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MNI Russia Business Report October 2014

Insight and data for better decisions

MNI Russia Business Report

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.

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.

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MNI Russia Business Report - October 2014

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Russian Flu, or Just a Cold?

The flight of capital and the slide in oil prices has resulted in the rouble plunging to new lows every week, prompting the central bank to drain the country's reserves in an effort to keep the currency within its desired band. Sound familiar?

The flight of capital from the Russian economy and the slide in oil prices has resulted in the rouble plunging to new lows every week, prompting the central bank to drain the country's reserves in an effort to keep the currency within its desired band. Sound familiar?

To some, the current situation draws many similarities with the financial crisis in 1998 when a loss in investor appetite for emerging markets combined with a fall in the price of oil placed pressure on the rouble causing it to quickly devalue. In response, the Russian central bank desperately tried to keep the rouble at its desired peg, spending all but \$10 billion of the nation's foreign currency reserves. It eventually abandoned its defence of the rouble and allowed the currency to float freely while the government defaulted on its debt in an event which is now referred to as the "Russian Flu".

Those hoping that the current climate is just a common cold rather than another case of the flu can take solace in the fact that the conditions preceding the 1998 crisis were far worse than those at present. At the time, Russia's finances were in dire straits following years of post-Soviet decline and the First Chechen War leaving it with reserves that were vastly insufficient to support a rouble subject to a speculative attack.

The most recent official data shows that Russia's reserves were \$443.8 billion on October 17 even after weeks of aggressively defending the rouble which has cost tens of billions in foreign currency assets. Reserves are generally considered to be sufficient by economists if they are more than or equal to three months' worth of imports. In the three months to September imports totalled \$116.9 billion, inferring that the central bank can continue its interventions for just over 11 months.

Regardless, while Russia was previously fortunate that the 1998 crisis was followed by a surge in the price of oil, which accounts for around a half of Russia's annual budget revenue, it is unlikely that prices will recover from around \$85 per barrel in the short-term and provide some respite to the government's reserves.

Russian Finance Minister Anton Siluanov has recently stated that while the government will fulfil its key obligations, the budget for 2015 is based on an oil price of \$100 per barrel and so if prices do not recover from their current level then it would need to cut the financing of some of its current commitments.

Ultimately, while many parallels can be drawn between the 1998 rouble crisis and the events of the recent months, there is little evidence to suggest that there will be a repeat of 1998 in the near-term. Nonetheless, the Russian government would be wise to learn from the past and apply the medicine to the economy before it succumbs to the illness that once gripped it, as oil prices show few signs that they will recover to the highs that previously provided a crutch to the economy.

George Brown

Junior Economist

MNI Indicators



Executive Summary

The MNI Russia Business Indicator declined by 1.7% to 46.7 in October from 47.5 in September, the lowest level this year, as the weak rouble took its toll on business sentiment.

The MNI Russia Business Indicator declined by 1.7% to 46.7 in October from 47.5 in September, the lowest level this year, as the weak rouble took its toll on business sentiment.

Business sentiment declined in both the construction and manufacturing sector, while service sector companies continued to remain pessimistic. While the decline in overall sentiment was led by the construction sector, it was the only sector above the 50 threshold signifying that it most confident about the current business climate.

Firms were hurt more than ever before by the exchange rate after the rouble declined to a record low against the US dollar during our survey period, with the Effect of the Rouble Exchange Rate Indicator falling to a series low of 49.4 in October. While the depreciation may have provided a mild positive for Export Orders which rose to 49.3, our panel reported that it had hurt business activity overall.

New Orders fell to 52.8, the lowest for nearly a year, continuing the downward trend seen since the start of 2014. Further negatives came from falls in firms' Financial Position to 52.5 and Employment to 50.0, with the latter declining to the lowest since January.

Despite the poor economic climate and the scaling back of Productive Capacity to the 50 threshold, one bright spot came as firms increased output in October with the Production Indicator increasing to 54.3, the highest since June.

Order Backlogs rose to 49.0 in October from 48.5 in September, the highest since February. The improvement may be a result of the additional export orders outweighing the fall in new domestic orders, coupled with the scaling back of productive capacity to the lowest level on record.

While economic sanctions have hit firms' ability to raise capital in Western markets in recent months, the Availability of Credit Indicator witnessed a significant rise in October to 47.8.

Inflationary pressures remained relatively subdued with Input prices standing at the 50 level for the fourth consecutive month in October, while the majority of our panel charged the same prices for their goods and services with the Prices Received Indicator remaining unchanged at 50.8, suggesting that prices are being kept in check by the weak demand backdrop.

Companies continued to report that that they were running down their stock levels, with the Inventories Indicator easing to 49.3, while supplier delivery times remained unchanged at the 50 level for the fourth consecutive month.

In October, seven out of the 15 components in the MNI Russia Business Sentiment survey contracted, while three of them remained unchanged. Companies were also less optimistic about the future, with eight of the future expectations indicators falling on the month.

Overview

	Aug-14	Sep-14	Oct-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	51.5	47.5	46.7	-	Dec-13	48.6	-0.8	-1.7%
Future Expectations	59.8	59.4	57.6	-	Jul-14	58.9	-1.8	-3.0%
Production								
Current Conditions	52.5	52.0	54.3	Jun-14	-	52.9	2.3	4.4%
Future Expectations	57.7	55.3	53.5	-	Jul-14	55.5	-1.8	-3.3%
New Orders								
Current Conditions	54.3	53.3	52.8	-	Dec-13	53.5	-0.5	-0.9%
Future Expectations	56.0	57.4	54.0	-	Jul-14	55.8	-3.4	-5.9%
Export Orders								
Current Conditions	48.0	48.3	49.3	Jul-14	-	48.5	1.0	2.1%
Future Expectations	52.6	52.6	51.1	-	Jul-14	52.1	-1.5	-2.9%
Productive Capacity								
Current Conditions	50.3	51.3	50.0	-	series low	50.5	-1.3	-2.5%
Future Expectations	52.0	52.0	51.0	-	Jul-14	51.7	-1.0	-1.9%
Order Backlogs								
Current Conditions	48.2	48.5	49.0	Feb-14	-	48.6	0.5	1.0%
Future Expectations	45.9	46.2	47.0	Aug-13	-	46.4	0.8	1.7%
Employment								
Current Conditions	50.3	51.3	50.0	-	Jan-14	50.5	-1.3	-2.5%
Future Expectations	51.3	51.3	50.5	-	Jul-14	51.0	-0.8	-1.6%
Inventories								
Current Conditions	49.3	47.3	49.3	Aug-14	-	48.6	2.0	4.2%
Future Expectations	48.6	47.3	48.6	Aug-14	-	48.2	1.3	2.7%
Input Prices								
Current Conditions	50.0	50.0	50.0	Sep-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Sep-14	-	50.0	0.0	0.0%
Prices Received								
Current Conditions	50.0	50.8	50.8	Sep-14	-	50.5	0.0	0.0%
Future Expectations	50.3	50.5	50.5	Sep-14	-	50.4	0.0	0.0%
Financial Position								
Current Conditions	51.0	53.3	52.5	-	Aug-14	52.3	-0.8	-1.5%
Future Expectations	56.8	57.8	58.1	Feb-14	-	57.6	0.3	0.5%
Interest Rates Paid								
Current Conditions	50.0	50.0	49.5	-	series low	49.8	-0.5	-1.0%
Future Expectations	49.7	49.7	50.0	Feb-14	-	49.8	0.3	0.6%
Effect of Rouble Exchange Rate								
Current Conditions	49.7	49.7	49.4	-	series low	49.6	-0.3	-0.6%
Future Expectations	50.0	50.0	49.7	-	Aug-13	49.9	-0.3	-0.6%
Supplier Delivery Times								
Current Conditions	50.0	50.0	50.0	Sep-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Sep-14	-	50.0	0.0	0.0%
Availability of Credit								
Current Conditions	41.3	40.3	47.8	Jul-14	-	43.1	7.5	18.6%
Future Expectations	55.1	55.0	53.6	-	Jul-14	54.6	-1.4	-2.5%

Industrial production rebounded in September.

