DEUTSCHE BÖRSE GROUP

MNI Russia Business Report
August 2015

Insight and data for better decisions

MNI Russia Business Report
Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange which has been available since March 2013. 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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Executive Summary

Russian companies were more upbeat about the business environment in August, in spite of the plunge in oil prices in recent months.

Russian companies were more upbeat about the business environment in August, in spite of the plunge in oil prices in recent months. The MNI Russia Business Sentiment Indicator rose 1.9% to 52.3 in August from 51.3 in July, the highest since the introduction of sanctions in July 2014.

This month's rise in sentiment was driven solely by companies in the services sector who were the most content with the current business environment since February 2014. Meanwhile, dissatisfaction among manufacturing firms hit a two-year high and construction firms were neither optimistic nor pessimistic with indicator at exactly the 50 level.

In spite of the rise, companies reported that their access to credit had become more limited following months of improvement. One possible reason for this could be due to the slowdown in China, where Russian firms had apparently looked toward to fulfil their financing requirements, as banks in the world's second largest economy act more cautiously amid the greater market volatility.

Inflationary pressures returned in August as the depreciation of the currency pushed up companies' input costs. Faced with higher input costs, firms raised their own prices and had significantly higher expectations for what they would charge in the next three months.

However, our panel took the recent rouble rout as a positive with the indicator capturing the effect of the exchange rate rising 18.2%. While exports stumbled slightly this month, the weaker currency could help to boost overseas demand over the coming months while also encouraging some degree of import substitution.

Companies anticipated that business conditions would worsen over the coming three months with the Future Expectations Indicator falling 6.6% to 49.7 in August from 53.2 in July. Our panel's near-term outlook now stands at the lowest since December 2013, in sharp contrast to the 22-month high attained in June, illustrating just how quickly expectations have soured.

Unfazed by a slight dip in orders, companies reported that they had expanded their output in August and reported that their headcount was not sufficient for their needs.

As we predicted, last month's rise in inventories proved to be short-lived as lower expectations for demand over the coming months prompted companies to once again start destocking at the joint fastest pace on record.

Seven out of the 15 current conditions indicators in the MNI Russia Business Survey rose in August and three saw no change, while four of the 15 Future Expectations indicators decreased on the month.

Overview

	Jun-15	Jul-15	Aug-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	51.8	51.3	52.3	Jul-14	-	51.8	1.0	1.9%
Future Expectations	61.3	53.2	49.7	-	Dec-13	54.7	-3.5	-6.6%
Production								
Current Conditions	49.5	50.5	51.8	Oct-14	-	50.6	1.3	2.6%
Future Expectations	55.8	50.0	48.5	-	Mar-15	51.4	-1.5	-3.0%
New Orders								
Current Conditions	52.8	51.3	49.5	-	Apr-15	51.2	-1.8	-3.5%
Future Expectations	51.5	49.7	49.5	-	Dec-13	50.2	-0.2	-0.4%
Export Orders								
Current Conditions	50.6	51.3	50.6	-	May-15	50.8	-0.7	-1.4%
Future Expectations	51.7	50.0	50.0	Jul-15	-	50.6	0.0	0.0%
Productive Capacity								
Current Conditions	50.0	50.0	50.0	Jul-15	-	50.0	0.0	0.0%
Future Expectations	51.0	50.0	50.0	Jul-15	-	50.3	0.0	0.0%
Order Backlogs								
Current Conditions	49.8	49.5	49.5	Jul-15	-	49.6	0.0	0.0%
Future Expectations	48.3	48.8	49.0	Aug-13	-	48.7	0.2	0.4%
Employment								
Current Conditions	50.3	50.3	49.8	-	Jan-15	50.1	-0.5	-1.0%
Future Expectations	50.0	49.8	50.5	May-15	-	50.1	0.7	1.4%
Inventories								
Current Conditions	46.6	60.1	46.6	-	May-14	51.1	-13.5	-22.5%
Future Expectations	49.3	48.6	48.6	Jul-15	-	48.8	0.0	0.0%
Input Prices								
Current Conditions	50.8	50.0	50.3	Jun-15	-	50.4	0.3	0.6%
Future Expectations	51.8	50.5	52.0	May-15	-	51.4	1.5	3.0%
Prices Received								
Current Conditions	53.0	50.0	51.8	Jun-15	-	51.6	1.8	3.6%
Future Expectations	58.2	53.6	57.7	Jun-15	-	56.5	4.1	7.6%
Financial Position								
Current Conditions	50.5	50.5	52.3	Apr-15	-	51.1	1.8	3.6%
Future Expectations	58.9	55.3	60.4	Sep-13	-	58.2	5.1	9.2%
Interest Rates Paid								
Current Conditions	50.0	50.0	50.0	Jul-15	-	50.0	0.0	0.0%
Future Expectations	49.7	50.0	50.0	Jul-15	-	49.9	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	49.8	50.0	59.1	Feb-14	-	53.0	9.1	18.2%
Future Expectations	49.7	50.0	52.3	series high	-	50.7	2.3	4.6%
Supplier Delivery Times								
Current Conditions	49.8	49.5	49.8	Jun-15	-	49.7	0.3	0.6%
Future Expectations	49.7	49.7	49.7	Jul-15	-	49.7	0.0	0.0%
Availability of Credit								
Current Conditions	51.5	53.5	48.2	-	Mar-15	51.1	-5.3	-9.9%
Future Expectations	55.1	53.1	48.9	-	series low	52.4	-4.2	-7.9%

After accounting for seasonal factors, industrial production was unchanged on the month in July...

...following a 0.1% contraction in June, while year-on-year growth fell 4.7% in July after having declined 4.8% in June.

Economic Landscape

While there has been some moderation in official data in recent months, the widespread deterioration in July suggests that the economic situation is more precarious than previously thought.

While there has been some moderation in official data in recent months, the widespread deterioration in July suggests that the economic situation is more precarious than previously thought. Following months of easing inflationary pressures, consumer prices rose slightly (albeit due to an annual hike in utility tariffs) while producer prices were unchanged on the month. There is a risk that inflation could rise over the coming months following the sharp depreciation of rouble in August. Real wages fell further given the anaemic job market, weighing down on both retail sales and car purchases. Industrial production may have posted a moderate improvement, but there was a deterioration in manufacturing activity, its largest component.

Economic data, though, has not been the main event. Oil prices plummeted on the back of renewed concerns about China, pushing the rouble to new depths against the US dollar. While there has been some minor improvement following the rate cuts by People's Bank of China, both oil prices and the rouble remain significantly down and are likely to take some time to recover the losses that they have sustained. This increases the risk of the economy falling further into contraction in Q3 after having shown signs of bottoming in recent months.

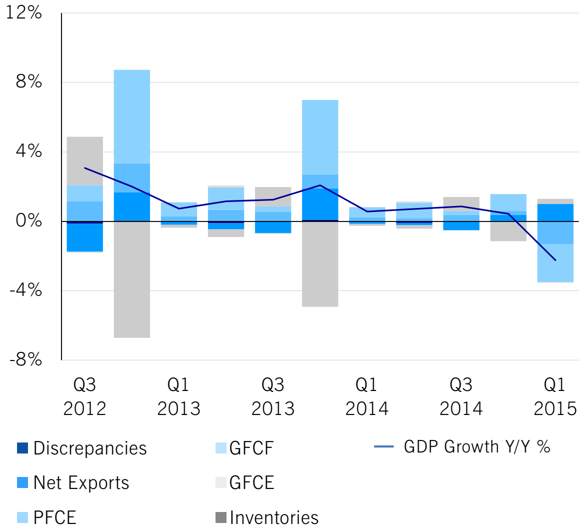
As we anticipated, the Central Bank of Russia chose to cut the key rate by 50 basis points to 11% at its July 31 meeting in spite of the recent fall in the rouble and potential for a reversal in the recently improved inflation picture. The fall in oil prices, sharp decline in the rouble and its possible impact on inflation suggest the CBR will hold off from cutting rates at its next meeting on September 11.

