

Russia Business Sentiment Moderates Slightly in June

Key Findings

- Sentiment among Russian companies fell marginally in June, according to the MNI Russia Business Sentiment Survey. In spite of the small fall, more important is the fact that virtually all of the sizeable jump recorded in May was retained.

- The MNI Russia Business Indicator dipped 0.8% to 61.3 in June from 61.8 in May, halting four months of growth in confidence. In spite of this, sentiment is up 18.3% on the year and 48.4% since the start of 2016.

- Company executives were increasingly optimistic about forthcoming business conditions. The Future Expectations Indicator increased to 58.1 from 55.1, the fourth consecutive rise, to place it at the highest level since June 2015.

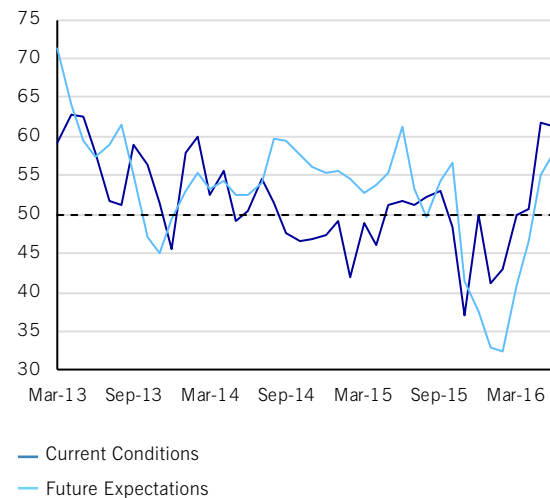
- Firms likely ran down stock levels in a bid to satisfy rising demand in June. Inventories declined 8.7% to 41.9, while New Orders and Order Backlogs increased to 57.8 and 50.0 respectively. While the Production indicator fell 0.3% in June to 57.3, it signals firms are still confident about current market conditions.

- Companies' cost of debt service decreased in June, with the Interest Rates Paid Indicator falling 1.3% to 53.3. The Future Expectations Indicator also declined in June, falling 0.4% to 51.3, and follows a rate cut by the Central Bank of Russia on June 10, which took the policy rate to 10.5%. It appears as though improved monetary conditions filtered through to companies, as our panel reported greater access to credit. Availability of Credit rose 9.2% to a series high of 63.1 in June.

- The exchange rate continued to hinder businesses, with the Effect of Rouble Exchange Rate Indicator slipping to 46.7 from 49.0 previously. June marks the eighth consecutive month the indicator has sat below the 50 neutral level.

- The disinflationary trend exhibited since the start of the year appears to have reversed in recent months. Input Prices and Prices Received increased in June.

MNI Russia Business Sentiment Indicator



Overview

	May-16	Jun-16	Highest Since	Lowest Since	Monthly Change
Current Conditions	61.8	61.3	-	Apr-16	-0.8%
Future Expectations	55.1	58.1	Jun-15	-	5.4%

By Sectors

	Manufacturing	Services	Construction
Current Conditions	↑ > 50	↓ > 50	↓ > 50
Future Expectations	↑ > 50	↑ > 50	↑ = 50

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Increased Demand Sees Stock Levels Fall

Domestic and international demand for Russian goods rose in June, building on the solid gains made in the previous month. New Orders increased 1.8% to 57.8, the highest it has been since April 2014, while Export Orders increased to 52.3, a high not seen since July 2014.

When asked whether new orders were higher in June, 19% answered yes, up from 16% in May. This follows the previous three months where on average only 1.2% answered the same way. Those who felt export orders rose in June also increased, rising to 4.5% from 3.9% in May.

Official manufacturing output was up 0.3% in May and was the only sector which registered increases in both of the aforementioned indicators in June.

In line with an increase in demand, firms appeared to deplete stock levels in June. The Inventories Indicator retreated further into contractionary territory, receding 8.7% to 41.9, its lowest level since December 2015. Order Backlogs bounced back to the neutral level, restoring last month's loss.

Firm's Anticipate Higher Future Output

Companies envisage ramping up production in the coming three months, with 20.5% of companies expecting to increase future output versus 16.3% in May. Consequently, the Future Expectations Production Indicator rose 4.1% to 58.2, its highest in three years.

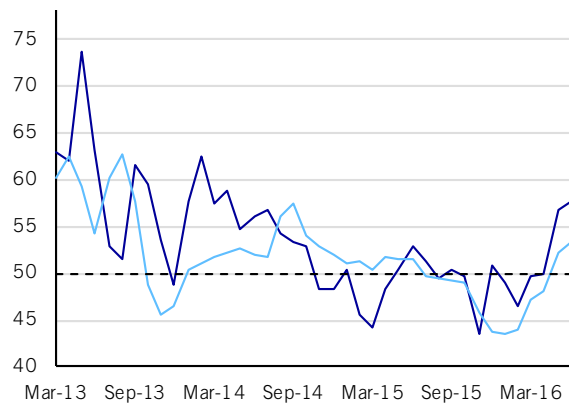
Matching the positive outlook for future output, companies also felt that their current level of workers would not suffice in same period. Future Expectations of employment rose to its highest level since April 2013, increasing to 52.3 from 51.0 in May.