The improvement was driven by manufacturing output, which grew by 3.6% on the year compared with a contraction of 0.2% in August.



Economic Landscape

The rouble continued to weaken as investors contemplated whether Standard and Poors would choose to downgrade Russia's sovereign debt rating to "junk" status.

The rouble continued to weaken as investors contemplated whether Standard and Poors would choose to downgrade Russia's sovereign debt rating to "junk" status. In spite of Russia's credit rating being reaffirmed by the agency on October 24, the rouble resumed its slide below a record low of 42 to the US dollar. The central bank is due to meet on October 31 to discuss its monetary policy. With inflation reaching a three year high and the rouble weaker than it has ever been before, there is now every likelihood that the central bank will choose to tighten policy further.

In spite of the slide in oil prices and the weakening rouble, the economy ministry revealed that the economy grew on the year in September after stagnating in August. Nonetheless, the economy ministry has warned that growth could be negative in the fourth quarter of 2014 due to large base effects. While industrial production rebounded in September after stagnating in August, with the improvement driven by manufacturing output which posted strong growth following a contraction in the previous month.

Economic growth slows

The latest update from the Economy Ministry suggests GDP accelerated to 1.1% on the year in September after stagnating on the year in August, in spite of the slide in the rouble and tumbling price of oil. On a monthly basis,

GDP grew by 0.4% in September after contracting by 0.4% in August.

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. They have also halved their growth forecast for 2015 to 1% from 2% previously.

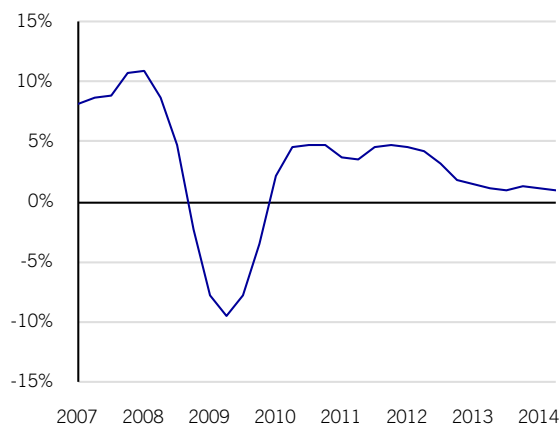
Central Bank governor Elvira Nabiullina expects growth in 2014 of 0.4%, a little below the government's forecast, although believes there will be a slight acceleration in the second half of the year.

Industrial production rebounds in September

Industrial production grew by 2.8% on the year in September after stagnating in August following six consecutive months of growth. On a monthly basis, industrial production grew by 2.7% in September after contracting by 0.2% in August.

The improvement was driven by manufacturing output, which grew by 3.6% on the year compared with a contraction of 0.2% in August. Mining and quarrying output accelerated by 2.4% on the year in September compared with growth of 0.8% in the previous month. In contrast, utilities output contracted by 0.8% on the year in September after growing by 1.2% in August.

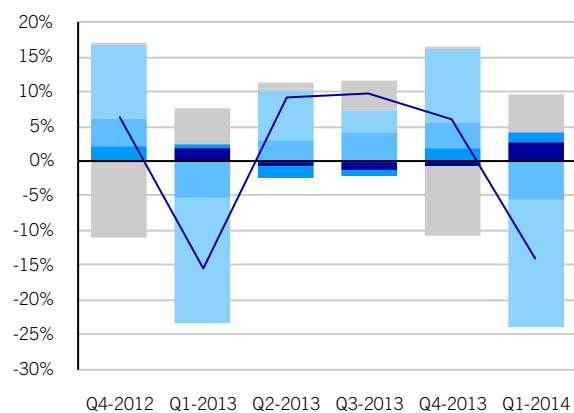
Economic Growth



— GDP Growth Y/Y %

Source: Federal State Statistics Service of Russia

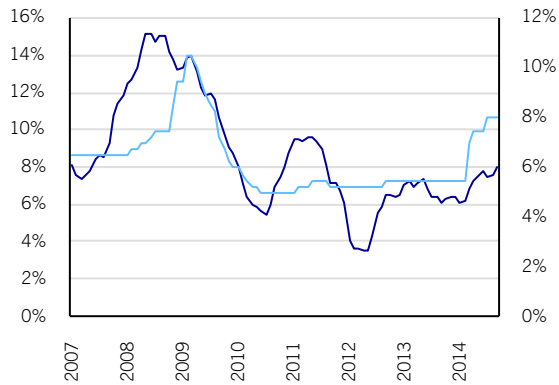
Contribution to Economic Growth



■ Discrepancies ■ GFCF — GDP Growth Q/Q %
 ■ Net Exports ■ GFCE
 ■ PFCE ■ Inventories

Source: Federal State Statistics Service of Russia

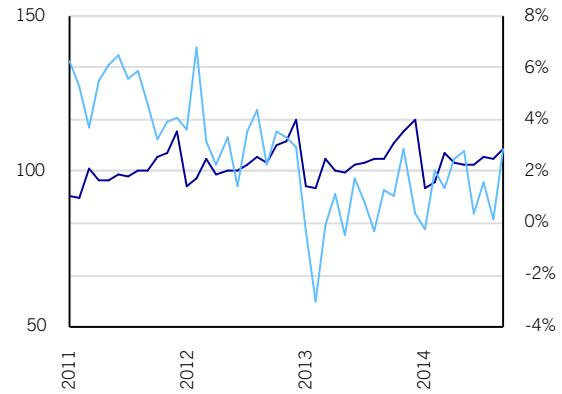
Inflation and Interest Rate



— CPI Y/Y%*
— 7-day repo rate (RHS)**

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

Industrial Production



— Industrial Production
— Industrial Production Y/Y% (RHS)

Source: Federal State Statistics Service of Russia

In the first nine months of 2014, industrial production grew 1.5% on the year compared with growth of 0.6% in the same period a year ago. Russia's Economic Development Ministry recently revised its forecast for industrial output, expecting it to expand by about 1.7% this year from 1% previously, after it failed to grow in 2013, citing that growth this year has been stronger than originally anticipated.

Inflation rises in September

Consumer price inflation accelerated to 8% in September from 7.6% in August, the highest in three years. A ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, caused food price inflation to accelerate to 11.4% in September from 10.3% in August. This was primarily due to a base effect in fruit and vegetable prices which surged to 6.1% in September after a seasonal drop of 0.8% in the previous month. After stripping out the prices of food and fuel, core inflation accelerated to 8.2% from 8% in the previous month, the highest since July 2011.