Russia's recession deepens

Data released by the Federal Statistics Service (Rosstat) showed that the economy shrunk by 4.6% on the year in the second quarter of 2015 following a contraction of 2.2% in the first quarter.

While data on an industrial and expenditure basis has yet to be released, it is likely that the contraction was driven by a sharp slowdown in industrial production (which accounts for around 40% of Russia's GDP) after having previously offered some measure of support for it in Q1. Meanwhile, consumer spending is also

Economic Growth



Source: Rosstat

expected to have exerted some drag on growth as it continued to be hit by the prohibitive cost of credit, falling wages and high inflation. Meanwhile, a narrowing in Russia's trade surplus could have had some bearing on the contraction in the second quarter as low oil prices, Western sanctions and the appreciation of the rouble during that period are likely to have dented Russian exports.

Latest monthly GDP figures from the Economic Development Ministry revealed that the economy shrunk by 4.6% on the year in July after having suffered a 4.2% decline in June. Following the slump in oil prices over the past few months, the economy ministry recently revised down its forecast for Russian GDP in 2015. It now estimates that the economy will shrink by 3.3% after having previously anticipated a 2.8% contraction although maintained that the downturn had bottomed out.

Output remains anaemic

After accounting for seasonal factors, industrial production was unchanged on the month in July following a 0.1% contraction in June, while year-on-year growth fell 4.7% in July, having declined 4.8% in June.

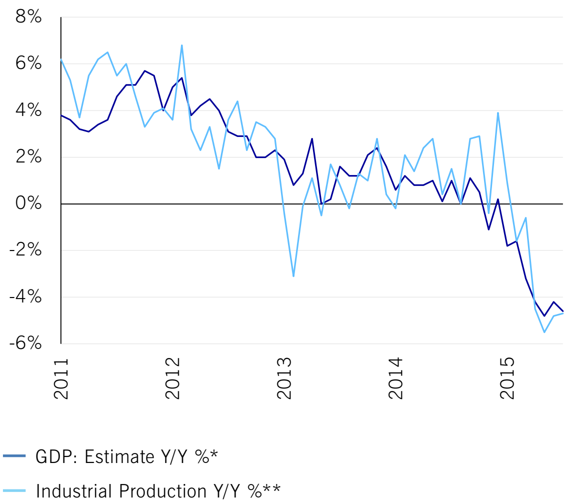
Some had speculated that the swift depreciation in the rouble over the past couple of months would provide some relief to exporters, although if this were true it certainly wasn't to be found in this month's industrial production figures as the extension of sanctions probably weighed down on overseas orders. The currency has since weakened further and over time this should help to drive export volumes.

Manufacturing was down 7.1% on the year following a 6.6% fall in the previous month. While there was strong annual growth of 8.6% in chemicals output, there were double-digit falls in six of the 14 manufacturing industries that data is provided for, led by a 32.3% slump in the production of transportation as consumers shunned car purchases.

Conversely, mining and quarrying output managed to eke out growth of 0.2% compared with the same month a year earlier following a contraction of 0.9% in June. Much of this was driven by a 2.8% expansion in the mining of coal and peat, while extraction of unclassified materials also provided some support by growing 1.8% on the year, albeit down on last month's 2.6% improvement.

Meanwhile, year-on-year growth in utilities output fell 0.8% in July after having declined 1% in the previous month. Thermal energy production and distribution grew 0.1% on the year in July following a 1.3% fall in June, although electricity production contracted by 0.6% on the year in July after suffering a 0.8% decline in the previous month.

Industrial Production and GDP



Source: *Ministry of Economic Development, **Rosstat

CBR eases policy further

At its meeting on July 31, the Central Bank of Russia cut the key interest rate by 50 basis points to 11% as it sought to further normalise monetary policy. This marks the fifth time the CBR has cut the key interest rate this year, having previously raised it by 650 basis points in December in a desperate effort to support the rouble which was rapidly depreciating.

While inflation now appears to be easing, there are some risks that the trend could reverse given the recent depreciation of the rouble. Even so, more favourable base effects combined with the dire weakness in domestic demand should provide enough drag to keep inflation on a downward path provided that the rouble regains some ground.

The fall in oil prices, sharp decline in the rouble and its possible impact on inflation suggest the CBR will hold off from cutting rates at its next meeting on September 11.

Trade surplus deteriorates

Russia's trade surplus has narrowed considerably over the past year as the low price of oil and economic sanctions have caused a continuous decline in exports that has outstripped the simultaneous fall in imports. In June, Russia's trade surplus declined by 1.1% to $13.8 billion in June from $13.9 billion a year earlier.

Exports declined by 25.5% on the year to $30.3 billion in June from $40.7 billion previously. Much of the decline is the result of the slide in the price of oil, Russia's key export commodity, which started falling in July last year. It is likely that exports will continue to post sharp annual declines until base effects begin to kick-in.

Imports, meanwhile, fell by a more pronounced 38.3% to $16.5 billion in June from $26.7 billion a year earlier. Since the rouble has weakened considerably over the past year, the cost of imports has risen sharply.

Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

Inflation creeps up following hike in utility tariffs

Following a three-month deceleration, consumer price inflation ticked up to 15.6% on the year in July from 15.3% in June. Even so, the rise was widely anticipated due to an annual hike in utility tariffs at the start of the month rather than the start of an upward trend.". Food price inflation, which makes up more than a third of the basket, eased further to 18.6% on the year in July following a rise of 18.8% in June. Stripping out the prices of food and fuel, which tend to be volatile, core inflation also slowed for the third month in a row to 16.5% on the year from 17.1% in June.

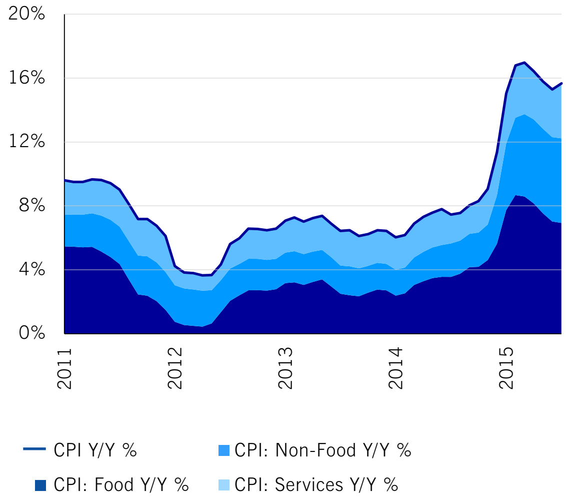
Under the Central Bank of Russia's most recent baseline scenario, weak economic growth is forecast to slow inflation to below 7% by July 2016 before finally falling to its medium-term target of 4% in 2017. Still, there are risks that inflation could start to rise again given the recent rouble fall. The currency has weakened following the decline of oil prices and the recent global market selloff, while the rate cut by the Central Bank of Russia on July 31 has further added to the pressure. Providing that the rouble recovers the ground it has lost over the past month, we believe that more favourable base effects combined with the dire weakness in domestic demand should provide enough drag to keep inflation on a downward path.