Official industrial production in Russia was up 0.7% on the year in May, and follows a 0.5% rise and a 0.5% contraction notched in April and March respectively. This recent upward trend supplements the data seen in our survey and points towards increased confidence across the manufacturing, mining and utilities sectors.

Exchange Rate Continues to Hinder Firms

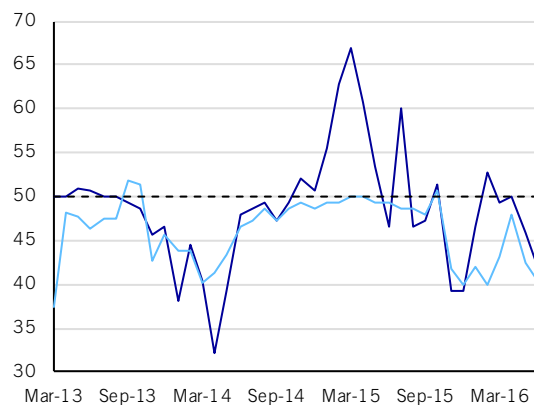
The exchange rate continued to weigh on Russian firms in June, with majority higher proportion reporting that it was harming and not helping them in their business endeavours. The Effect of Rouble

New Orders



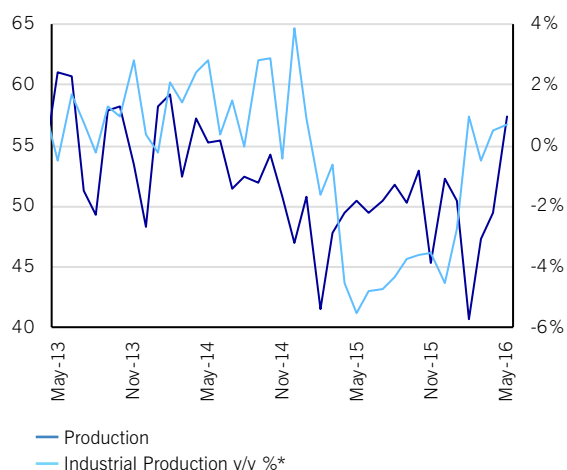
— Current Conditions
— Future Expectations

Inventories



— Current Conditions
— Future Expectations

Current Production and Industrial Production



Source: *Federal State Statistical Services of Russia

Overview

	Apr-16	May-16	Jun-16	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI India Business Indicator								
Current Conditions	50.8	61.8	61.3	-	Apr-16	58.0	-0.5	-0.8%
Future Expectations	46.7	55.1	58.1	Jun-15	-	53.3	3.0	5.4%
Production								
Current Conditions	49.5	57.5	57.3	-	Apr-16	54.8	-0.2	-0.3%
Future Expectations	49.2	55.9	58.2	Jun-13	-	54.4	2.3	4.1%
New Orders								
Current Conditions	50.0	56.8	57.8	Apr-14	-	54.9	1.0	1.8%
Future Expectations	48.2	52.3	53.4	Oct-14	-	51.3	1.1	2.1%
Export Orders								
Current Conditions	50.0	51.9	52.3	Jul-14	-	51.4	0.4	0.8%
Future Expectations	49.3	49.7	51.3	Jun-15	-	50.1	1.6	3.2%
Productive Capacity								
Current Conditions	50.0	50.8	51.0	Sep-14	-	50.6	0.2	0.4%
Future Expectations	50.0	50.8	50.8	May-16	-	50.5	0.0	0.0%
Order Backlogs								
Current Conditions	50.0	47.8	50.0	Apr-16	-	49.3	2.2	4.6%
Future Expectations	50.3	48.5	49.0	Apr-16	-	49.3	0.5	1.0%
Employment								
Current Conditions	50.0	50.3	50.3	May-16	-	50.2	0.0	0.0%
Future Expectations	50.0	51.0	52.3	Apr-13	-	51.1	1.3	2.5%
Inventories								
Current Conditions	50.0	45.9	41.9	-	Dec-15	45.9	-4.0	-8.7%
Future Expectations	47.9	42.4	40.3	-	Feb-16	43.5	-2.1	-5.0%
Input Prices								
Current Conditions	50.0	54.3	55.3	Apr-15	-	53.2	1.0	1.8%
Future Expectations	53.5	53.5	54.3	Mar-16	-	53.8	0.8	1.5%
Prices Received								
Current Conditions	50.3	53.3	56.5	Apr-15	-	53.4	3.2	6.0%
Future Expectations	55.8	56.0	57.8	Mar-16	-	56.5	1.8	3.2%
Financial Position								
Current Conditions	50.0	53.0	55.0	May-14	-	52.7	2.0	3.8%
Future Expectations	53.6	56.2	59.3	Aug-15	-	56.4	3.1	5.5%
Interest Rates Paid								
Current Conditions	49.5	54.0	53.3	-	Apr-16	52.3	-0.7	-1.3%
Future Expectations	49.7	51.5	51.3	-	Apr-16	50.8	-0.2	-0.4%
Effect of Rupee Exchange Rate								
Current Conditions	44.9	49.0	46.7	-	Apr-16	46.9	-2.3	-4.7%
Future Expectations	45.8	48.7	48.4	-	Apr-16	47.6	-0.3	-0.6%
Supplier Delivery Times								
Current Conditions	50.0	50.0	49.8	-	Jul-15	49.9	-0.2	-0.4%
Future Expectations	50.0	49.8	48.8	-	series low	49.5	-1.0	-2.0%
Availability of Credit								
Current Conditions	49.8	57.8	63.1	series high	-	56.9	5.3	9.2%
Future Expectations	49.5	55.5	60.6	series high	-	55.2	5.1	9.2%