Russia imports a large amount of consumer goods and food items, and the depreciation of the currency has

pushed up prices in recent months, leaving the central bank very much on a tightening bias.

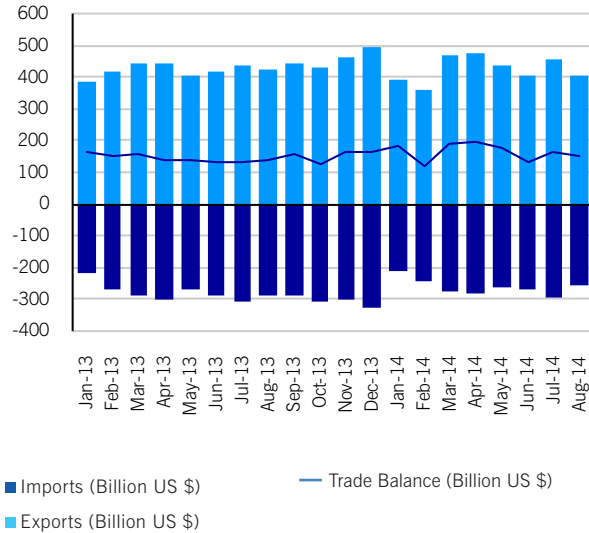
Recently, Russia's Economy Ministry revised its inflation forecast to 7-7.5% by the end of 2014, compared with 6% previously, and expects inflation to lie between 6-7% by the end of 2015, up from its previous forecast of 5%. It cited the ban on Western food imports as the primary cause of the revisions. Moreover, the ministry added that a new sales tax due to come into force next year would add around 1% to the inflation rate in 2015.

Key Policy Rate Held at 8%

On September 12, the Russian central bank retained its benchmark interest rate at 8% citing growing concerns about inflation due to economic sanctions and a Russian ban on food imports from Western nations. The central bank has raised the benchmark interest rate three times this year by a total of 250 basis points in an attempt to rein in inflation.

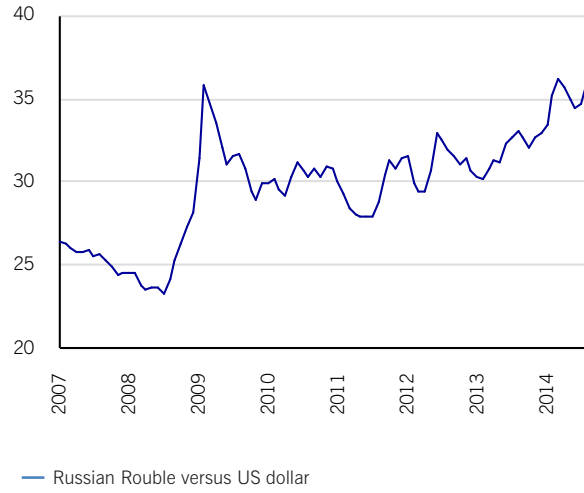
Central bank governor Elvira Nabiullina recently conceded that inflation in 2014 will exceed the bank's target of 5%, and speculated that it could be higher than 7.5%. However, the central bank is poised to retain its inflation target of 4.5-5% for 2015 and 3.7-4.2% in

Trade Balance



Source: Central Bank of Russia

Rouble Exchange Rate



Source: Central Bank of Russia

2016. This is in spite of 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, which are likely 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. With inflation reaching a three year high and the rouble weaker than it has ever been before, there is now every likelihood that the central bank will choose to tighten policy further at its next meeting on October 31.

Rouble Hits Record Low

The rouble fell to 42 against the US dollar for the first time on October 24 as investors contemplated a possible downgrade of Russia’s sovereign debt rating to “junk” status.

The depreciation in the rouble had recently stabilised following the reinforcement of the ceasefire between the Ukrainian government and the pro-Russian separatists, although the fragility of the ceasefire and falling oil prices have since caused the slide to resume.

Earlier this year, the Russian Central Bank 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.

Economic sanctions and the slide in the price of oil caused the rouble to breach the central bank’s trading basket in October sparking unlimited interventions from the central bank to defend the currency, the first time it has had to do so since May. When the rouble breaches the upper band of its trading corridor against a dollar-euro basket, the central bank sells \$350 million before shifting the boundary of the trading corridor by 5 kopeks. By October 23, the central bank has shifted the upper bound by a total of 230 kopeks to 46.70, signalling that it has sold at least \$16.1 billion defending the rouble so far.

Trade surplus widens in August

Russia’s trade surplus narrowed to \$16.6 billion in August, from \$17.1 billion a month earlier, and was above \$14.2 billion recorded a year earlier.

Exports fell to \$41.5 billion in August, down from July’s reading of \$46.1 billion, and were 2.4% below the same

month a year earlier. Imports rose to \$24.9 billion in August, following seven consecutive months of decline, down from \$29 billion in July.

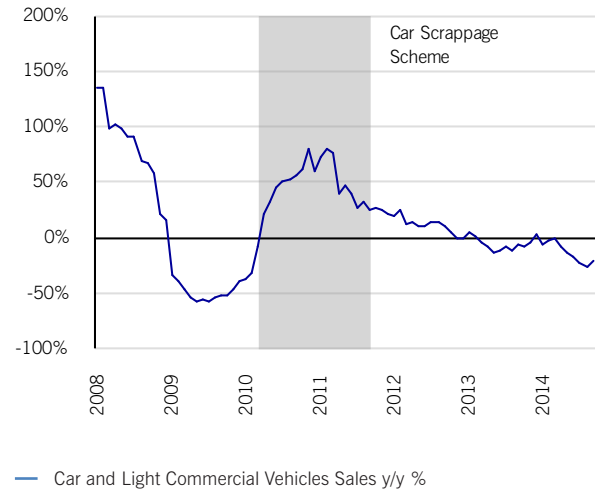
Car sales plummet in September

In September, 197,233 cars were sold in Russia, 20.1% 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 nine months to September saw a decline of 13% in car sales compared with the same period a year earlier.

The AEB has forecast a 12% decline in car sales during 2014 following a drop of 5.5% in the previous year. The government has recently introduced a car scrappage and trade-in scheme, in an attempt to kickstart the market. Under the programme, consumers who trade in a car which is at least six-years old are eligible for a discount of at least 40,000 roubles (around USD 1,000) off a new vehicle. While the AEB expects the government measures to help mitigate the decline in car sales, it does not anticipate that there will be a reversal in the downward trend in the final quarter of 2014.

Car Sales



Source: Association of European Businesses

In September,
20.1% less cars
were sold than in
the same month a
year earlier.

With a government scrappage and trade-in scheme failing to reverse the downward trend in car sales.

While the decline in overall sentiment was led by the construction sector...

...it was the only sector above the 50 threshold signifying that it was the most confident about the current business climate.



Indicators

Business sentiment fell to the lowest level this year as Western sanctions continued to take a toll on an already struggling economy, amid a weak demand backdrop, depreciating rouble and falling oil prices.