Prices at the factory gate in Russia were up 13.1% on the year in July, unchanged from the previous month. On a month-on-month basis, the producer price index rose 1.5% following a 0.7% increase in June. This was driven by the manufacturing sector, which accounts for almost 70% of the index, which was up 14.2% compared with the previous year following a rise of 13.9% in June. While prices in the mining and quarrying sector eased to 14.5% year-on-year in July from 16.8% in June, inflation in the utilities sector accelerated to 5.4% on the year compared with a more moderate outturn of 2% in the previous month.

Labour market remains poor

Unemployment surprisingly fell to 5.3% in July following a similarly unexpected drop to 5.4% in June. Joblessness in Russia has remained relatively resilient in the face of the slowdown, with the labour market adjustment instead being transmitted through a combination of wage cuts and increased part-time employment.

Consumer Price Inflation



Source: Rosstat

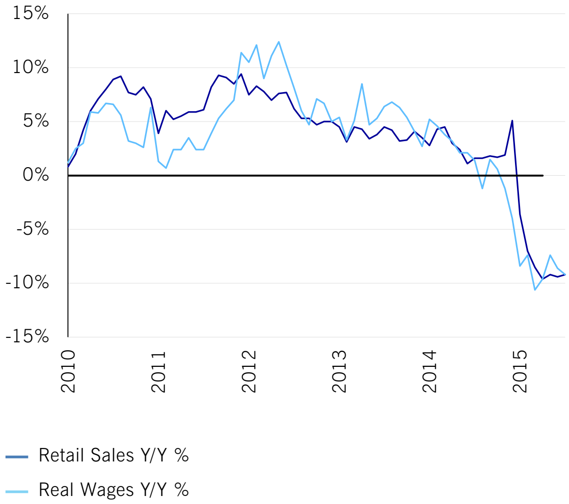
The poor job market has reduced the bargaining power of the Russian workforce and many have accepted wage cuts as companies seek to scale back their operations. Real wages fell by 9.2% on the year in July after declining by 8.6% in June (revised down from a contraction of 7.2% previously). Evidence from our consumer survey shows that Russian households spend a significant proportion of their income on daily expenses; leaving them with very little, if any, to save or invest.

Consumer spending deteriorates

Combined with the prohibitively high rate of inflation, falling wages have left Russian households with very little purchasing power. This is reflected in retail sales which were 9.2% below the level seen a year earlier in July compared with a 9.4% fall in June. Sales of non-food items were down 9.4% on the year in July following a contraction of 9.7% in June, whereas food sales declined by 8.9% on the year after shrinking 9.1% in the previous month.

Automobile sales declined by 27.5% on the year in July following a fall of 29.7% in June. This came in spite of the government car scrappage and trade-in scheme which provides a discount of at least 40,000 roubles off a new vehicle to consumers who trade in a car that is at least six years old. The sharp decline in car sales is due to dealerships having raised prices substantially following the rouble depreciation toward the end of last year as well as the prohibitively high cost of credit. In July, the price of a domestically manufactured car was 21.3% above one produced a year previously and the price of an imported one was 17.7% higher on the year.

Retail Sales and Real Wages



Source: Rosstat

Key Monthly Economic Data

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
GDP Y/Y %*	-1.6	-3.2	-4.2	-4.8	-4.2	-4.6	-
Industrial Production Y/Y %**	-1.6	-0.6	-4.5	-5.5	-4.8	-4.7	-
Consumer Price Index Y/Y %**	16.7	16.9	16.4	15.8	15.3	15.6	-
Producer Price Index Y/Y %**	9.3	13.0	15.0	13.4	13.1	13.1	-
Unemployment Y/Y %**	5.8	5.9	5.8	5.6	5.4	5.3	-
Real Wages Y/Y %**	-7.4	-10.6	-9.6	-7.4	-8.6	-9.2	-
Retail Sales Y/Y %**	-7.0	-8.5	-9.6	-9.2	-9.4	-9.2	-
Car Sales Y/Y %***	-37.9	-42.5	-41.5	-37.6	-29.7	-27.5	-
Trade Balance $ Bn.****	13.7	15.4	15.0	15.3	13.8	-	-
Exports $ Bn.****	29.3	32.7	31.5	30.9	30.3	-	-
Imports $ Bn.****	15.6	17.3	16.4	15.6	16.5	-	-
MNI Russia Business Sentiment Indicator	42.0	48.8	46.0	51.3	51.8	51.3	52.3
MNI Russia Consumer Sentiment Indicator	73.1	69.2	73.0	72.8	76.4	70.8	-

Source: *Ministry of Economic Development, **Rosstat, ***Association of European Businesses, ****Federal Customs Service

Indicators

Last month's dip in sentiment proved to be short-lived as confidence among Russian companies rose, although there were mixed messages in the remainder of the survey.

MNI Russia Business Indicator
Highest Since July 2014

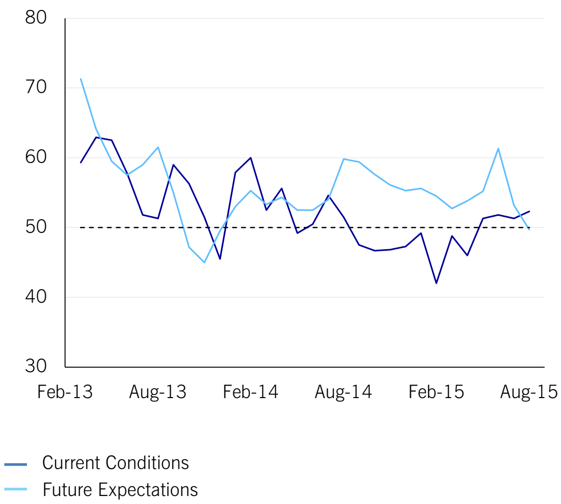
Last month's dip in sentiment proved to be short-lived as confidence among Russian companies rose, although there were mixed messages in the remainder of the survey.

The MNI Russia Business Sentiment Indicator rose 1.9% to 52.3 in August from 51.3 in July, the highest since the introduction of sanctions in July 2014. Digging a little deeper into the survey, this month's rise in sentiment was driven solely by companies in the services sector who were the most content with the current business environment since February 2014. Meanwhile, dissatisfaction among manufacturing firms hit a two-year high and construction firms were neither optimistic nor pessimistic with the indicator at exactly the 50 level.

Of those surveyed, 20% of companies reported that the business environment had improved on the month, up from just 3.5% in July, while 64.6% considered conditions to have remained the same, sharply down from the 95.5% that did last month. Meanwhile, the proportion of companies who thought that trading conditions had deteriorated on the month rose to 15.4% in August from 1% in July.

Our panel took the sharp depreciation of the rouble as a positive, with the indicator capturing the effect of the exchange rate leading the improvement in headline sentiment. While exports stumbled slightly this month, the weaker currency could help to boost overseas demand over the coming months while also encouraging some degree of import substitution. More firms expanded their output in August even amid the drop in the overall number of orders, although their stock levels fell regardless. Companies did see improvements in their balance sheets, with the Financial Position Indicator rising to a four-month high in August.