Exchange Rate Indicator declined to 46.7 from 49.0 previously, and sits below the 2015 average of 49.3. The indicator has lost momentum in recent months following an upward trend seen early in the year.

Since February, the rouble appreciated only marginally against the dollar, despite a marked increase in oil prices. The latter increased 20% since February, surpassing \$50 per barrel on June 22, while the rouble appreciated by only 7%.

Pressure on the currency has been applied by second quarter external debt payments and the current tourist season; both of which have kept demand for foreign currency elevated and weighed on the rouble as our data suggests. The likely six month extension of EU sanctions, reported on June 21, but yet formally approved, could further hamper the rouble's recovery.

Access to Credit Up, Funding Costs Down in June

The Availability of Credit Indicator rose 9.2% to 63.1 in June from 57.8, setting a new series high. When asked if access to credit was better, the same or worse than a month ago, those who answered 'better' increased to 26.6% from 16.1% from last month. This increased optimism was observed across all sectors.

In addition, fewer said that the interest rates they paid on corporate loans increased compared to a month ago. The Interest Rates Paid Indicator declined to 53.3 in June from 54.0 in May, and follows the CBR's June 10 decision to cut the key policy rate by

50 basis points to 10.5%. The Future Expectations Indicator also declined in June, down 0.4% to 51.3. Given Russia's economic struggles, a failure to cut rates further would leave real interest rates higher, potentially snuffing out the recent nascent recovery.

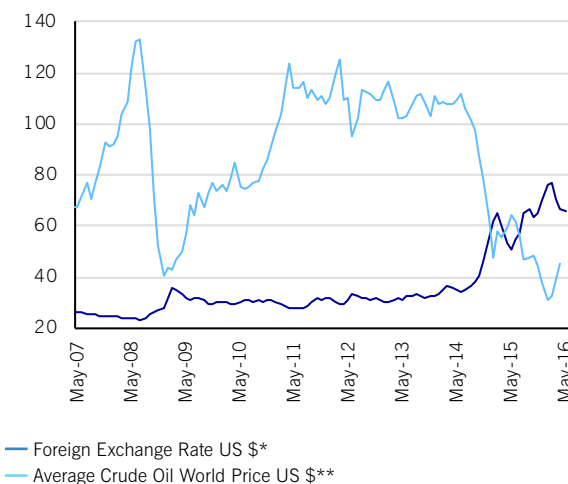
As detailed in its June 10 press release, the CBR expects inflation to ease to 5-6% by the end of 2016, falling below 5% in May 2017 and to hit the target 4% threshold by the end of the same year.

Higher Costs Passed onto Consumers

With inflation holding firm at 7.3% in May, and the disinflationary trend temporarily on hold, the majority of firms reported higher factory gate costs in June. The Input Prices Indicator was up 1.8%, rising to 55.3 from 54.3. The Prices Received Indicator also increased in June, rising 6% to 56.5 from 53.3 previously, indicating firms were not hesitant to pass the higher costs down to consumers.

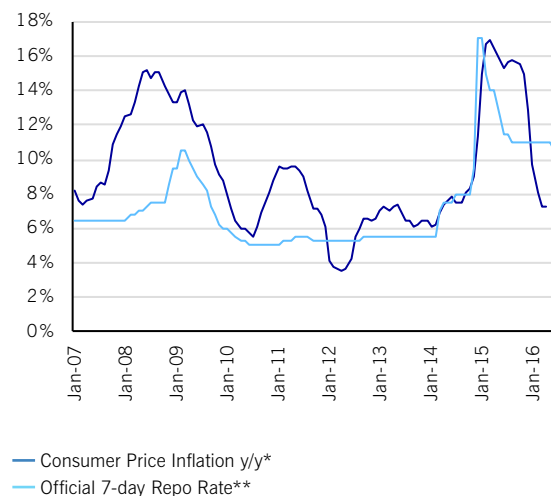
Among respondents, those in the manufacturing and services sectors felt input prices had increased over the past last month and were expecting higher prices over the next three. In contrast, fewer of those in the construction sector felt input prices were rising, relative to May. All sectors were unanimous in charging higher prices, with the proportion of firms doing so up to 13% from 6.5% last month.

