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Bespoke Russia-CIS Consulting

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Ukraine-Russia: *Headlines get worse … but gas is the key indicator*

"Let me warn you, if you start chasing after views, you'll be left without bread and without views"

Nikolai Gogol

Weekend headlines will add to market nervousness today. The headlines from east Ukraine over the weekend will unsettle markets at the start of trading today. The situation is clearly very dangerous and largely unpredictable. But, despite the ratcheting-up of rhetoric from all sides, the evidence still suggests that Russia will not invade. Instead Russia has always supported the protestors' demands for some form of federalism in the east.

Sanctions risk if the West blames Moscow. The key risk is whether the US/EU believes Moscow is behind the escalation of violence in the east and, even without a military incursion, moves to the more serious economy and trade disrupting sanctions. This question will be the focus of investor attention over the coming days.

Diplomatic efforts were starting to pick-up. As the crisis escalates on the ground, the foreign ministers from Russia, Ukraine and the US/EU are due to meet for the first time in Geneva on Thursday to discuss the crisis. That is the same day President Putin is scheduled to hold his annual televised Q&A session and Ukraine and the economy are expected to dominate. If that planed meeting is cancelled this would be taken as a very negative signal by investors and we would see a further step down in equities, the ruble, and in debt markets.

How the gas dispute proceeds will provide a good indicator. Based on that critical assumption, i.e. no military action and no increase in sanctions against Russia that such a move would certainly provoke, investors need to follow the gas dispute closely. What happens here will provide the best indicator of whether political pragmatism is emerging as the backdrop to the headline crisis or whether the dispute either remains deadlocked or could be deteriorating. In the case of the former, long-only investors should start buying into selected equities and sovereign debt while, in the case of the latter, they should continue to stand-off.

The existing debt and tariff are the key points. We are specifically looking at whether there will be an agreement to schedule the payment of the existing $2.2 billion debt and either a reduction of the gas tariff to the EU average $380 p/'1000 cm and/or an indication that Gazprom will start negotiations for a new tariff contract.

Gas and politics remain interlinked. If we have now passed the worst of the political crisis, notwithstanding the east Ukraine headlines, then a gas deal is very likely. If the military risk is still real then we will not see a gas deal.

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Gazprom shares reflect the sentiment shifts. We prefer Gazprom over the state banks as the best proxy, amongst the blue chips, to position for an improvement in sentiment and a return of the big EM investment funds in the summer. The long-awaited gas deal with China is now almost certain to be agreed upon during President Putin's visit to China in May. The expanded Russia-China investment and trade relationship is then likely to be a key theme at the May 22nd-24th St. Petersburg Economic Forum.

An important week for diplomacy. Short-term the headlines and TV footage from east Ukraine will continue to keep most of the big EM investment funds nervous of Russia risk until there is a clear political breakthrough. Our core position has been that this may not happen until after the May 25th presidential election and a possible engagement between the new president and Moscow. But a clear agreement on the gas issues or positive signals from the four-way talks, due to start in Geneva on Thursday, may encourage more investors to take advantage of cheap valuations sooner ***(see scenarios table below)***.

Some positive indicators. The fact that Russia has started to return Ukraine's navy vessels, which were trapped as part of the blockade of Crimea ports, is a positive indicator that the Kremlin is looking for a political compromise rather than further confrontation. It is reported that up to 70 vessels will be transferred to Ukraine in the coming days.

Self-sanctions have hurt more than the official sanctions. The impact of existing sanctions, especially the self-sanctions which have gone well beyond that required by the US and EU regulations as major companies deem it prudent to delay investment and trade deals in Russia, is not negligible. It has always been our position that concern over the negative impact on the ruble and the domestic economy would place a limit on further direct Russian actions in Ukraine.

Capital flight was less than the worst case scenario. The capital flight total for Qtr 1 was $51 bln and while large compared to last year the total was well short of the worst case scenarios suggested in early March. The Qtr 1 current account surplus gained almost 14% on the same quarter last year and the trade balance was up 8%. But inflation is now back at 7% on an annualized basis and, unless that is brought down towards 6%, the hoped for economic recovery in the 2nd half may fail.