MNI Russia Business Sentiment Indicator



MNI Russia Business Indicator

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Current Conditions	51.5	48.8	46.0	51.3	51.8	51.3	52.3

This month's survey period closed before the China-led global equity and commodity rout. Amid the volatility, the price of oil, Russia's key export, has taken a battering which has caused the rouble to sink to a new low against the US dollar. While our business survey had shown tentative signs that the economic downturn in Russia had begun to abate, recent developments threaten to throw the recovery off course.

While companies were slightly more upbeat about the present, they became pessimistic in their outlook for the future. Companies anticipated that business conditions would worsen over the coming three months, as evidenced by the 6.6% fall in the Future Expectations Indicator to 49.7 in August from 53.2 in July. Given that a record proportion of company thought that the exchange rate would benefit their operations in the future, the fall in overall expectations is more likely to have been driven by the sharp fall in oil prices as well as the recent extension of EU sanctions against Russia. Our panel's near-term outlook now stands at the lowest since December 2013, in sharp contrast to the 22-month high of 61.3 attained in June, illustrating just how quickly expectations have soured.

Seven out of the 15 current conditions indicators in the MNI Russia Business Survey rose in August and three saw no change, while four of the 15 Future Expectations indicators decreased on the month.

Sectors - Overall Business Conditions

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

MNI Russia Business Indicator

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Future Expectations	59.8	52.7	53.8	55.2	61.3	53.2	49.7

Orders
Weak Rouble Fails to Lift Exports

Companies reported that their overall number of orders had shrunk on the month as demand from overseas firms waned in spite of the depreciation in the rouble.

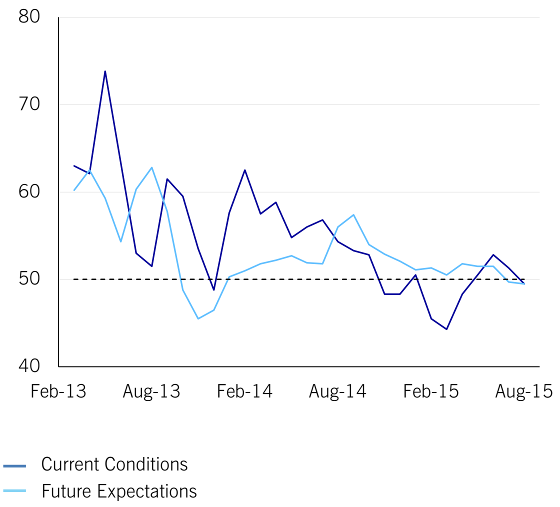
Over the past year, companies have seen their order books shrink as sectoral sanctions imposed by the West created a highly uncertain business environment. After hitting a record low in March, a growing number of firms had received additional orders in recent months although this appears to have begun to tail off as domestic demand faltered once again amid the economic slowdown in Russia.

Following three months of expansion, the New Orders Indicator dipped back into contraction to 49.5 in August from 51.3 in July. Companies remained pessimistic in their expectations for demand over the coming three months, with the Expectations Indicator for New Orders standing below the 50 level at 49.5 in August.

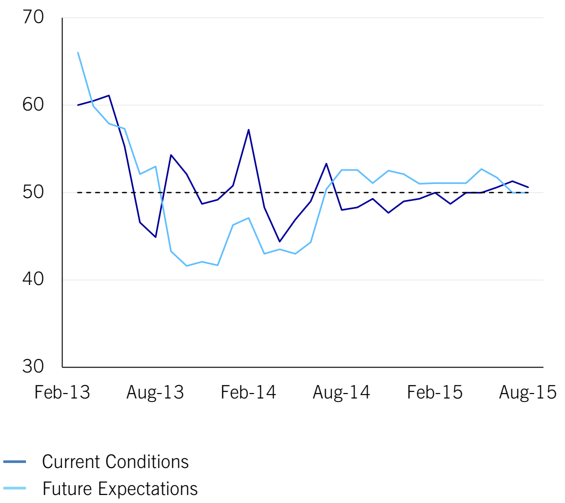
Over the past few months, orders have been supported by growing demand from abroad as the weak rouble made Russian goods and services cheaper to foreign companies. This has been countered somewhat by international sanctions, which have prevented trade in certain goods from certain industries, although the currency has recently depreciated further which would provide exporters with a greater cost advantage.

Even so, Export Orders fell 1.4% to 50.6 in August, having risen in the previous month to the highest since the introduction of sanctions in July 2014. While this could be a momentary hiccup, particularly as the rouble has since plunged to new depths, companies continued to be nonchalant in their outlook for exports over the coming three months with the Expectations Indicator remaining unchanged at 50.0 in August.

New Orders



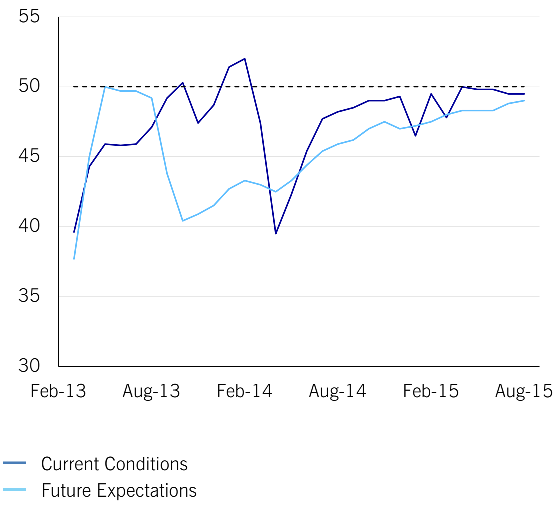
Export Orders



Orders - Current Conditions

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
New Orders	54.3	44.3	48.3	50.5	52.8	51.3	49.5
Export Orders	48.0	48.7	50.0	50.0	50.6	51.3	50.6
Order Backlogs	48.2	47.8	50.0	49.8	49.8	49.5	49.5

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

Firms continued to report that their Order Backlogs were falling with the indicator at 49.5 in August. The continued contraction in the indicator suggests that companies possess some degree of spare capacity, which looks set to continue given that demand is expected to remain anaemic over the coming months. Our panel remained pessimistic in their outlook for unfulfilled orders in the future, with the Expectations Indicator standing at 49.0 in August.

Orders - Future Expectations

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
New Orders	56.0	50.5	51.8	51.5	51.5	49.7	49.5
Export Orders	52.6	51.1	51.1	52.7	51.7	50.0	50.0
Order Backlogs	45.9	48.0	48.3	48.3	48.3	48.8	49.0

Output and Employment
Production at 10-Month High

Unfazed by a slight dip in orders, companies reported that they had expanded output in August and reported that their headcount was not sufficient for their needs.

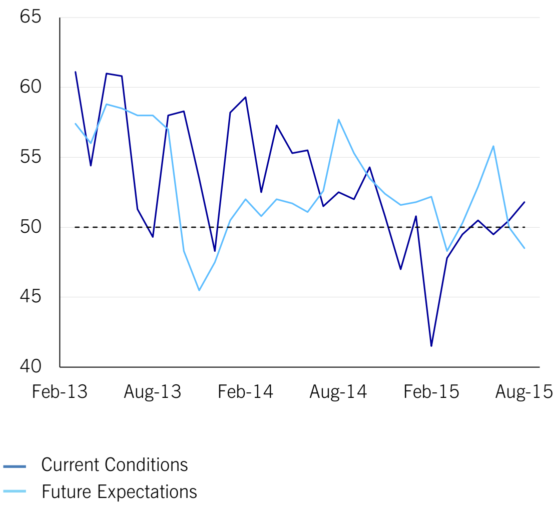
The Production Indicator rose by 2.6% to 51.8 in August from 50.5 in July, the highest since October last year. While a similar proportion of companies in both the manufacturing and services sectors reported that they had expanded their output, construction firms reported no change in their production levels this month.