Exchange Rate and Crude Oil Price



Source: *Central Bank of Russia, **Central Dispatching Department of Fuel and Energy Complex

Inflation and Interest Rates



Source: *Federal State Statistical Services of Russia, **Central Bank of Russia

Business Sentiment By Sectors

Overall Business Conditions

	Manufacturing	Services	Construction
Current Conditions	↑ > 50	↓ > 50	↓ > 50
Future Expectations	↑ > 50	↑ > 50	↑ = 50

Orders - Current Conditions

	New Orders	Export Orders	Order Backlogs
Manufacturing	↑ > 50	↑ > 50	↑ > 50
Services	↓ > 50	↔ > 50	↑ < 50
Construction	↓ > 50	↔ = 50	↑ > 50

Output and Employment - Current Conditions

	Production	Productive Capacity	Employment
Manufacturing	↓ > 50	↓ = 50	↔ < 50
Services	↑ > 50	↑ > 50	↓ = 50
Construction	↓ > 50	↔ > 50	↑ > 50

Prices - Current Conditions

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↑ > 50	↑ > 50	↓ < 50
Services	↑ > 50	↑ > 50	↓ < 50
Construction	↓ > 50	↑ > 50	↑ > 50

Money and Credit - Current Conditions

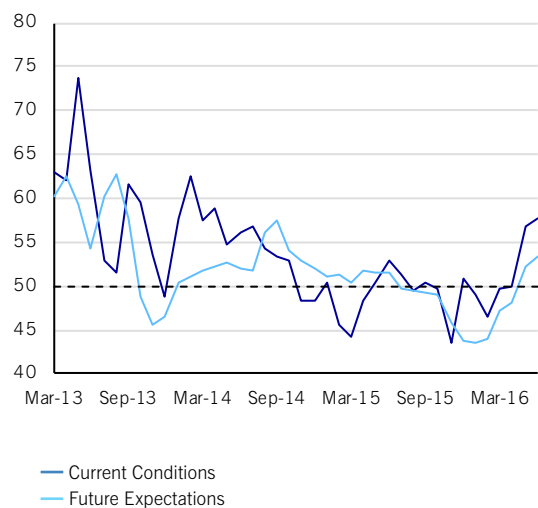
	Availability of Credit	Interest Rates Paid	Financial Position
Manufacturing	↑ > 50	↓ > 50	↑ > 50
Services	↑ > 50	↓ > 50	↑ > 50
Construction	↑ > 50	↓ > 50	↑ > 50

Logistics - Current Conditions

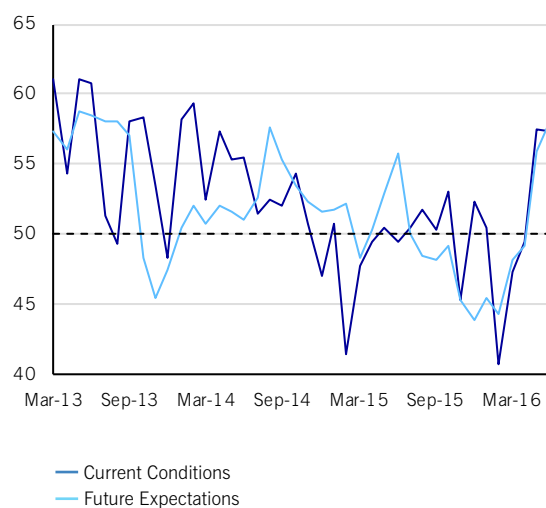
	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	↓ < 50	↓ < 50
Construction	↓ < 50	↔ = 50