MNI Russia Business Indicator

Lowest This Year



Business sentiment fell to the lowest level this year as Western sanctions continued to take a toll on an already struggling economy, amid a weak demand backdrop, depreciating rouble and falling oil prices.

The MNI Russia Business Indicator declined by 1.7% to 46.7 in October from 47.5 in September, the lowest since December. There was an even sharper decline in the near-term outlook with the Future Expectations Indicator falling by 3% to 57.6 in October from 59.4 in September, although sentiment remained above the 50 threshold suggesting that companies expect conditions to improve over the next three months.

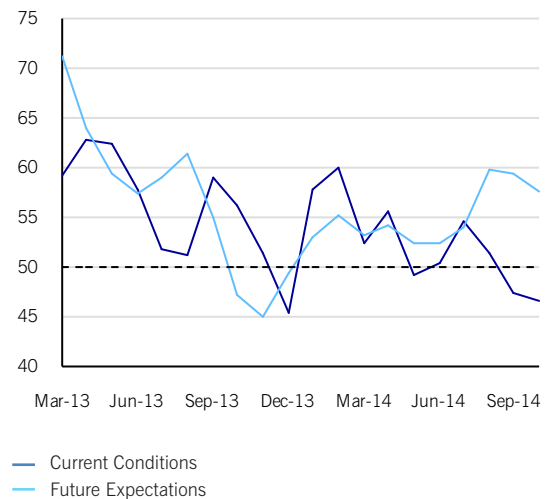
The rouble continued its rapid descent in October and fell to a fresh low of 40 to the US dollar during our survey period, fuelling fears of economic instability among companies. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, fell to a series low of 49.4 in October. Nonetheless, the weakness of the currency benefitted exporters with the Export Orders Indicator rising to the highest since July, although remained in contraction.

New Orders, though, fell to the lowest for nearly a year, continuing the trend decline seen since the start of 2014. Further negatives came from falls in firms' Financial Position and Employment Indicators, with the latter declining to the lowest since January.

In light of the tough economic climate, firms scaled back their Productive Capacity to 50.0, the lowest level on record, cutting down their workforce so that they had just the right number of employees.

Companies continued to suffer from the economic sanctions against Russia, the most recent of which

MNI Russia Business Indicator



MNI Russia Business Indicator

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Current Conditions	56.3	49.2	50.5	54.6	51.5	47.5	46.7

included restricting large Russian state-owned oil companies from raising capital on Western capital markets. As expected, the sanctions have caused further pain to the Russian economy, with the state-owned Rosneft requesting more than 2 trillion roubles (\$48.5 billion) from the country's National Wealth Fund.

Business sentiment declined in both the construction and manufacturing sector, while service sector companies continued to remain pessimistic. While the decline in overall sentiment was led by the construction sector, it was the only sector above the 50 threshold signifying that it most confident about the current business climate.

In October, seven out of the 15 components in the MNI Russia Business Sentiment survey contracted, while three of them remained unchanged. Companies were also less optimistic about the future, with eight of the future expectations indicators falling on the month.

Official economic data, as well as our sister MNI Russia Consumer Sentiment Survey, have painted a depressing picture of the economic climate. The latest economic data from the economy ministry revealed that growth accelerated to 1.1% on the year in September after stagnating on the year in August, although growth is expected to slow and possibly contract as the tumbling price of oil takes its toll on the economy.

Sectors - Overall Business Conditions

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

MNI Russia Business Indicator

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Future Expectations	47.2	52.5	52.5	54.0	59.8	59.4	57.6

Orders

New Orders Lowest Since December



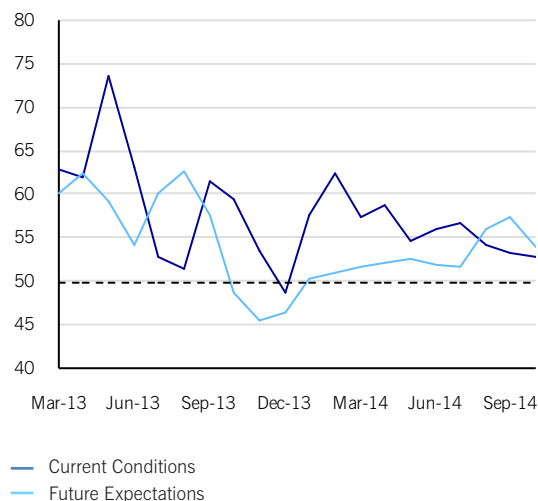
The significantly weaker rouble provided a boost to export orders in October, although the weak demand backdrop continued to take its toll on Russian companies, causing new orders to fall to the lowest level this year.

The New Orders Indicator fell slightly to 52.8 in October from 53.3 in September, the lowest reading since December. At the end of July, the EU and US enacted Tier 3 sectoral sanctions against Russia who then retaliated by imposing a ban on Western food imports. Faced with a highly uncertain business environment, companies' order books have weakened, with the three month trend for New Orders averaging 53.5 in October, the lowest since January. Manufacturing companies continued to receive fewer orders in contrast to construction and service sector companies.

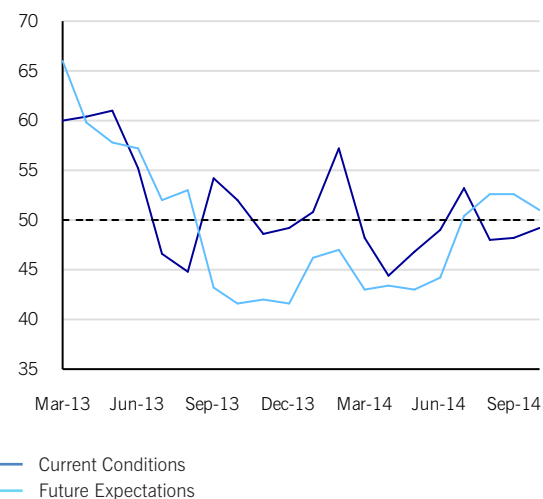
The Export Orders Indicator rose to 49.3 in October from 48.3 in September, although remained below the 50 threshold which separates expansion from contraction. Western economic sanctions have prevented trade with certain Russian companies, resulting in numerous joint-ventures having to be cancelled, while new trade agreements have become a rarity amid fears of additional sanctions. The continued decline in the rouble, which fell to a fresh low of 40 to the US dollar during our survey period, should help exporters that are unaffected by the sanctions, although the negative impact of the sanctions is currently outweighing any benefit.

Companies were slightly less optimistic about export orders in the next three months, with the Expectations Indicator falling to 51.1 in October from 52.6 in September as the threat of additional sanctions likely weighed heavy on the minds of service companies, the

New Orders



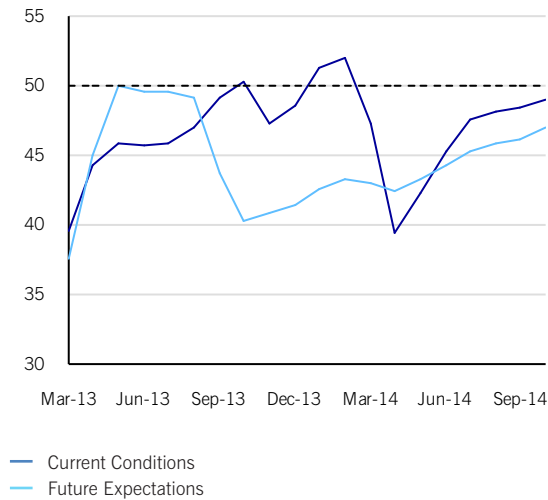
Export Orders



Orders - Current Conditions

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
New Orders	59.5	54.8	56.0	56.8	54.3	53.3	52.8
Export Orders	52.1	46.9	49.0	53.3	48.0	48.3	49.3
Order Backlogs	50.3	42.3	45.4	47.7	48.2	48.5	49.0

Order Backlogs



Sectors - Current Conditions

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

Sectors - Future Expectations

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

only sector to see a decline on the month while manufacturing companies continued to be pessimistic about future export orders.