Our Production Indicator has a close correlation with official data on industrial production which was unchanged on the month in July after accounting for seasonal factors following a 0.1% contraction in June. While our indicator may have risen in August, the majority of our panel kept their production stable, suggesting that output is still weak in absolute levels and will probably take some time to fully recover.

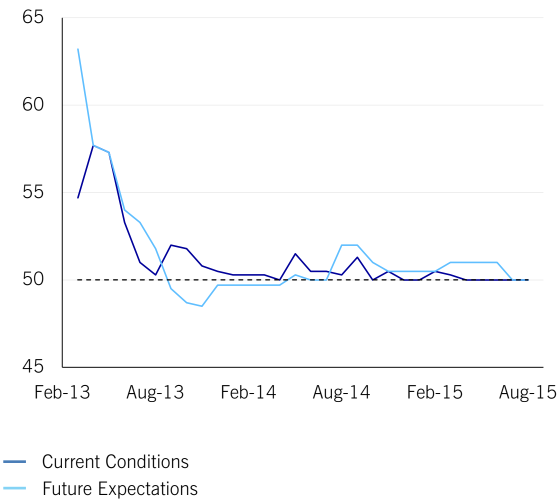
Meanwhile, companies anticipated that they would scale back their output as they expectated that orders would fall over the next three months. Expectations for Production eased for the second consecutive month to a five-month low of 48.5 in August after having fallen to the 50.0 benchmark level in July. Companies in the services sector were alone in anticipating that their production would rise, albeit at a slower rate than in the previous month, while both manufacturing and construction firms further lowered their expectations for their future output levels.

Firms considered the size of their workforce to be slightly too small for their requirements in August with the Employment Indicator falling to 49.8 after having remained unchanged at 50.3 in July, the lowest since January. Regardless, companies anticipated they would

Production



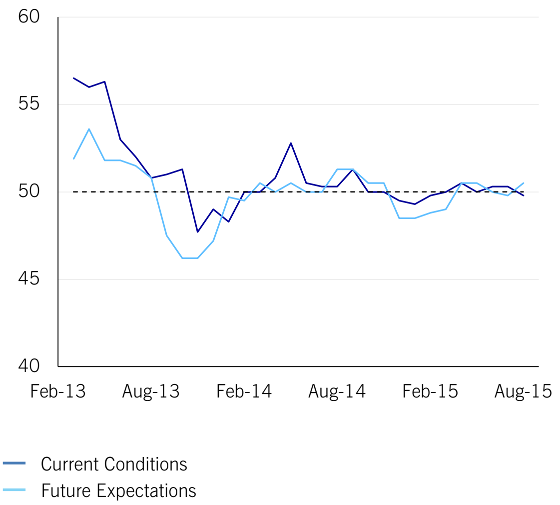
Productive Capacity



Output and Employment - Current Conditions

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Production	52.5	47.8	49.5	50.5	49.5	50.5	51.8
Productive Capacity	50.3	50.3	50.0	50.0	50.0	50.0	50.0
Employment	50.3	50.0	50.5	50.0	50.3	50.3	49.8

Employment



have too many employees in three months' time, with the Expectations Indicator rising to 50.5 in August from 49.8 in July.

Firms reported that their Productive Capacity was unchanged for the fifth month in a row, with the indicator standing at 50.0 in August. Moreover, companies anticipated that they would neither expand nor reduce their capacity in the future, with the Expectations Indicator remaining at 50.0 in August after having reversed four consecutive months of expansionary expectations in July.

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

Output and Employment - Future Expectations

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Production	57.7	48.3	50.3	52.9	55.8	50.0	48.5
Productive Capacity	52.0	51.0	51.0	51.0	51.0	50.0	50.0
Employment	51.3	49.0	50.5	50.5	50.0	49.8	50.5

Prices
Rouble Depreciation Pushes Up Costs

Companies raised their prices in August as the sharp fall in the rouble pushed up input costs, although they considered the weaker exchange rate was in fact more favourable for their business operations.

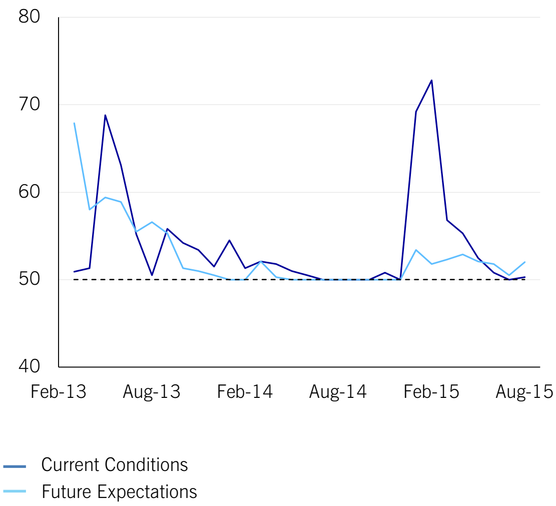
Our panel reported that their costs were slightly higher than they were last month, as reflected by the rise in the Input Prices Indicator to 50.3 in August from a series low of 50.0 in July. Prior to August, the indicator had eased for five consecutive months in a tentative sign that inflation had peaked. This has now been thrown into doubt as the recent slump in oil prices has hit the rouble hard, causing it to depreciate rapidly, which in turn threatens to exacerbate the already high level of inflation in Russia.

While our survey period only closed two weeks ago, the rouble has since continued to slide which could apply further upward pressure to prices as it eventually filters through to the wider economy. More of our panel anticipated prices would rise over the coming months, with the Expectations Indicator climbing to 52.0 in August from 50.5 in July.

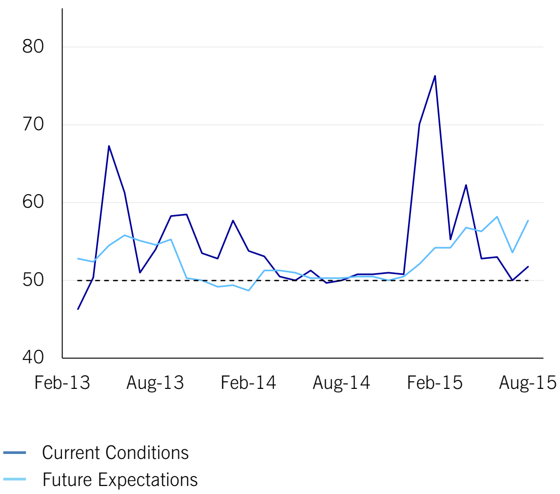
Official figures showed that producer price inflation was up 13.1% on the year in July, matching the rise observed in the previous month. This was driven by the manufacturing sector, accounting for almost 70% of the index, which was up 14.2% on the year following a rise of 13.9% in June. While prices in the mining and quarrying sector eased to 14.5% year-on-year in July from 16.8% in June, inflation in the utilities sector accelerated to 5.4% on the year compared with a more moderate outturn of 2% in the previous month.