Business Sentiment: Other Indicators

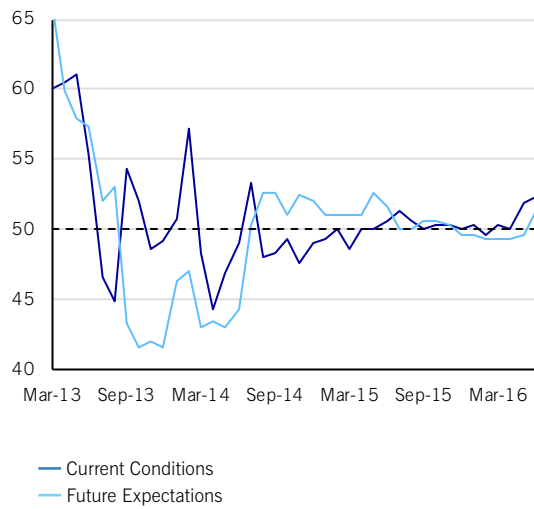
New Orders



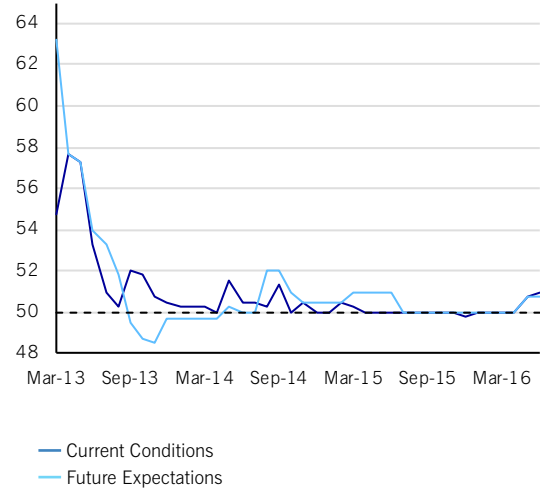
Production



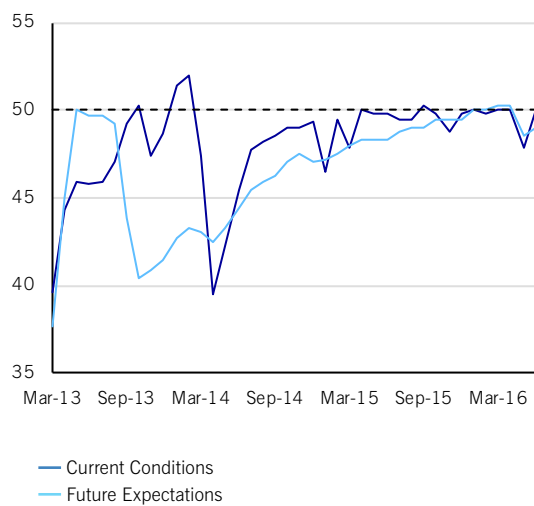
Export Orders



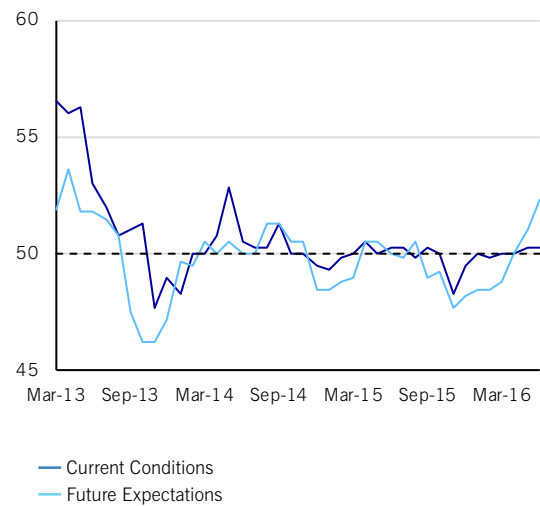
Productive Capacity



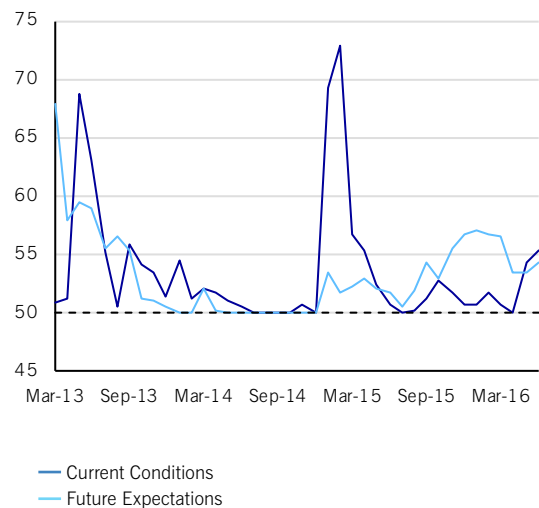
Order Backlogs



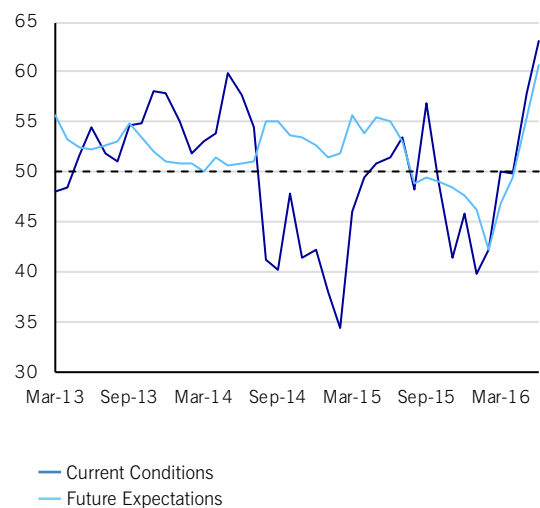
Employment



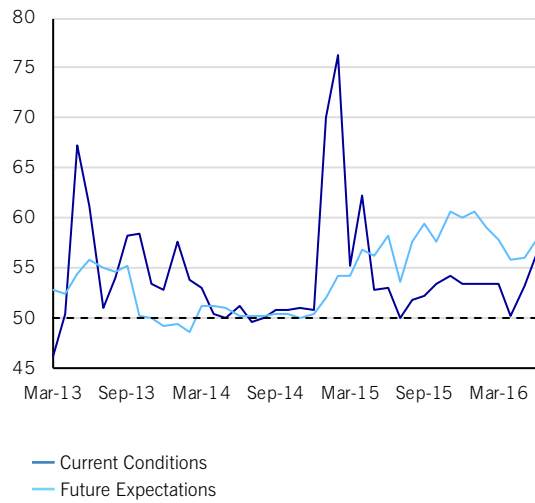
Input Prices



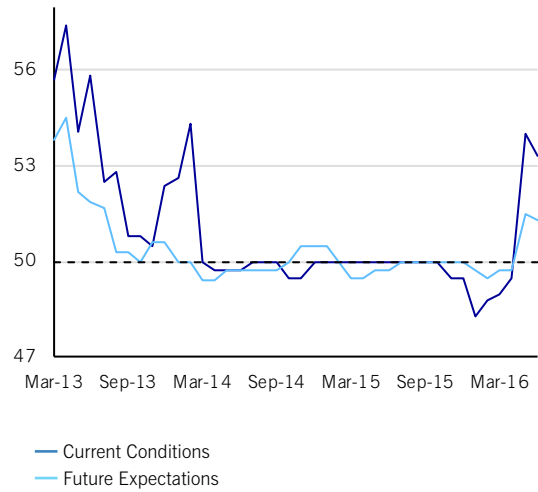
Availability of Credit



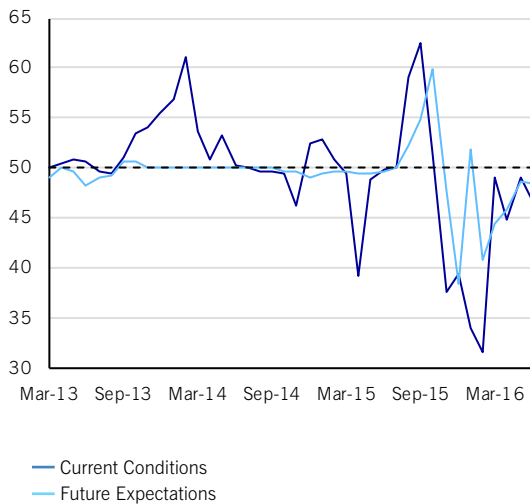
Prices Received



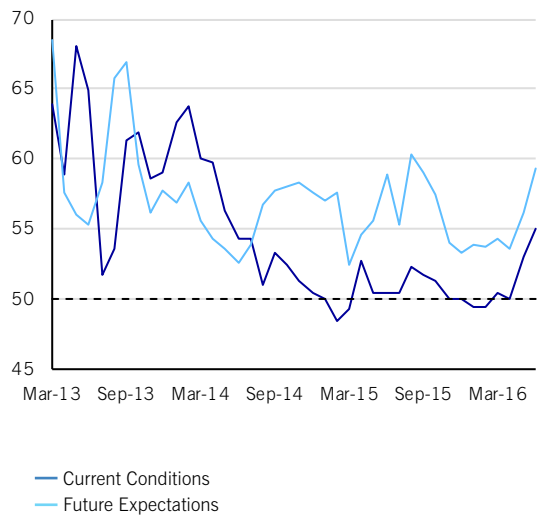
Interest Rates Paid



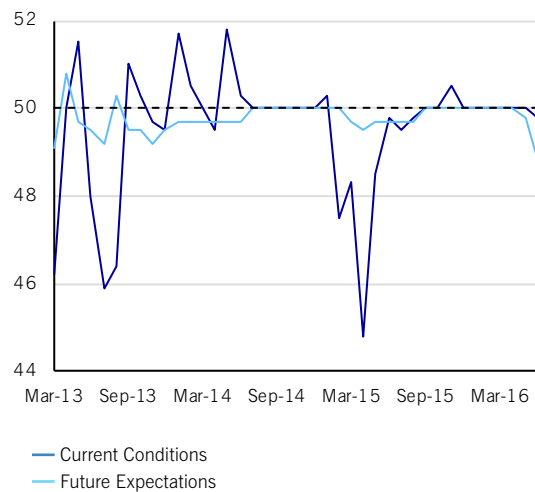
Effect of the Rouble Exchange Rate



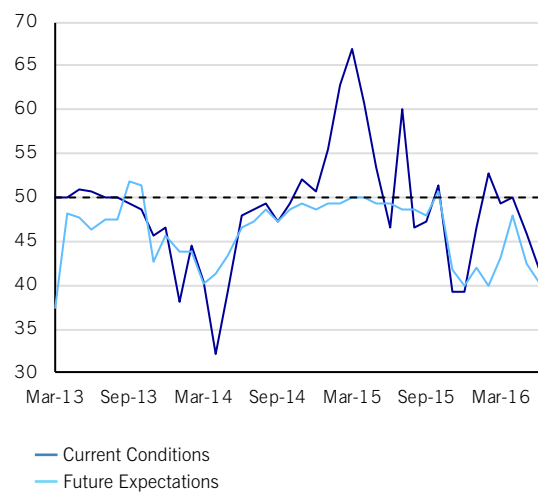
Financial Position



Supplier Deliveries



Inventories



Historical Summary

	2015							2016					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
MNI India Business Indicator													
Current Conditions	51.8	51.3	52.3	53.0	48.3	37.1	50.0	41.3	43.0	50.0	50.8	61.8	61.3
Future Expectations	61.3	53.2	49.7	54.3	56.5	41.4	37.6	33.0	32.5	40.9	46.7	55.1	58.1
Production													
Current Conditions	49.5	50.5	51.8	50.3	53.0	45.3	52.3	50.5	40.8	47.3	49.5	57.5	57.3
Future Expectations	55.8	50.0	48.5	48.2	49.2	45.3	43.9	45.5	44.3	48.2	49.2	55.9	58.2