Order Backlogs rose to 49.0 in October from 48.5 in September, the highest since February. The improvement may be a result of the additional export orders outweighing the fall in new domestic orders, coupled with the scaling back of productive capacity to the lowest level on record.

Companies remained pessimistic about demand conditions over the next three months, with the Future Expectations Indicator for Order Backlogs remaining firmly in contraction, albeit rising slightly to 47.0 in October from 46.2 in September, the highest level 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 2013.

Orders - Future Expectations

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
New Orders	48.8	52.7	51.9	51.8	56.0	57.4	54.0
Export Orders	41.6	43.0	44.3	50.4	52.6	52.6	51.1
Order Backlogs	40.4	43.3	44.4	45.4	45.9	46.2	47.0

Output and Employment

Productive Capacity Falls to Series Low



In light of the tough economic climate, companies chose to scale back their productive capacity to the lowest on record in October, cutting down their workforce so that they had just the right number of employees.

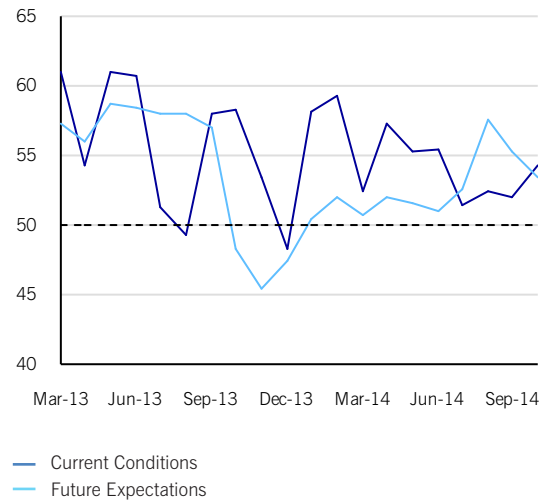
The Production Indicator rose by 2.3 points to 54.3 in October from 52.0 in the previous month. While both manufacturing and service companies reported an improvement in current conditions for production this month with their Production Indicators rising above the 50 level, fewer construction companies expanded their production, although they remained the most confident out of all three sectors.

Western sanctions against the Russian economy have taken their toll on our panel of companies in recent months, although production managed to increase this month. During our survey period, the rouble fell to a fresh low of 40 against the US dollar making Russian goods and services more attractive abroad. Indeed, our panel reported that they had received more orders from foreign firms this month implying that some of the improvement in production could be attributed to greater overseas demand.

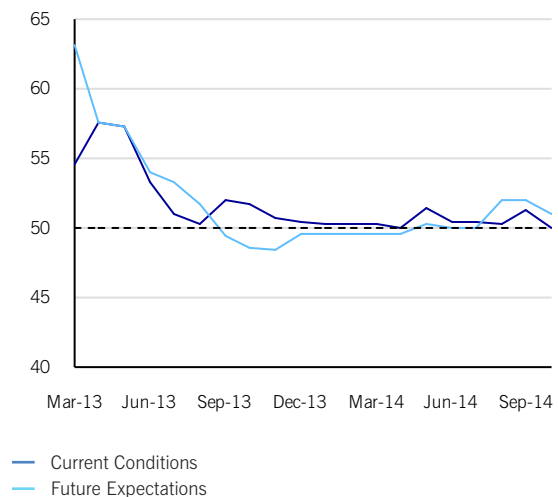
In contrast to current conditions, expectations for Production in the coming three months fell 3.3% to 53.5 in October compared with 55.3 in the previous month, although were still above the average of 52.7 seen so far this year.

Official data showed that industrial production rebounded in September, growing by 2.8% on the year after stagnating in August following six consecutive months of growth. On a monthly basis, industrial production grew

Production



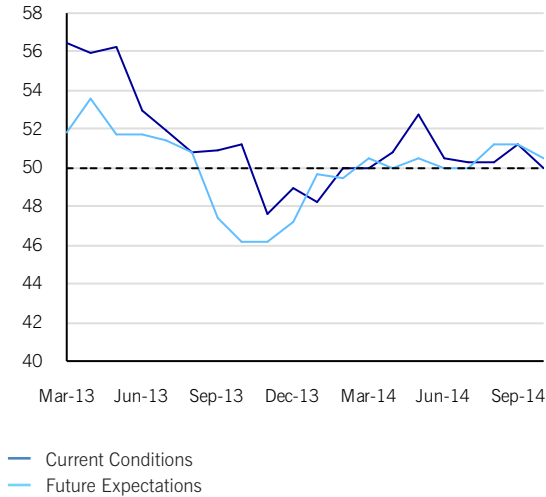
Productive Capacity



Output and Employment - Current Conditions

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Production	58.3	55.3	55.5	51.5	52.5	52.0	54.3
Productive Capacity	51.8	51.5	50.5	50.5	50.3	51.3	50.0
Employment	51.3	52.8	50.5	50.3	50.3	51.3	50.0

Employment



Sectors - Current Conditions

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

Sectors - Future Expectations

	Production	Productive Capacity	Employment
Manufacturing	↓ > 50	– > 50	– = 50
Services	↓ > 50	↓ = 50	– = 50
Construction	↓ > 50	– = 50	– = 50

by 2.7% in September after contracting by 0.2% in August. The improvement was driven by manufacturing output, which grew by 3.6% on the year compared with a contraction of 0.2% in August.

the Employment Indicator fell by 2.5% to 50.0 from 51.3 previously, the lowest since January, as firms reported that they had just the right number of employees.

Weak consumer demand and a tough economic climate 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. In October, however, more firms scaled down their operations, with the Productive Capacity Indicator falling to a series low of 50.0 from 51.3 last month.

The Employment Indicator has remained relatively flat over the past 15 months, close to the 50 threshold which separates expansion from contraction. In October,

Output and Employment - Future Expectations

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Production	48.3	51.7	51.1	52.6	57.7	55.3	53.5
Productive Capacity	48.7	50.3	50.0	50.0	52.0	52.0	51.0
Employment	46.2	50.5	50.0	50.0	51.3	51.3	50.5

Prices

Exchange Rate Continues to Hurt



A greater proportion of firms reported that the rouble exchange rate was hurting in October, although inflationary pressures remained relatively subdued, with prices seemingly being kept in check by the weak demand backdrop.

