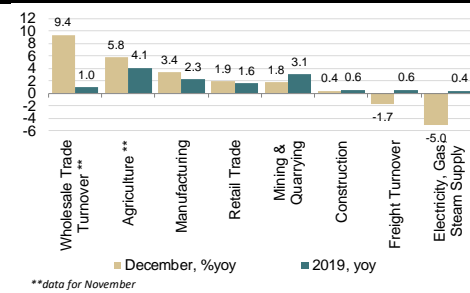


Real Sector

In December, industrial production growth returned to the annual growth rate +2.1% yoy due to revival of activity in manufacturing sector (+3.4% yoy). However, construction (+0.4% yoy) and freight turnover remained the outsiders (-1.7% yoy). In 2020, these sectors can receive additional support via intensive spending on the National Projects and renovation initiatives in Russia.

Wholesale retail sales headed the growth in November owing to increased gas supply to Europe ahead of agreement with Ukraine. However, stock accumulation in Europe may lead to lower volumes at the beginning of 2020.

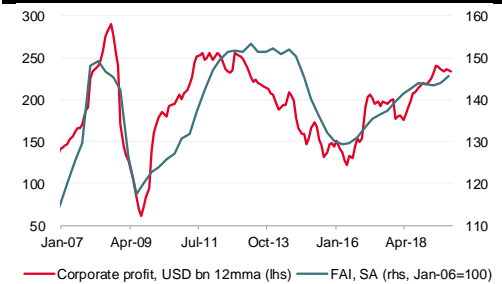
Wholesale retail finally recovered



Source: Rosstat, Rosbank

- GDP increased by 1.3% yoy in 2019;
- Manufacturing restored growth (+3.4% yoy);
- Construction still lagged behind (+0.4% yoy) .

Profit growth flattened in Nov'19



Source: Rosstat, Rosbank

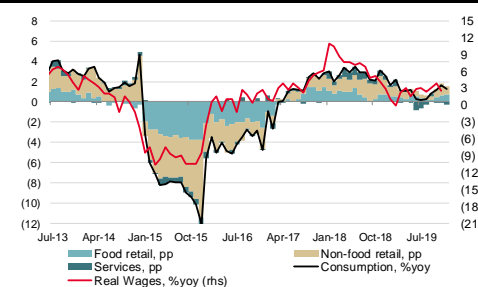
- USD profit growth is still at elevated levels;
- Profit rose by 9.1% yoy in Jan-Nov'19;
- Investments: +0.7% yoy in Jan-Sep'19.

Consumer Sector

Consumer demand appeared to be lackluster ahead of New Year holidays. In December, retail sales growth decelerated to 1.9% yoy against 2.3% yoy in November. In addition, services failed to increase in December (-1.3% yoy). All in all, consumer demand remained pretty weak owing to sluggish real disposable income growth (+0.8% yoy in 2019).

Retail lending growth continued to cool down to 18.8% yoy owing to tighter regulation by the CBR since October. Saturation of demand for credit and tougher rules will drive further deceleration of retail lending growth to 15% in 1H20.

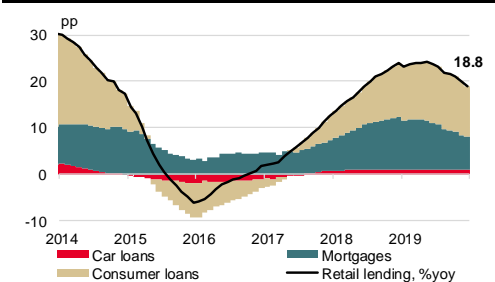
Consumption growth failed to accelerate



Source: Rosstat, Rosbank

- Retail sales decelerated to 1.9% yoy;
- Services continued to decline (-1.3%);
- Weak pre-holiday consumption in December (+1.3% yoy).

Retail lending growth has passed its peak



Source: CBR, Rosbank

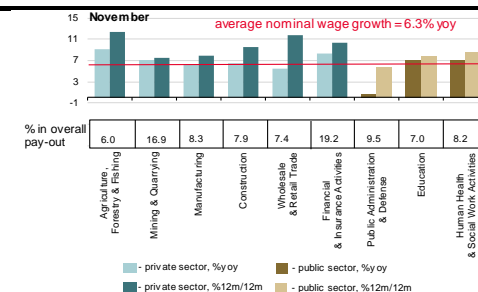
- Mortgages increased by 16.2% yoy;
- Consumer loans, by 21.1% yoy;
- Car loans, by 17.8% yoy.