New Orders													
Current Conditions	52.8	51.3	49.5	50.5	49.8	43.5	50.8	49.0	46.5	49.8	50.0	56.8	57.8
Future Expectations	51.5	49.7	49.5	49.2	49.0	45.9	43.8	43.6	43.9	47.2	48.2	52.3	53.4
Export Orders													
Current Conditions	50.6	51.3	50.6	50.0	50.3	50.3	50.0	50.3	49.7	50.3	50.0	51.9	52.3
Future Expectations	51.7	50.0	50.0	50.7	50.7	50.3	49.7	49.7	49.3	49.3	49.3	49.7	51.3
Productive Capacity													
Current Conditions	50.0	50.0	50.0	50.0	50.0	50.0	49.8	50.0	50.0	50.0	50.0	50.8	51.0
Future Expectations	51.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.8	50.8
Order Backlogs													
Current Conditions	49.8	49.5	49.5	50.3	49.8	48.8	49.8	50.0	49.8	50.0	50.0	47.8	50.0
Future Expectations	48.3	48.8	49.0	49.0	49.5	49.5	49.5	50.0	50.0	50.3	50.3	48.5	49.0
Employment													
Current Conditions	50.3	50.3	49.8	50.3	50.0	48.3	49.5	50.0	49.8	50.0	50.0	50.3	50.3
Future Expectations	50.0	49.8	50.5	49.0	49.2	47.7	48.2	48.5	48.5	48.8	50.0	51.0	52.3
Inventories													
Current Conditions	46.6	60.1	46.6	47.3	51.4	39.2	39.2	46.6	52.7	49.3	50.0	45.9	41.9
Future Expectations	49.3	48.6	48.6	47.9	50.7	41.8	39.9	41.9	39.9	43.2	47.9	42.4	40.3
Input Prices													
Current Conditions	50.8	50.0	50.3	51.3	52.8	51.8	50.8	50.8	51.8	50.8	50.0	54.3	55.3