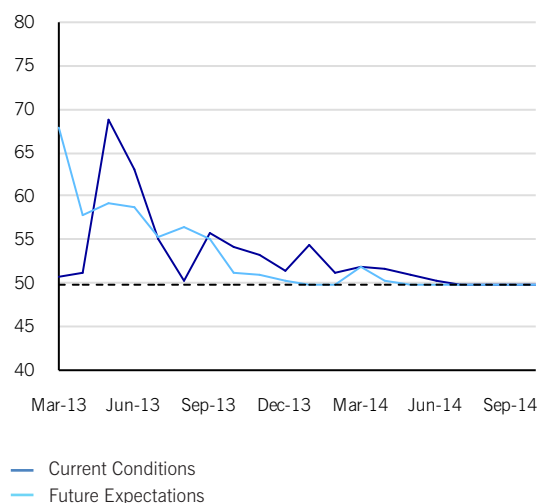
Input prices stood at the 50 level for the fourth consecutive month in October and companies expected prices to remain stable in the next three months, with the Expectations Indicator also remaining flat at 50.

Official figures showed that consumer price inflation accelerated to 8% in September from 7.6% in August, the highest in three years. A ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, caused food price inflation to rise to 11.4% in September from 10.3% in August. This was primarily due to a base effect in fruit and vegetable prices which surged to 6.1% in September after a seasonal drop of 0.8% in the previous month. After stripping out the prices of food and fuel, core inflation accelerated to 8.2% from 8% in the previous month, the highest since July 2011. The central bank has raised interest rates three times this year in a bid to counter rising prices and may choose to tighten monetary policy at its next meeting on October 31.

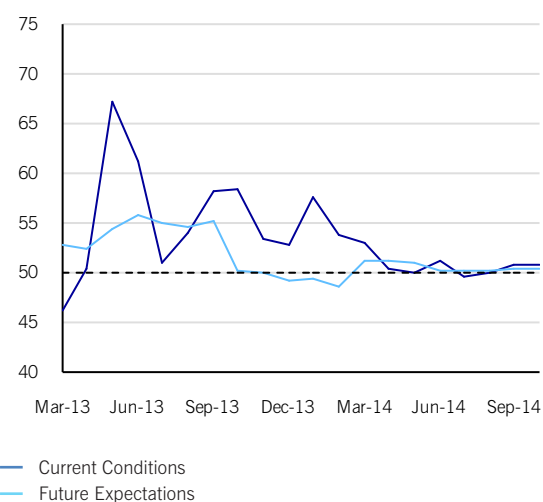
In line with Input Prices, the majority of our panel charged the same prices for their goods and services with the Prices Received Indicator standing at 50.8, unchanged from September.

The rouble continued its rapid descent and fell to a fresh low of 40 to the US dollar during our survey period, fuelling fears of economic instability among companies.

Input Prices



Prices Received



Prices - Current Conditions

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Input Prices	54.2	51.0	50.5	50.0	50.0	50.0	50.0
Prices Received	58.5	50.0	51.3	49.7	50.0	50.8	50.8
Exchange Rate	53.4	53.3	50.3	50.0	49.7	49.7	49.4

Money and Credit

Financial Position Weakest Since August



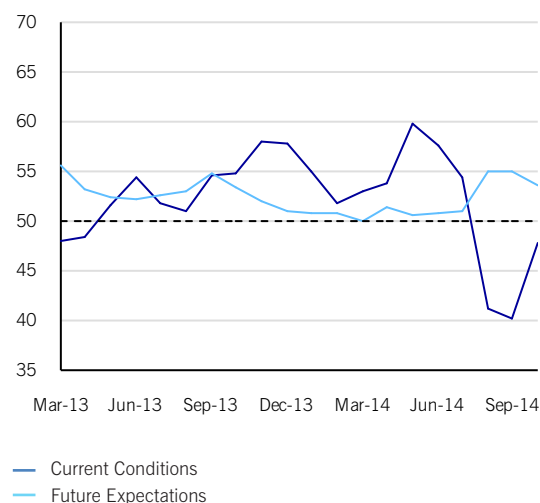
There has been much debate about whether Western sanctions are having any impact on Russia at all. A look at our Availability of Credit Indicator over the past few months, suggests that the financial restrictions have hurt our panel of companies, although this trend has started to ease in October as companies found fresh finance.

Several EU and US banks had already reduced their lending to Russia businesses since the annexation of Crimea in March, although the downing of Malaysia Airlines flight MH17 prompted Western nations to step up economic sanctions by restricting Russian access to capital markets including the major state-owned banks VTB Bank, Bank of Moscow and Russian Agricultural Bank. As a consequence, the credit availability to firms has been severely dented.

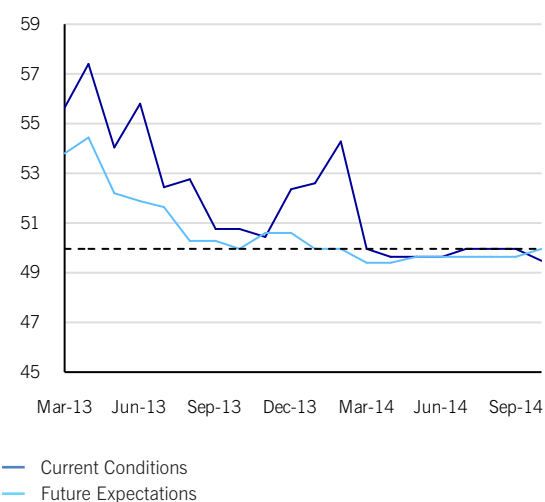
In October, however, the Availability of Credit Indicator rose sharply to 47.8 from a series low of 40.3 in September, posting the largest improvement on the month. During our survey period, Russian Prime Minister Dmitry Medvedev and his Chinese counterpart Li Keqiang met in Moscow and agreed on 38 deals to further economic cooperation. Included in these was securing greater funding from Chinese banks for Russian companies affected by the sanctions, possibly accounting for the significant improvement in the indicator this month.

Since the onset of the Crimean crisis, the central bank has hiked the key interest rate three times by a total of 250 basis points, although the effect of this does not seem to have been passed onto businesses, with the Interest Rates Paid Indicator falling to a series low of 49.5 in October after standing at the 50 threshold for

Availability of Credit



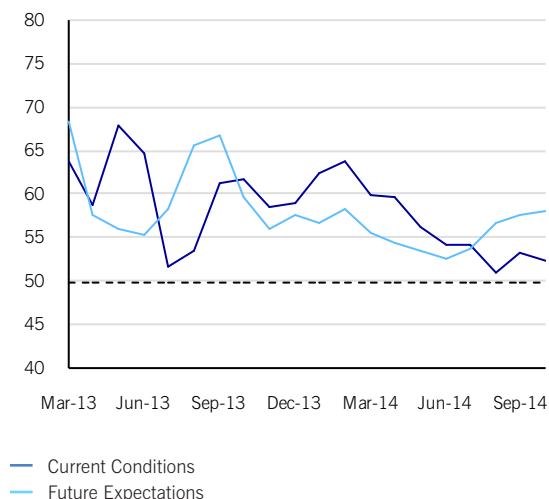
Interest Rates Paid



Money and Credit - Current Conditions

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Availability of Credit	54.9	59.9	57.7	54.5	41.3	40.3	47.8
Interest Rates Paid	50.8	49.7	49.7	50.0	50.0	50.0	49.5
Financial Position	61.9	56.3	54.3	54.3	51.0	53.3	52.5

Financial Position



three consecutive months. Moreover, companies expected that the interest rates they would pay over the coming three months will stay the same rather than contract, with the Expectations Indicator rising to 50.0 in October from 49.7 in September.

