Paid					
Current Conditions	51.2	52.3	49.7	-2.6	-5.0%
Future Expectations	50.4	49.8	49.6	-0.2	-0.4%
Effect of Rouble Exchange Rate					
Current Conditions	54.3	57.2	51.5	-5.7	-10.0%
Future Expectations	50.2	50.0	50.0	0.0	0.0%
Supplier Delivery Time					
Current Conditions	49.8	50.7	50.5	-0.2	-0.4%
Future Expectations	49.4	49.7	49.7	0.0	0.0%
Availability of Credit					
Current Conditions	56.9	53.3	57.2	3.9	7.3%
Future Expectations	52.2	50.6	51.0	0.4	0.8%

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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Insight and data for better decisions

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11 Westferry Circus
London
E14 4HE
www.mni-indicators.com

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