Still many questions about the Ukraine bailout. Ukraine's financial position is becoming even more precarious. The initial euphoria generated by the IMF agreement is starting to fade. The emerging realities are;

- Ukraine will only get $7 billion of the $14-$18 billion promised by the IMF team this year, albeit that should be available before the May 25th election.
- There is much less clarity on who will provide the additional $9-$13 billion, i.e. to bring the total foreign aid package up to the $27 billion level. The US has so far only provided a $1 billion loan "guarantee" plus $150 million of direct aid. Canada has promised a "few hundred" million dollars of aid. So far there are no hard numbers coming from the EU.
- A debt restructuring in Ukraine is still far from avoidable. This may well be part of the conditions attached to EU aid and, if not, the risk remains high for 2015.
- It is becoming clearer that Ukraine's economy is deteriorating and political risks will likely continue to defer hopes of recovery. The total size of the external aid package, i.e. assuming the gas debt is covered plus the increasing budget deficit, over the next 24 months is now more likely to to climb to $35-$40 billion rather than the $27 billion indicated earlier this year.

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A clear leader in the Ukraine election. Opinion polls show that Petro Poroshenko is now clear favourite to win the presidential election in the first round of voting on May 25th. This follows the withdrawal of Vitaly Klitschko from the campaign and the transfer of his support to Poroshenko (latest opinion poll table is at the end of this note).

Investment Scenarios

Several scenarios remain are on the table. Set out below are several scenarios as to how the current political issues and financing (Ukraine) or economic (Russia) concerns play out from here. For each of the scenarios we suggest what may be the sentiment response for Ukrainian assets while, for Russian assets, we suggest price levels for each scenario. Of course there are many other event combinations which may be added and the impact of these is easily concluded by aggregating the likely impact of the individual components.

It should be stated up front that a drift into some form of prolonged civil unrest in east Ukraine would change the assumptions and those changes would be entirely negative for Ukrainian economy and asset valuation over the short to medium term.

The IMF deal may support a short lived rally. For Ukraine the main conclusion, i.e. apart from the civil conflict worst case scenario, is that confirmation of the IMF deal, especially if matched with a meaningful commitment from the EU, should lead to a short-term rally in the currency and dent markets. But for each that rally should be short-lived. There is no justification for a sustained rally in the Hryvnia especially as the IMF prohibits any actions by the Central Bank to support the currency.

Debt restructuring is still a risk. The debt market is far from safe from a restructuring. The IMF (+ EU) disbursement will bring relief to bond holders but:

a) the total is unlikely to be enough to see Ukraine through to the end of 2015 and a second round of negotiations will almost certainly mean a restructuring
b) the EU may insist on a debt hair-cut sooner as a condition for its contribution, so a rally in the Hryvnia and the Eurobond instruments is a selling opportunity rather than a buying opportunity

For equities it is case of picking the right stocks rather than buying the index. The local UX Index is up 28% since the start of the year but on thin volumes and with speculative buying. The more widely held (by international EM funds) DRs are still well down YTD; Avangard is down 19% YTD, MHPC is 25% down and Kernel is 19% lower since the start of the year. All of those moves are more consistent with the Russia stock moves.

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Ukraine Scenarios

Scenario	Short-term Impact			Longer-term Impact		
	Equities	Hryvnia	Debt	Equities	Hryvnia	Debt
East Ukraine violence and the risk of civil war increases	Negative	Negative	Negative	Unknown	Unknown	
IMF agrees to disperse $7 bln in early May and EU agrees to add $10 bln to the total aid package over the next 2 years without major new conditions.	Positive	Positive	Positive	Positive	Cautious	Cautious
Russia-Ukraine agree on a gas debt deal and a new tariff.	Positive	Positive	Positive	Neutral	Neutral	Cautious
Russia-Ukraine fail to agree on a gas debt deal /new tariff and gas flows are disrupted.	Neutral	Negative	Neutral	Neutral	Negative	Negative
IMF agrees to disperse $7 bln in early May and the EU agrees to add $10 bln over the next 2 years but with significant new condisions.	Neutral	Neutral	Neutral	Positive	Cautious	Negative
IMF agrees to disperse $7 bln in early May but the EU is less clear on its support level or whether there will be onerous conditions.	Negative	Negative	Negative	Neutral	Negative	Negative

Source: Macro-Advsory estimates

The Russia case is just as complicated. For the Russian scenarios there are three investment influencing factors to combine:

a) Ukraine crisis and tougher sanctions risk
b) Trend in the economy
c) Price of oil

Prolonged civil unrest in Ukraine would certainly damage Russia's economy and capital markets. The table below shows some of the possible scenarios and the impact on MICEX, the Ruble and on Sovereign Eurobonds. Here also the worst case scenario is less the risk of actual military involvement but more a case where east Ukraine drifts into some form of extended civil unrest for which Russia is blamed as an instigator by the EU/US. In such a case, i.e. no physical involvement but accusations, there would be damage to investment flows and self-sanctioning would likely increase The bottom line is that prolonged civil unrest in east Ukraine would have a negative impact on the Russian economy and depress investor sentiment for longer.