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 in October it declined further suggesting that many companies continue to be hurt by the economic sanctions and the recent slide in oil prices. The Financial Position Indicator fell by 1.5% to 52.5 in October from 53.3 in September.

Sectors - Current Conditions

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

Sectors - Future Expectations

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

Companies were, however, more optimistic about their financial situation in three months' time, with the Expectations Indicator rising to 58.1 in October from 57.8 in the previous month, the highest since February. In spite of the month's rise, companies' expectations have weakened over the past year and in September were 2.7% below the level seen in the same month a year ago.

Money and Credit - Future Expectations

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Availability of Credit	53.4	50.6	50.8	51.0	55.1	55.0	53.6
Interest Rates Paid	50.0	49.7	49.7	49.7	49.7	49.7	50.0
Financial Position	59.7	53.6	52.7	53.9	56.8	57.8	58.1

Logistics

Inventories Highest Since August



Amid a weak demand backdrop, companies continued to report that they were running down their stock levels while supplier delivery times remained unchanged.

Companies have been aggressively destocking this year in the face of weak domestic and external demand. While the Inventories Indicator has been in contraction for over a year, the pace of stocking eased to 49.3 in October from 47.3 in the previous month, above the series average of 46.4.

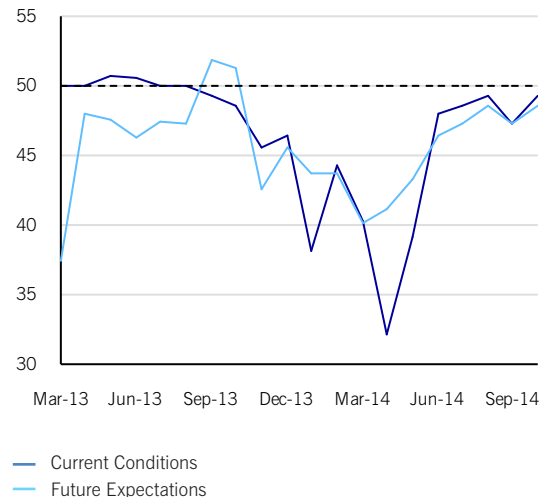
More manufacturing companies reported that they had higher inventories in October, pushing the indicator to the 50 threshold for the first time in over a year, while construction companies continued to destock albeit at a slower pace.

Companies began destocking in September last year, before Russia's annexation of the Crimean peninsula in March, with their expectations for the future turning negative in November. Companies expected to destock to meet future demand as depicted by the Future Expectations Indicator which stood at 48.6 in October compared with 47.3 in the previous month.

The Supplier Delivery Times Indicator measures sentiment about the speed of supplier deliveries compared with the previous month. A reading above 50 indicates that a higher proportion of companies reported that supplier deliveries were longer compared with a month ago while a reading below 50 indicates a higher proportion of companies reporting that supplier delivery times were shorter compared with a month ago.

The time taken to deliver supplies to companies remained unchanged at the 50 level for the fourth consecutive

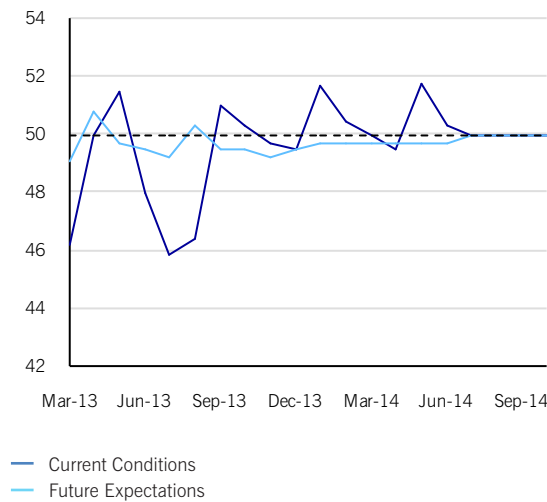
Inventories



Logistics - Current Conditions

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Inventories	48.7	39.2	48.0	48.6	49.3	47.3	49.3
Supplier Deliveries	50.3	51.8	50.3	50.0	50.0	50.0	50.0

Supplier Delivery Times



month after remaining in contraction for the previous 10 months. Moreover, future expectations have remained broadly stable since the beginning of the survey in March last year, with the series averaging 49.7, and in October they also remained flat for the fourth consecutive month at the 50 threshold which separates expansion from contraction.

Sectors - Current Conditions

	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	↑ = 50	– = 50
Construction	↑ < 50	– = 50

Sectors - Future Expectations

	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	↑ < 50	– = 50
Construction	– < 50	– = 50

Logistics - Future Expectations

	Oct-13	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Inventories	51.3	43.4	46.5	47.3	48.6	47.3	48.6
Supplier Deliveries	49.5	49.7	49.7	50.0	50.0	50.0	50.0