Future Expectations	51.8	50.5	52.0	54.3	53.0	55.5	56.8	57.0	56.8	56.5	53.5	53.5	54.3
Prices Received													
Current Conditions	53.0	50.0	51.8	52.3	53.5	54.3	53.5	53.5	53.5	53.5	50.3	53.3	56.5
Future Expectations	58.2	53.6	57.7	59.4	57.6	60.6	60.1	60.6	59.0	57.8	55.8	56.0	57.8
Financial Position													
Current Conditions	50.5	50.5	52.3	51.8	51.3	50.0	50.0	49.5	49.5	50.5	50.0	53.0	55.0
Future Expectations	58.9	55.3	60.4	59.1	57.5	54.1	53.4	53.9	53.8	54.3	53.6	56.2	59.3
Interest Rates Paid													
Current Conditions	50.0	50.0	50.0	50.0	50.0	49.5	49.5	48.3	48.8	49.0	49.5	54.0	53.3
Future Expectations	49.7	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	51.5	51.3
Effect of Rupee Exchange Rate													
Current Conditions	49.8	50.0	59.1	62.4	51.5	37.7	39.5	34.0	31.6	49.0	44.9	49.0	46.7
Future Expectations	49.7	50.0	52.3	54.8	59.9	47.7	38.5	51.9	40.9	44.4	45.8	48.7	48.4
Supplier Delivery Times													
Current Conditions	49.8	49.5	49.8	50.0	50.0	50.5	50.0	50.0	50.0	50.0	50.0	50.0	49.8
Future Expectations	49.7	49.7	49.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.8	48.8
Availability of Credit													
Current Conditions	51.5	53.5	48.2	56.8	49.0	41.4	45.8	39.8	42.2	50.0	49.8	57.8	63.1
Future Expectations	55.1	53.1	48.9	49.4	49.1	48.5	47.7	46.3	42.3	46.8	49.5	55.5	60.6