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Russia Scenarios

Scenarios	Short-term Impact			Longer-term Impact		
	MICEX*	Ruble**	Debt***	MICEX*	Ruble**	Debt***
Escalation of civil unrest in east Ukraine for which Russia is blamed as an instigator.	1,100	36.0	4.7%	1,300	35.5	4.5%
Gas deal is agreed with Ukraine and Kyiv government agrees to devolve greater autonomy to regions. Risk of further sanctions is seen to decline.	1,300	35.1	4.5%	1,500	35.0	4.1%
No gas deal with Ukraine and exports are disrupted. Headlines from east Ukraine stay bad and talks in Geneva deliver little positive newsflow. Sanctions risk remains high.	1,150	35.7	4.8%	1,250	36.1	4.8%
Macro indicators for March/April show a sharp fall-off in activity and point to 0.5% GDP growth. Oil price slips below $100 p/bbl.	1,100	36.0	4.8%	1,250	37.0	5.0%
Macro indicators for March/April show a sharp fall-off in activity and point to 0.5% GDP growth. Oil price stays close to current level of $108 p/bbl.	1,250	35.5	4.3%	1,300	36.0	4.1%
Macro indicators for March/April are less bad, oil holds near current levels and sanctions risk declines as political discusisons make progress.	1,400	34.8	4.2%	1,600	34.5	4.0%
Source: Macro-Advisory Estimates		*MICEX is currently at 1,237*				
		*** Ruble/US$ rate is currently at 35.64*				
		**** Yield on Russia 30 is currently at 4.58%*				

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Top Russia Stock Picks

Note: Details of the assumptions we make and the reasons for including each name in the Top Stock Picks list is available for subscription clients.

Top Stock Picks - Russia 2014						
	Ticker	Mkt Cap*	Free Float	2014 PE (F)	Yield **	Share YTD*
		$ bln	%	X	%	%
Aeroflot	ALFT RX	$1.6	40.4%	4.0	4.5%	-41%
CTC Media	CTCM US	$1.3	35.5%	10.3	6.6%	-33%
E.ON Russia	EONR RX	$4.6	12.1%	11.0	6.0%	0%
Gazprom	OGZD LI	$86.0	40.0%	2.6	5.5%	-11%
Global Ports	GLPR LI	$2.1	20.5%	10.1	8.2%	-24%
LUKoil	LKOD LI	$45.3	50.5%	4.4	5.5%	-14%
Magafon	MFON LI	$16.5	14.8%	11.0	7.0%	-19%
Magnit	MGNT LI	$24.8	54.5%	25.0	1.1%	-21%
Norilsk Nickel	MNOD LI	$28.9	31.1%	11.0	7.0%	10%
Novatek	NVTK LI	$30.7	21.6%	10.0	2.0%	-26%
PhosAgro	PHOR LI	$4.3	10.8%	8.5	2.5%	18%
Surgut Prefs	SNGSP RX				10.0%	-9%
X Five	FIVE LI	$4.6	35.7%	15.5	0.0%	7%
Yandex	YNDX LI	$10.0	69.6%	20.0	0.0%	-36%
Source: Bloomberg Consensus, Company Reports, Macro-Advisory						
* *as at close April 11th*		** *based on last year or consensus*				

We may get better risk clarity this week

Kyiv opened some dialogue with the east last week. Towards the end of last week both the Moscow and Kyiv administrations talked more about compromise with a view to de-escalating the crisis. While the EU and the US still remind Russia of the risk of further sanctions there has also been a noticeable toning-down of previously aggressive rhetoric. The US did add a couple of new names to its sanctions list but this was a symbolic action with no impact beyond those immediately involved.

Several important events this week. This week will be very important as several events are scheduled which should show whether optimism that compromise is now on the table is justified or mis-placed. This is also an important week for investment sentiment in both Ukraine and Russia. The key events to watch this week will include;

- The IMF executive committee meets today to decide on whether to pass a recommendation to the IMF Board to extend financial aid to Ukraine and how much of the indicated $14-$18 billion should be paid in the first tranche. The IMF Board is expected to consider the request in early May so the money may be made available before the May 25th election.