Faced with higher input costs, firms raised their own prices, reflected by the increase in the Prices Received

Input Prices



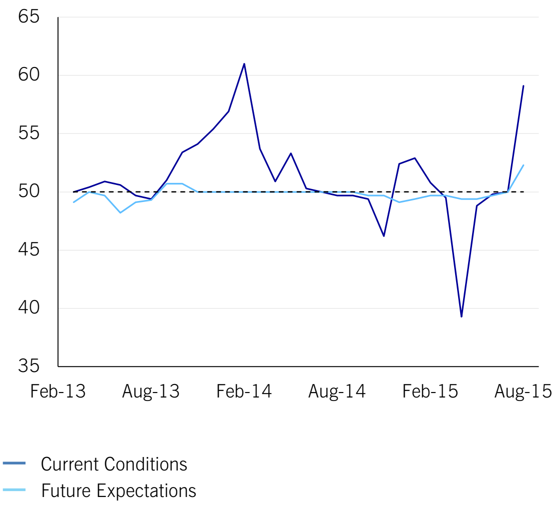
Prices Received



Prices - Current Conditions

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Input Prices	50.0	56.8	55.3	52.5	50.8	50.0	50.3
Prices Received	50.0	55.3	62.3	52.8	53.0	50.0	51.8
Exchange Rate	49.7	49.5	39.3	48.8	49.8	50.0	59.1

Effect of Rouble Exchange Rate



Sectors - Current Conditions

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↔ = 50	↑ > 50	↑ > 50
Services	↔ = 50	↑ > 50	↑ > 50
Construction	↔ = 50	↔ = 50	↔ = 50

Sectors - Future Expectations

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

Indicator to 51.8 in August following a fall to the breakeven level of 50.0 in July. Companies also sharply revised up their projections for the prices they would charge over the coming three months, with the Expectations Indicator climbing to 57.7 in August from 53.6 in July, the second highest outturn in the survey's history.

Our panel's perception of the exchange rate improved as the currency recovered the ground it lost and so given that the rouble depreciated significantly during our survey period, one might naturally expect that our companies' attitudes would sour along with it. In contrast, the Effect of the Rouble Exchange Rate Indicator surged 18.2% to 59.1 in August from 50.0 in July, leading the rise in sentiment this month. A value above 50 shows that more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting.

It is difficult to determine why the exchange rate was more favourable this month. One possibility is that companies expect exports to pick-up over the coming months as foreign companies are swayed by the weak rouble, while they may also anticipate that they will see more domestic demand from import substitution.

In previous months we have often stressed that there are downside risks to the rouble given the volatility in the price of oil, an assertion that has been vindicated by the recent correction in the currency following the announcement that the Iran oil embargo will be lifted. Companies expected that the exchange rate would be beneficial to their operations over the coming months, causing the Expectations Indicator to rise to a record high of 52.3 in August from 50.0 in July.

Prices - Future Expectations

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Input Prices	50.0	52.3	52.9	52.1	51.8	50.5	52.0
Prices Received	50.3	54.2	56.8	56.3	58.2	53.6	57.7
Exchange Rate	50.0	49.7	49.4	49.4	49.7	50.0	52.3

Money and Credit
Bleakest Outlook on Record for Loans

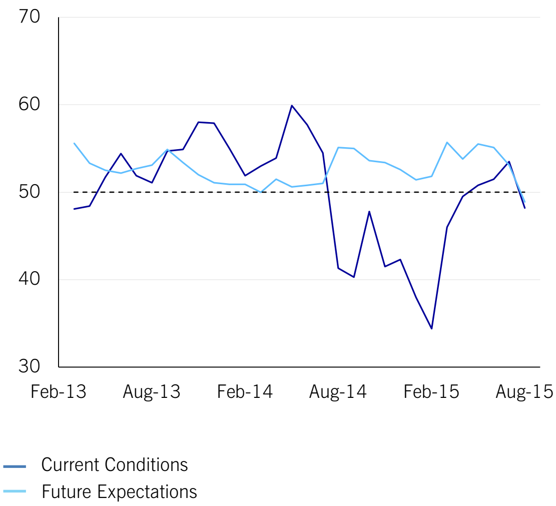
While our panel's balance sheets saw healthy improvements in August, their access to credit fell sharply following months of improvement.

Firms in Russia have found it difficult to secure lending since the annexation of Crimea, particularly so following the subsequent imposition of capital restrictions by Western nations at the end of July 2014. Despite the difficult conditions, over the past few months a growing number of firms reported that they had found new streams of lending. While the rate cuts by the Central Bank of Russia were one factor behind the improvement, reports had suggested that firms looked toward China to fulfil their financing requirements following high-level meetings between Russian President Vladimir Putin and his Chinese counterpart Xi Jinping.

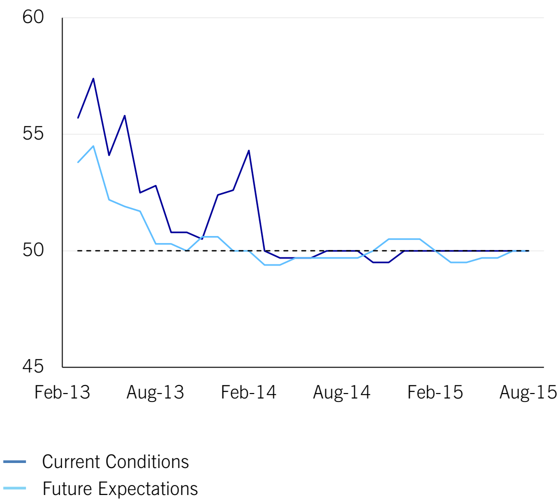
Nevertheless, this trend reversed in August as the Availability of Credit Indicator slid almost 10% to 48.2, having risen in the previous month to the highest since capital restrictions were first imposed in July 2014. One possible reason for the sharp turnaround may be that the slowdown in China may be spilling over to Russia in the form of more restrictive credit as banks in the world's second largest economy act more cautiously amid the greater volatility over the past few months. Meanwhile, the sharp fall in oil prices could have had an impact on lenders' willingness to provide credit to Russian businesses given their excessive reliance on the commodity.

Easing inflation and the recovery in the rouble during the first half of this year allowed the CBR to cut the benchmark interest rate by 600 basis points after having rapidly tightened policy throughout 2014 in a desperate effort to support the currency which was depreciating at an alarming pace. Pressure has since returned to the

Availability of Credit



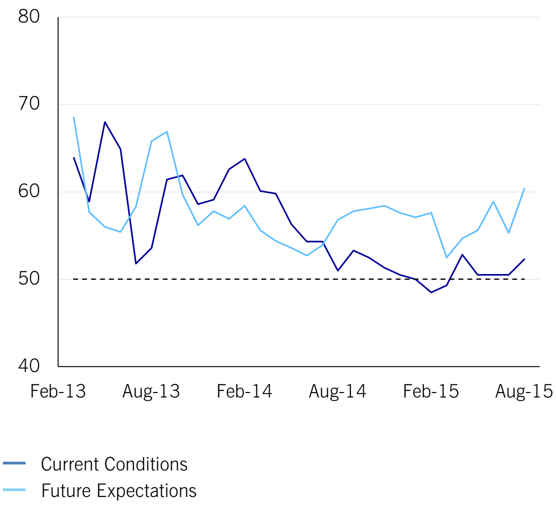
Interest Rates Paid



Money and Credit - Current Conditions

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Availability of Credit	41.3	46.0	49.5	50.8	51.5	53.5	48.2
Interest Rates Paid	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financial Position	51.0	49.3	52.8	50.5	50.5	50.5	52.3

Financial Position



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

rouble amid the slump in oil prices and the global stock market sell-off, causing the currency to sink to a new low against the US dollar making it highly unlikely that the CBR will cut the key rate any further at its next meeting on September 11.