Quarterly Overview

	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Quarterly Change	Quarterly % Change
MNI India Business Indicator							
Current Conditions	49.7	52.2	45.1	44.8	58.0	13.2	29.5%
Future Expectations	56.8	52.4	45.2	35.5	53.3	17.8	50.1%
Production							
Current Conditions	49.8	50.9	50.2	46.2	54.8	8.6	18.6%
Future Expectations	53.0	48.9	46.1	46.0	54.4	8.4	18.3%
New Orders							
Current Conditions	50.5	50.4	48.0	48.4	54.9	6.5	13.4%
Future Expectations	51.6	49.5	46.2	44.9	51.3	6.4	14.3%
Export Orders							
Current Conditions	50.2	50.6	50.2	50.1	51.4	1.3	2.6%
Future Expectations	51.8	50.2	50.2	49.4	50.1	0.7	1.4%
Productive Capacity							
Current Conditions	50.0	50.0	49.9	50.0	50.6	0.6	1.2%
Future Expectations	51.0	50.0	50.0	50.0	50.5	0.5	1.0%
Order Backlogs							
Current Conditions	49.9	49.8	49.5	49.9	49.3	-0.6	-1.2%
Future Expectations	48.3	48.9	49.5	50.1	49.3	-0.8	-1.6%
Employment							
Current Conditions	50.3	50.1	49.3	49.9	50.2	0.3	0.6%
Future Expectations	50.3	49.8	48.4	48.6	51.1	2.5	5.1%
Inventories							
Current Conditions	53.6	51.3	43.3	49.5	45.9	-3.6	-7.3%
Future Expectations	49.5	48.4	44.1	41.7	43.5	1.8	4.3%
Input Prices							
Current Conditions	52.9	50.5	51.8	51.1	53.2	2.1	4.1%
Future Expectations	52.3	52.3	55.1	56.8	53.8	-3.0	-5.3%
Prices Received							
Current Conditions	56.0	51.4	53.8	53.5	53.4	-0.1	-0.2%
Future Expectations	57.1	56.9	59.4	59.1	56.5	-2.6	-4.4%
Financial Position							
Current Conditions	51.3	51.5	50.4	49.8	52.7	2.9	5.8%
Future Expectations	56.4	58.3	55.0	54.0	56.4	2.4	4.4%
Interest Rates Paid							
Current Conditions	50.0	50.0	49.7	48.7	52.3	3.6	7.4%
Future Expectations	49.6	50.0	50.0	49.6	50.8	1.2	2.4%
Effect of Rouble Exchange Rate							
Current Conditions	46.0	57.2	42.9	38.2	46.9	8.7	22.8%
Future Expectations	49.5	52.4	48.7	45.7	47.6	1.9	4.2%
Supplier Delivery Times							
Current Conditions	47.7	49.8	50.2	50.0	49.9	-0.1	-0.2%
Future Expectations	49.6	49.8	50.0	50.0	49.5	-0.5	-1.0%
Availability of Credit							
Current Conditions	50.6	52.8	45.4	44.0	56.9	12.9	29.3%
Future Expectations	54.8	50.5	48.4	45.1	55.2	10.1	22.4%

About MNI Indicators

MNI Indicators specialises in producing business and consumer surveys designed to present an advance picture of the economic landscape and highlight changing trends in business and consumer activity. The timely reports explore attitudes, perspectives and sentiment across the globe, including China, India and Russia. Alongside MNI Indicators' core focus on consumer and business surveys in emerging markets, MNI Indicators produces the renowned Chicago Business Barometer (Chicago PMI), a key leading indicator of the US economy. MNI Indicators is part of MNI, a leading provider of news and intelligence and a wholly owned subsidiary of Deutsche Börse AG, one of the largest worldwide exchange organisations.

For more information, please visit www.mni-indicators.com / Contact: info@mni-indicators.com

About the MNI Russia Business Sentiment Survey

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Stock Exchange. Around 200 companies are surveyed each month and are a mix of manufacturing, service, construction and agricultural firms.

The survey provides the first monthly snapshot of economic and business conditions, ahead of official data and other business confidence data in Russia.

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.

The survey looks at key business metrics including orders, production, pricing, inventories, credit availability and exchange rate impact.

Sentiment on both current and future expectations allows users to comprehensively monitor business and economic trends.

Whether you are forecasting the Russian economy, analysing where to invest in Russia or want to know how other companies in your sector are performing, our monthly intelligence offers an unrivalled insight into exactly what Russia's largest companies are thinking.

Date range: Monthly since March 2013

Collection method: Computer aided telephone interviews

Collection period: Ten working days from the first business day of the month in Russia.

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