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- The EU is expected to take steps to set-up a special support group to hep Ukraine stabilise its economy. This is a very important move as the IMF loan in isolation is not enough to prevent default and stimulate recovery. The bulk of the additional $10-$13 billion, i.e. of the $27 billion required over the next 24 months, will have to come from the EU.
- President Putin will hold his annual televised Q&A session on Thursday. This event has previously taken place in December but was delayed from last year. The President will undoubtedly take many questions about the Ukraine dispute, the gas issue, and the plans for Crimea.
- Also on Thursday, the first serious meeting between Russia, Ukraine, the EU and US to discuss the crisis is set to be held in Geneva. Russia's Foreign Minister is expected to meet with the US Secretary of State, the EU's Foreign Policy head, and Ukraine's Foreign Minister. No major breakthrough is expected from this meeting. Very likely it will be little more than an opportunity for all sides to restate their respective positions. But the event itself is important and especially if it leads to further meetings at which real progress may be expected.
- Russia's Federal State Statics Service will publish macro statistics for March, starting with the industrial production number on Tuesday or Wednesday and the main body of statistics on Thursday or Friday. This data will cover the period directly after the escalation of the crisis and will show what impact it has had on activity and confidence.

The Easter break in the EU/US is coming up. These events run into the Easter holiday period in Europe and, to a lesser extent, in the US. All US and EU markets and government will be closed on Friday (Good Friday) while Europe also extends those holiday closures to Monday next (April 21st).

Gas dispute update

Options and threats are now on the table. The Russian administration appears to be playing good–cop, bad-cop with the gas issue. Above all else, however, the Kremlin is keen to present the issue as one of an un-paid utility bill and reminding "the west" that such a situation would not be tolerated in their countries. Kyiv is keen to present the issue as political rather than commercial, and it points to the changing tariff as evidence of political interference.

- President Putin wrote to Gazprom's European customers warning of possible gas flow disruption because Kyiv refuses to negotiate over the unpaid utility bill.
- But at the same time President Putin wanted to make it very clear that Russia has no intention of switching off gas flows.
- Russia cut the gas tariff to approx. $286 p/1'000 cm for the 1st quarter as part of the December deal. The price was initially raised to the EU average of $380 p/1'000 cm on April 1st before being hiked back the pre-December level of $486 p/1'000 cm after Ukraine refused to pay the outstanding debt.
- The Kyiv administration has said that it will not pay the higher price and is refusing to negotiate the payment of the $2.2 billion debt. The Finance Minister has said that the debt is not a priority and none of the $7 billion 1st tranche IMF money will be used to pay this debt.

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So, what's the end-game here? The obvious conclusions are:

- Russia wants to make sure that the IMF and EU recognise the $2.2 bln is valid and needs to be paid (or negotiated at least) because partly it is a legitimate utility bill and also so as to avoid any potential negative consequences for gas flows to European customers
- Russia wants EU pressure to be brought to bear on Kyiv so as to agree a new payment arrangement with Gazprom (either pay on a timely manner or pay in advance)

A deal – eventually - is more likely than not. Most likely Russia will agree to set the new tariff at the EU average rate of $380 p/1'000 cm. The higher tariff is thought to be a negotiating tactic as are the letters to Gazprom's customers. Settling the outstanding gas debt will be very positive for Gazprom's shares as will be any solution to bring this constant battle over tariff and debt to an end.

Risks remain high but miners say no to separation

The government reached out to the east. Apart from the escalation in violence over the weekend and the events listed for this week (above) the other reason for some optimism was the offer of compromise between Kyiv and the unsettled east of the country. Prime Minister Yatseniuk met with regional officials in Donetsk on Friday and offered some measure of autonomy for the region. Here also this is just the start of the process aimed at restoring regional stability and national unity. There is clearly still some way to go before that assumption can be made.

Situation remains changeable and dangerous. But even after that first contact was made in Donetsk, the news from cities in the region continued to worsen over the weekend. Reports of well-organized, armed, paramilitary-style groups taking over government buildings and pushing demands for an independence referendum (along with the efforts by the Ukrainian security forces to retake the buildings) will keep investors nervous and keep the threat level very high. Even as the politicians are talking such actions on the ground may easily escalate and force events in a dangerous direction for all sides.

Donbass miners do not want to join Russia. One very important news item was reported by the *Rusmininfo news service* late last week. It cited a Russian language news item, carried by RBC-Ukraine, which said that the Donbass miners' union does not support the actions of the pro-Russian activists. It cited comments by Mykhailo Volynets, the Chairman of the Independent Trade Union of Ukraine Miners concerning the so-called "Action Plan" circulated in the media.