Even so, the Interest Rates Paid Indicator remained at 50.0 in August for the ninth consecutive month as nearly our entire panel reported that they faced the same financing costs as they did in July. It is surprising that the indicator has not been more responsive to the frequent, sizeable movements in the benchmark interest rate but there is a possibility that it will fall over the coming months as the CBR is expected to normalise monetary policy in the long-run.

More of our panel reported an improvement in the state of their finances in August, as reflected by the rise in the Financial Positions Indicator to 52.3 after having remained stable at 50.5 for three consecutive months. Firms were also more optimistic in their outlook for their financial health over the following three months, with the Expectations Indicator climbing to an almost two-year high of 60.4 in August from 55.3 in July.

Money and Credit - Future Expectations

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Availability of Credit	55.1	55.7	53.8	55.5	55.1	53.1	48.9
Interest Rates Paid	49.7	49.5	49.5	49.7	49.7	50.0	50.0
Financial Position	56.8	52.5	54.7	55.6	58.9	55.3	60.4

Logistics
Firms Offload Inventories

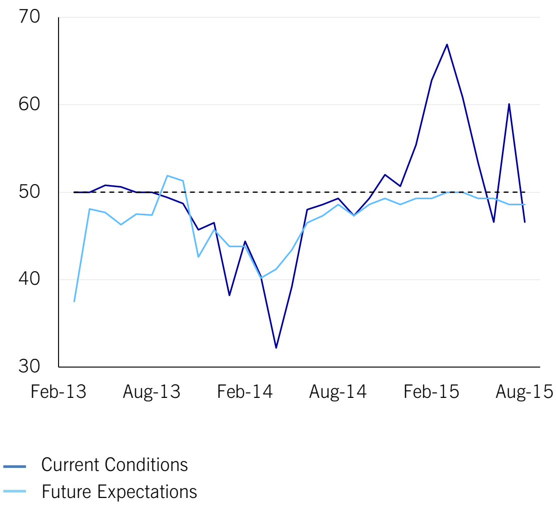
Last month's rise in inventories proved to be short-lived as lower expectations for demand over the coming months prompted companies to once again start destocking at the joint fastest pace on record.

Firms became burdened with a glut of inventories during the first two quarters of this year, having been reluctant to scale back output in spite of faltering demand. A pick-up in orders in June allowed firms to normalise their stock levels by fulfilling new orders with their current stock rather than by increasing production, although subsequently quickly accumulated inventories just one month later. Given that companies expected their stock levels to fall, rather than rise, we reasoned that the build-up was unplanned and a one-off, particularly as there were no fundamentals behind it.

Our hunch proved to be correct as firms once again ran down their stocks in August with the Inventories Indicator falling by 22.5% to 46.6, offsetting last month's rise to 60.1, leaving it exactly at the same level it was in June. While companies in the construction sector reported that their inventories were unchanged on the month, manufacturing companies reported that they were destocking at a record pace. According to our panel, this trend is set to continue with the Expectations Indicator for future stock levels remaining unchanged in August after having fallen to a 10-month low of 48.6 in July.

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 reported that supplier delivery times were shorter compared with a month ago.

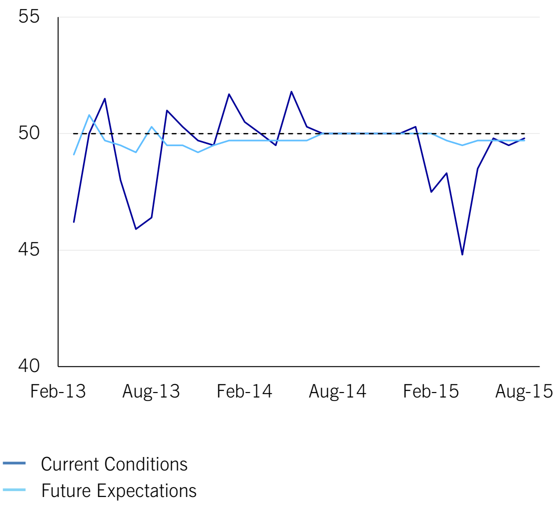
Inventories



Logistics - Current Conditions

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Inventories	49.3	66.9	60.8	53.4	46.6	60.1	46.6
Supplier Deliveries	50.0	48.3	44.8	48.5	49.8	49.5	49.8

Supplier Delivery Times



The time taken to deliver supplies to companies shortened for the seventh consecutive month in August, with the Supplier Delivery Times Indicator remaining more-or-less unchanged at 49.8 in August compared with 49.5 in July. Companies continued to anticipate that their suppliers would cut their delivery times over the coming months, with the Expectations Indicator remaining unchanged at 49.7 in August for the fourth month in a row.

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

	Aug-14	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Inventories	48.6	50.0	50.0	49.3	49.3	48.6	48.6
Supplier Deliveries	50.0	49.7	49.5	49.7	49.7	49.7	49.7