Labor Market

Real wage growth decelerated to 2.7% yoy in November (+3.8% yoy in October), ignoring inflation rollback in November. This corresponded to slowdown in nominal wage growth from 7.7% yoy to 6.3% yoy, due to a rapid drop in public and administration sector, from 10.5% yoy to 0.5% yoy.

In December, many companies pay annual bonuses. Given good financial results this year, the wage data may positively respond in December. However, slow performance of consumer sector in December indicated that the effect should be limited.

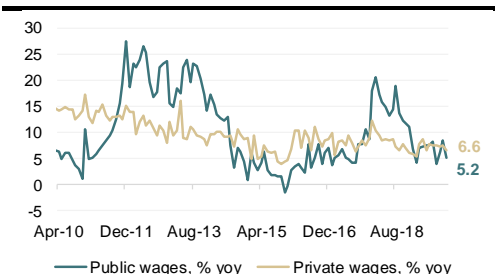
Wage growth smoothed out in November...



Source: Rosstat, Rosbank

- Nominal wage growth decelerated and become even across industries;
- Only trade and public administration wages grew below average.

...across industries and sectors



Source: Rosstat, Rosbank

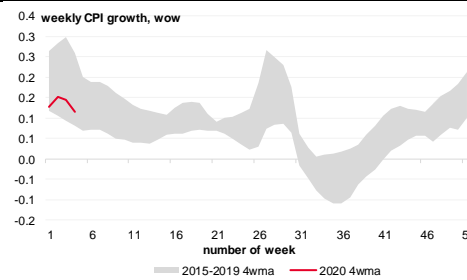
- Growth in public sector wages moderated as indexation in October faded away quickly;
- However, the paces of growth both in private and public sectors are sustainable.

Inflation

In January, the CPI growth rate decelerated to c.2.5% yoy based on weekly data. One of the reasons is the base effect of the last year (VAT rate increase and one-off tariff indexation in Jan'19). However, price growth decelerated even faster due to decline in key groups of products: eggs, pork, dairy products, sugar as supply on the domestic market improved.

In 1Q20, we expect the CPI growth to keep low values owing to dominance of disinflationary factors (SGe: 2.4% yoy in 1Q20) and to accelerate to 3.4% yoy through the year. Intensive fiscal spending and subsequent revival of economic activity should contribute to inflation in 2H20.

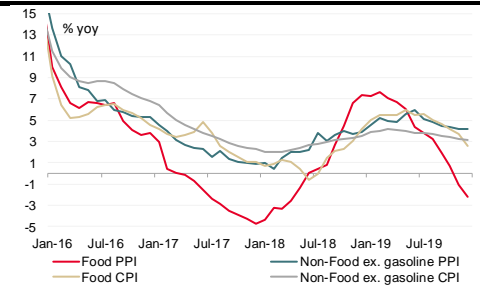
Weekly CPI started the year at a low pace



Source: Rosstat, Rosbank

- Inflation slowed to 2.46% yoy on 27 January;;
- The weekly CPI rate started the year near the bottom of the historic range.

Food supply in Russia pulled CPI growth down



Source: Rosstat, Rosbank

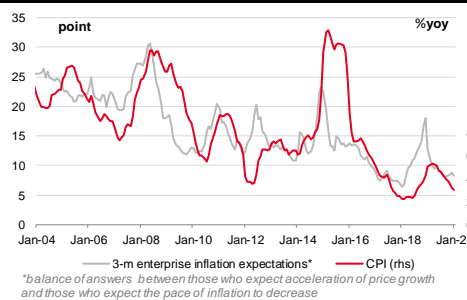
- Food prices kept falling fast;
- Non-food prices stood still.

Monetary and Fiscal Policy

Many factors are pointing to further monetary policy easing: slowing inflation, slump in inflation expectations by 0.7pp in January, de-escalation of geopolitical risks. We expect the CBR to cut the key rate by 25bp on 7 February. External volatility may become a restriction for decisive actions of the regulator. However, according to our estimate, the current fluctuations of the ruble do not bring additional risks for inflation.

FB balance in 2019 underperformed 2018-level as the speed of budget spending exceeded revenue growth. New social initiatives introduced by V.Putin in January will have economic impact only starting from 2021.

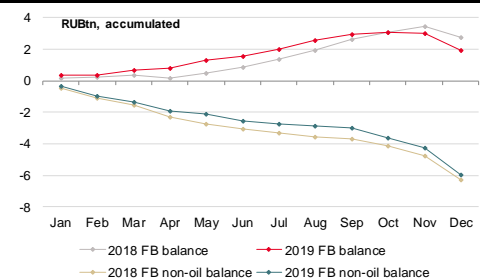
CBR has all arguments for a key rate cut



Source: CBR, Bloomberg, Rosbank

- Expectations rapidly decreased in January;
- 12-month inflation outlook at 8.3%;
- Enterprise expectations: 8.3 points.