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Historical Summary

	2013			2014									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
MNI Russia Business Indicator													
Current Conditions	56.3	51.5	45.5	57.9	60.0	52.5	55.6	49.2	50.5	54.6	51.5	47.5	46.7
Future Expectations	47.2	45.0	49.5	53.0	55.3	53.3	54.3	52.5	52.5	54.0	59.8	59.4	57.6
Production													
Current Conditions	58.3	53.5	48.3	58.2	59.3	52.5	57.3	55.3	55.5	51.5	52.5	52.0	54.3
Future Expectations	48.3	45.5	47.5	50.5	52.0	50.8	52.0	51.7	51.1	52.6	57.7	55.3	53.5
New Orders													
Current Conditions	59.5	53.5	48.8	57.6	62.5	57.5	58.8	54.8	56.0	56.8	54.3	53.3	52.8
Future Expectations	48.8	45.5	46.5	50.3	51.0	51.8	52.2	52.7	51.9	51.8	56.0	57.4	54.0
Export Orders													
Current Conditions	52.1	48.7	49.2	50.8	57.2	48.3	44.4	46.9	49.0	53.3	48.0	48.3	49.3
Future Expectations	41.6	42.1	41.7	46.3	47.1	43.0	43.5	43.0	44.3	50.4	52.6	52.6	51.1
Productive Capacity													
Current Conditions	51.8	50.8	50.5	50.3	50.3	50.3	50.0	51.5	50.5	50.5	50.3	51.3	50.0
Future Expectations	48.7	48.5	49.7	49.7	49.7	49.7	49.7	50.3	50.0	50.0	52.0	52.0	51.0
Order Backlogs													
Current Conditions	50.3	47.4	48.7	51.4	52.0	47.4	39.5	42.3	45.4	47.7	48.2	48.5	49.0
Future Expectations	40.4	40.9	41.5	42.7	43.3	43.0	42.5	43.3	44.4	45.4	45.9	46.2	47.0
Employment													
Current Conditions	51.3	47.7	49.0	48.3	50.0	50.0	50.8	52.8	50.5	50.3	50.3	51.3	50.0
Future Expectations	46.2	46.2	47.2	49.7	49.5	50.5	50.0	50.5	50.0	50.0	51.3	51.3	50.5
Inventories													
Current Conditions	48.7	45.7	46.5	38.2	44.4	40.4	32.2	39.2	48.0	48.6	49.3	47.3	49.3
Future Expectations	51.3	42.6	45.7	43.8	43.8	40.2	41.2	43.4	46.5	47.3	48.6	47.3	48.6
Input Prices													
Current Conditions	54.2	53.4	51.5	54.5	51.3	52.1	51.8	51.0	50.5	50.0	50.0	50.0	50.0
Future Expectations	51.3	51.0	50.5	50.0	50.0	52.1	50.3	50.0	50.0	50.0	50.0	50.0	50.0
Prices Received													
Current Conditions	58.5	53.5	52.8	57.7	53.8	53.1	50.5	50.0	51.3	49.7	50.0	50.8	50.8
Future Expectations	50.3	50.0	49.2	49.4	48.7	51.3	51.3	51.0	50.3	50.3	50.3	50.5	50.5
Financial Position													
Current Conditions	61.9	58.6	59.1	62.6	63.8	60.1	59.8	56.3	54.3	54.3	51.0	53.3	52.5
Future Expectations	59.7	56.2	57.8	56.9	58.4	55.6	54.4	53.6	52.7	53.9	56.8	57.8	58.1
Interest Rates Paid													
Current Conditions	50.8	50.5	52.4	52.6	54.3	50.0	49.7	49.7	49.7	50.0	50.0	50.0	49.5
Future Expectations	50.0	50.6	50.6	50.0	50.0	49.4	49.4	49.7	49.7	49.7	49.7	49.7	50.0
Effect of Rouble Exchange Rate													
Current Conditions	53.4	54.1	55.4	56.9	61.0	53.7	50.9	53.3	50.3	50.0	49.7	49.7	49.4
Future Expectations	50.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.7
Supplier Delivery Times													
Current Conditions	50.3	49.7	49.5	51.7	50.5	50.0	49.5	51.8	50.3	50.0	50.0	50.0	50.0
Future Expectations	49.5	49.2	49.5	49.7	49.7	49.7	49.7	49.7	49.7	50.0	50.0	50.0	50.0
Availability of Credit													
Current Conditions	54.9	58.0	57.9	55.0	51.9	53.0	53.9	59.9	57.7	54.5	41.3	40.3	47.8
Future Expectations	53.4	52.0	51.1	50.9	50.9	50.0	51.5	50.6	50.8	51.0	55.1	55.0	53.6

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	54.2	53.6
Future Expectations	45.0	71.3	56.1	55.2
Production				
Current Conditions	48.3	61.1	55.2	54.9
Future Expectations	45.5	58.8	53.6	53.1
New Orders				
Current Conditions	48.8	73.8	57.7	57.2
Future Expectations	45.5	62.8	54.4	53.4
Export Orders				
Current Conditions	44.4	61.1	51.4	49.3
Future Expectations	41.6	66.0	49.4	48.8
Productive Capacity				
Current Conditions	50.0	57.7	51.7	50.7
Future Expectations	48.5	63.2	51.9	50.2
Order Backlogs				
Current Conditions	39.5	52.0	46.8	47.4
Future Expectations	37.7	50.0	44.6	44.1
Employment				
Current Conditions	47.7	56.5	51.4	50.8
Future Expectations	46.2	53.6	50.1	50.5
Inventories				
Current Conditions	32.2	50.8	46.4	48.7
Future Expectations	37.5	51.9	45.8	46.9
Input Prices				
Current Conditions	50.0	68.8	53.3	51.4
Future Expectations	50.0	67.9	53.3	50.8
Prices Received				
Current Conditions	46.3	67.3	53.6	52.1
Future Expectations	48.7	55.8	51.7	50.8
Financial Position				
Current Conditions	51.0	68.0	58.5	59.0
Future Expectations	52.7	68.5	58.0	57.3
Interest Rates Paid				
Current Conditions	49.5	57.4	51.9	50.8
Future Expectations	49.4	54.5	50.7	50.0
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.0	50.8
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Times				
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	40.3	59.9	52.3	53.5
Future Expectations	50.0	55.6	52.5	52.4

Historical Records - Quarterly

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	54.0	51.1	56.8	51.8	51.2	-0.6	-1.2%
Future Expectations	58.5	47.2	53.9	53.1	57.7	4.6	8.7%
Production							
Current Conditions	52.9	53.4	56.7	56.0	52.0	-4.0	-7.1%
Future Expectations	57.7	47.1	51.1	51.6	55.2	3.6	7.0%
New Orders							
Current Conditions	55.3	53.9	59.2	56.5	54.8	-1.7	-3.0%
Future Expectations	60.3	46.9	51.0	52.3	55.1	2.8	5.4%
Export Orders							
Current Conditions	48.6	50.0	52.1	46.8	49.9	3.1	6.6%
Future Expectations	49.5	41.8	45.5	43.6	51.9	8.3	19.0%
Productive Capacity							
Current Conditions	51.1	51.0	50.3	50.7	50.7	0.0	0.0%
Future Expectations	51.5	49.0	49.7	50.0	51.3	1.3	2.6%
Order Backlogs							
Current Conditions	47.4	48.8	50.3	42.4	48.1	5.7	13.4%
Future Expectations	47.6	40.9	43.0	43.4	45.8	2.4	5.5%
Employment							
Current Conditions	51.3	49.3	49.4	51.4	50.6	-0.8	-1.6%
Future Expectations	49.9	46.5	49.9	50.2	50.9	0.7	1.4%
Inventories							
Current Conditions	49.8	47.0	41.0	39.8	48.4	8.6	21.6%
Future Expectations	48.9	46.5	42.6	43.7	47.7	4.0	9.2%
Input Prices							
Current Conditions	53.8	53.0	52.6	51.1	50.0	-1.1	-2.2%
Future Expectations	55.8	50.9	50.7	50.1	50.0	-0.1	-0.2%
Prices Received							
Current Conditions	54.4	54.9	54.9	50.6	50.2	-0.4	-0.8%
Future Expectations	55.0	49.8	49.8	50.9	50.4	-0.5	-1.0%
Financial Position							
Current Conditions	55.6	59.9	62.2	56.8	52.9	-3.9	-6.9%
Future Expectations	63.7	57.9	57.0	53.6	56.2	2.6	4.9%
Interest Rates Paid							
Current Conditions	52.0	51.2	52.3	49.7	50.0	0.3	0.6%
Future Expectations	50.8	50.4	49.8	49.6	49.7	0.1	0.2%
Effect of Rouble Exchange Rate							
Current Conditions	50.0	54.3	57.2	51.5	49.8	-1.7	-3.3%
Future Expectations	49.7	50.2	50.0	50.0	50.0	0.0	0.0%
Supplier Delivery Times							
Current Conditions	47.8	49.8	50.7	50.5	50.0	-0.5	-1.0%
Future Expectations	49.7	49.4	49.7	49.7	50.0	0.3	0.6%
Availability of Credit							
Current Conditions	52.6	56.9	53.3	57.2	45.4	-11.8	-20.6%
Future Expectations	53.6	52.2	50.6	51.0	53.7	2.7	5.3%

About MNI Indicators

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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.

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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.

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