Data tables

Historical Summary

	2014					2015							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
MNI Russia Business Indicator													
Current Conditions	51.5	47.5	46.7	46.8	47.3	49.2	42.0	48.8	46.0	51.3	51.8	51.3	52.3
Future Expectations	59.8	59.4	57.6	56.1	55.3	55.6	54.5	52.7	53.8	55.2	61.3	53.2	49.7
Production													
Current Conditions	52.5	52.0	54.3	50.8	47.0	50.8	41.5	47.8	49.5	50.5	49.5	50.5	51.8
Future Expectations	57.7	55.3	53.5	52.4	51.6	51.8	52.2	48.3	50.3	52.9	55.8	50.0	48.5
New Orders													
Current Conditions	54.3	53.3	52.8	48.3	48.3	50.5	45.5	44.3	48.3	50.5	52.8	51.3	49.5
Future Expectations	56.0	57.4	54.0	52.9	52.1	51.1	51.3	50.5	51.8	51.5	51.5	49.7	49.5
Export Orders													
Current Conditions	48.0	48.3	49.3	47.7	49.0	49.3	50.0	48.7	50.0	50.0	50.6	51.3	50.6
Future Expectations	52.6	52.6	51.1	52.5	52.1	51.0	51.1	51.1	51.1	52.7	51.7	50.0	50.0
Productive Capacity													
Current Conditions	50.3	51.3	50.0	50.5	50.0	50.0	50.5	50.3	50.0	50.0	50.0	50.0	50.0
Future Expectations	52.0	52.0	51.0	50.5	50.5	50.5	50.5	51.0	51.0	51.0	51.0	50.0	50.0
Order Backlogs													
Current Conditions	48.2	48.5	49.0	49.0	49.3	46.5	49.5	47.8	50.0	49.8	49.8	49.5	49.5
Future Expectations	45.9	46.2	47.0	47.5	47.0	47.2	47.5	48.0	48.3	48.3	48.3	48.8	49.0
Employment													
Current Conditions	50.3	51.3	50.0	50.0	49.5	49.3	49.8	50.0	50.5	50.0	50.3	50.3	49.8
Future Expectations	51.3	51.3	50.5	50.5	48.5	48.5	48.8	49.0	50.5	50.5	50.0	49.8	50.5
Inventories													
Current Conditions	49.3	47.3	49.3	52.0	50.7	55.4	62.8	66.9	60.8	53.4	46.6	60.1	46.6
Future Expectations	48.6	47.3	48.6	49.3	48.6	49.3	49.3	50.0	50.0	49.3	49.3	48.6	48.6
Input Prices													
Current Conditions	50.0	50.0	50.0	50.8	50.0	69.2	72.8	56.8	55.3	52.5	50.8	50.0	50.3
Future Expectations	50.0	50.0	50.0	50.0	50.0	53.4	51.8	52.3	52.9	52.1	51.8	50.5	52.0
Prices Received													
Current Conditions	50.0	50.8	50.8	51.0	50.8	70.1	76.3	55.3	62.3	52.8	53.0	50.0	51.8
Future Expectations	50.3	50.5	50.5	50.0	50.5	52.1	54.2	54.2	56.8	56.3	58.2	53.6	57.7
Financial Position													
Current Conditions	51.0	53.3	52.5	51.3	50.5	50.0	48.5	49.3	52.8	50.5	50.5	50.5	52.3
Future Expectations	56.8	57.8	58.1	58.4	57.6	57.1	57.6	52.5	54.7	55.6	58.9	55.3	60.4
Interest Rates Paid													
Current Conditions	50.0	50.0	49.5	49.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	49.7	49.7	50.0	50.5	50.5	50.5	50.0	49.5	49.5	49.7	49.7	50.0	50.0
Effect of Rouble Exchange Rate													
Current Conditions	49.7	49.7	49.4	46.2	52.4	52.9	50.8	49.5	39.3	48.8	49.8	50.0	59.1
Future Expectations	50.0	50.0	49.7	49.7	49.1	49.4	49.7	49.7	49.4	49.4	49.7	50.0	52.3
Supplier Delivery Times													
Current Conditions	50.0	50.0	50.0	50.0	50.0	50.3	47.5	48.3	44.8	48.5	49.8	49.5	49.8
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	49.7	49.7
Availability of Credit													
Current Conditions	41.3	40.3	47.8	41.5	42.3	38.0	34.4	46.0	49.5	50.8	51.5	53.5	48.2
Future Expectations	55.1	55.0	53.6	53.4	52.6	51.4	51.8	55.7	53.8	55.5	55.1	53.1	48.9

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	42.0	62.9	52.4	51.5
Future Expectations	45.0	71.3	55.6	55.1
Production				
Current Conditions	41.5	61.1	53.1	52.3
Future Expectations	45.5	58.8	52.9	52.1
New Orders				
Current Conditions	44.3	73.8	54.8	53.4
Future Expectations	45.5	62.8	53.3	51.9
Export Orders				
Current Conditions	44.4	61.1	50.8	49.7
Future Expectations	41.6	66.0	50.1	51.1
Productive Capacity				
Current Conditions	50.0	57.7	51.2	50.4
Future Expectations	48.5	63.2	51.5	50.5
Order Backlogs				
Current Conditions	39.5	52.0	47.5	48.4
Future Expectations	37.7	50.0	45.7	46.6
Employment				
Current Conditions	47.7	56.5	50.9	50.3
Future Expectations	46.2	53.6	49.9	50.3
Inventories				
Current Conditions	32.2	66.9	49.5	49.4
Future Expectations	37.5	51.9	47.0	47.9
Input Prices				
Current Conditions	50.0	72.8	54.1	51.4
Future Expectations	50.0	67.9	52.8	51.6
Prices Received				
Current Conditions	46.3	76.3	54.8	52.8
Future Expectations	48.7	58.2	52.6	51.7
Financial Position				
Current Conditions	48.5	68.0	55.9	54.0
Future Expectations	52.5	68.5	57.6	57.4
Interest Rates Paid				
Current Conditions	49.5	57.4	51.3	50.0
Future Expectations	49.4	54.5	50.4	50.0
Effect of Rouble Exchange Rate				
Current Conditions	39.3	61.0	51.3	50.5
Future Expectations	48.2	52.3	49.8	50.0
Supplier Delivery Times				
Current Conditions	44.8	51.8	49.4	50.0
Future Expectations	49.1	50.8	49.8	49.7
Availability of Credit				
Current Conditions	34.4	59.9	50.1	51.6
Future Expectations	48.9	55.7	52.7	52.7

Historical Records - Quarterly

	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	51.8	51.2	46.9	46.7	49.7	3.0	6.4%
Future Expectations	53.1	57.7	56.3	54.3	56.8	2.5	4.6%
Production							
Current Conditions	56.0	52.0	50.7	46.7	49.8	3.1	6.6%
Future Expectations	51.6	55.2	52.5	50.8	53.0	2.2	4.3%
New Orders							
Current Conditions	56.5	54.8	49.8	46.8	50.5	3.7	7.9%
Future Expectations	52.3	55.1	53.0	51.0	51.6	0.6	1.2%
Export Orders							
Current Conditions	46.8	49.9	48.7	49.3	50.2	0.9	1.8%
Future Expectations	43.6	51.9	51.9	51.1	51.8	0.7	1.4%
Productive Capacity							
Current Conditions	50.7	50.7	50.2	50.3	50.0	-0.3	-0.6%
Future Expectations	50.0	51.3	50.7	50.7	51.0	0.3	0.6%
Order Backlogs							
Current Conditions	42.4	48.1	49.1	47.9	49.9	2.0	4.2%
Future Expectations	43.4	45.8	47.2	47.6	48.3	0.7	1.5%
Employment							
Current Conditions	51.4	50.6	49.8	49.7	50.3	0.6	1.2%
Future Expectations	50.2	50.9	49.8	48.8	50.3	1.5	3.1%
Inventories							
Current Conditions	39.8	48.4	50.7	61.7	53.6	-8.1	-13.1%
Future Expectations	43.7	47.7	48.8	49.5	49.5	0.0	0.0%
Input Prices							
Current Conditions	51.1	50.0	50.3	66.3	52.9	-13.4	-20.2%
Future Expectations	50.1	50.0	50.0	52.5	52.3	-0.2	-0.4%
Prices Received							
Current Conditions	50.6	50.2	50.9	67.2	56.0	-11.2	-16.7%
Future Expectations	50.9	50.4	50.3	53.5	57.1	3.6	6.7%
Financial Position							
Current Conditions	56.8	52.9	51.4	49.3	51.3	2.0	4.1%
Future Expectations	53.6	56.2	58.0	55.7	56.4	0.7	1.3%
Interest Rates Paid							
Current Conditions	49.7	50.0	49.7	50.0	50.0	0.0	0.0%
Future Expectations	49.6	49.7	50.3	50.0	49.6	-0.4	-0.8%
Effect of Rouble Exchange Rate							
Current Conditions	51.5	49.8	49.3	51.1	46.0	-5.1	-10.0%
Future Expectations	50.0	50.0	49.5	49.6	49.5	-0.1	-0.2%
Supplier Delivery Times							
Current Conditions	50.5	50.0	50.0	48.7	47.7	-1.0	-2.1%
Future Expectations	49.7	50.0	50.0	49.9	49.6	-0.3	-0.6%
Availability of Credit							
Current Conditions	57.2	45.4	43.9	39.5	50.6	11.1	28.1%
Future Expectations	51.0	53.7	53.2	53.0	54.8	1.8	3.4%

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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.

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.

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