Spending growth outperformed revenue growth



Source: MinFin, Bloomberg, Rosbank

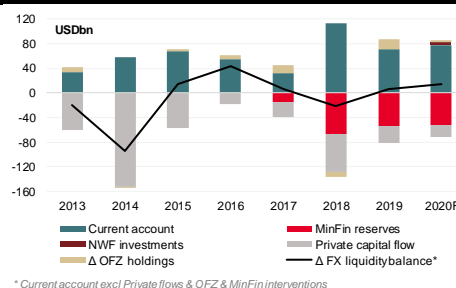
- Primary FB balance in 2019 was RUB 1.9tn
- Revenues in 2019 edged up by 3.8% yoy;
- Expenditures in 2019 jumped by 6.9% yoy.

External Sector

The current account posted a \$70.6bn surplus due to strong merchandise trade. The stronger result was limited by an increase in primary investment income balance (-\$44.5bn against -\$38.6bn in 2018) due to favourable market conditions. However, private capital outflows decreased significantly to \$26.7bn in 2019 owing to higher direct investments in Russia (+\$26.9bn). Russia also registered record inflows into the Government bond segment in 2019 (+\$21.1bn) thanks to de-escalation of geopolitical risks and dovish CBR stance.

We expect the trend to continue in 1H20 and FX liquidity surplus to support USD/RUB in the range of 61.0-62.5.

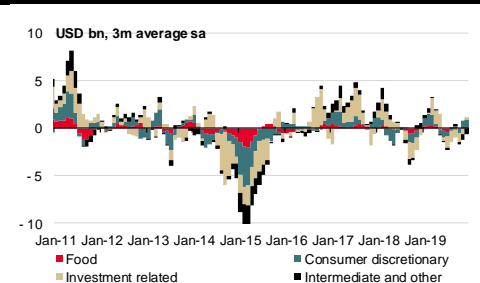
Trade and financial activities favored FX liquidity



Source: CBR, Rosbank

- CA surplus was \$70.6bn in 2019;
- Private capital outflows \$26.7bn in 2019;
- OFZ inflows totalled \$21.1, which is a record value over the last years.

Imports gained momentum in 4Q19



Source: Federal Customs Service, Rosbank

- Exports: -6.1% yoy in Jan-Nov'19;
- Imports: 2.3% yoy in Jan-Nov'19;
- Trade balance: -15.7% yoy in Jan-Nov'19.

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Our key forecasts

Russia	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f	2018	2019	2020f	2021f	2022f	2023f
GDP (%yoy)	2.1	2.0	1.7	1.8	1.4	2.3	1.3	1.7	1.8	1.9	2.0
Consumer expenditure	1.9	1.9	2.1	2.0	2.0	2.3	2.0	2.0	2.1	1.9	2.0
Government expenditure	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.0
Investment	1.7	1.0	2.0	2.3	1.9	2.9	0.9	1.9	3.1	4.0	4.0
Exports	2.2	2.0	2.0	2.0	2.0	5.5	-0.3	2.0	3.0	3.5	3.5
Imports	0.0	1.0	0.7	0.5	0.0	2.7	-0.2	0.5	2.5	3.5	5.0
CPI headline (% yoy)	3.0	2.4	2.9	3.0	3.4	3.1	4.4	2.9	4.6	4.0	4.1
Unemployment rate (%)	4.5	4.9	4.4	4.2	4.4	4.7	4.5	4.5	4.3	4.3	4.0
Employment (%yoy)	0.0	0.3	0.5	1.2	-0.4	0.7	-0.8	0.4	-0.4	-0.4	-0.2
Productivity (%yoy)	2.1	2.5	2.5	1.7	1.3	1.5	1.7	2.0	1.8	2.5	2.0
Nominal Wage (% yoy)	8.2	7.2	8.8	8.1	8.1	10.1	8.3	8.0	6.7	5.5	6.2
Real Wage (% yoy)	4.4	4.1	5.4	4.3	4.3	6.7	3.8	4.5	2.0	1.4	2.0
Savings rate (%)	5.3	5.6	5.8	5.5	5.6	6.3	5.4	5.6	5.3	5.1	4.9
Current account (% of GDP)						7.0	4.3	3.7	3.3	3.1	2.8
Consolidated Budget balance (% GDP)						0.6	0.4	0.3	0.3	0.3	0.3
Main Central Bank rate (%)	6.25	6.00	5.75	5.75	5.75	7.4	7.3	5.9	6.1	6.0	6.0

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