Rejected the protestors demand for support. In particular, he referred to the activists call for miners' agitation and strikes in the mines and is quoted as saying: "The miners will not support the separatists and for good reason. They are well informed about the fact that last year investment in the Russian coal industry decreased by 40%. Besides, everyone knows that there are mined coal seams on thick layers, and more than 60% of the volume, in quarries, by the open cast way. At these mines costs are $10 per ton. Donbass miners know that, for example, all the mines in the Rostov region were closed, except for three objects that belong to the Ukrainian businessman Rinat Akhmetov, and supply coal to the Ukrainian consumer."

In addition, he also stated that Russia had no subsidies from the budget for the coal industry, accordingly it will not subsidize the Ukrainian mines. “And that means that they will be closed immediately. People would be left without salaries and work. At the moment mines in Ukraine are not closed, and the salary is paid to the miners. Miners have no reasons to worry, and they are not interested in the separatist ideas".

Ukraine economy update

- The Ukraine National Bank reported a drop of $380 million in gross international reserves to $15.1 billion as at end March. Through the quarter reserves declined $5.3 bln (-26%) and was mainly due to the currency weakness.

- Inflation rose 2.2% MoM in March and that brought the YoY rate up to 3.4%. Inflation is expected to pick up strongly this year due to the currency weakness and price rises as a result of the IMF loan terms, e.g. the 50% gas tariff increase from May 1st.

- Ukraine's budget deficit reached UAH 5.4 bln for the first two months of the year according to the Finance Ministry. Budget revenue collection was down 4% YoY.

Ukraine - Macro Trends						
	2007	**2009**	**2011**	**2012**	**2013**	**2014 (F)**
GDP, Real growth	7.9%	-14.8%	5.2%	0.2%	-0.3%	-3.5%
Inflation	16.6%	12.3%	4.6%	0.0%	0.5%	8.0%
Unemployment Rate	6.4%	8.8%	7.9%	8.0%	8.0%	8.5%
Budget Execution, %.GDP	-1.1%	-8.7%	-4.2%	-3.6%	-4.5%	-8.0%
Current Account, % GDP	-4.2%	-1.5%	-6.1%	-8.2%	-9.0%	-15.0%
Source: State Statistics Agency, National Bank, Macro-Advisory estimates						

- Ukraine’s current account deficit improved dramatically last month but only because of a collapse in imports due to the crisis. The deficit was $121 million compared to a deficit of $1.47 billion in the same period of last year. Lower gas prices, as a result of the discounted deal from Russia through Qtr 1, cut the cost of imported energy by almost 40%.

- Capital outflow totalled $2.1 billion compared to an inflow of $2.8 billion for February 2013.

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Russia economy update

Please refer our Macro Monthly report for an update on the Russian economic indicators and our analysis of the trends.

Russia - Macro Trends						
	2007	**2009**	**2011**	**2012**	**2013**	**2014 (F)**
GDP, Real growth	8.5%	-7.8%	4.3%	3.4%	1.3%	1.0%
Inflation	11.9%	8.8%	6.1%	6.6%	6.5%	6.2%
Unemployment Rate	6.5%	8.4%	6.6%	5.7%	5.6%	5.3%
Budget Execution, %.GDP	5.4%	-5.9%	0.8%	0.0%	-0.5%	0.1%
Current Account, % GDP	5.9%	4.0%	5.1%	3.7%	1.6%	1.5%
Source: State Statistics Agency, Central Bank, Macro-Advisory estimates						

Ukraine capital markets

The enthusiasm generated by the IMF deal on the bond market is fading a little. Yields on both the Sovereign benchmark issues and on corporate debt have started to drift out from the end March levels as investors start to worry about the length of time it is taking to get the financing in place, and about further damage to the economy and budget from continuing political uncertainties, the unresolved gas dispute with Russia, as well as the delay in advancing the bailout.

Investors are also now starting to worry about the balance of the funds, i.e. the money to be subscribed by the EU and others to bring the IMF loan to $27 billion. Is that commitment really there and, even if it so, is the total promised enough to prevent a debt restructuring over the next 24 months? The risk of a restructuring is high as the EU may yet baulk at wring a $10 billion cheque with sharing the pain with bond holders. This is what happened in Greece and with Cypriot bank depositors.

Ukraine: Benchmark Yields, Currency and UX Index						
	April 11	**Mar 31**	**Mar 14**	**Feb 21**	**Jan 31**	**Jan 1**
Sovereign Debt Yields						
Ukraine 15, 6.875	11.09	10.7%	17.9%	17.3%	14.3%	8.4%
Ukraine 21, 7.95	9.72	9.1%	11.6%	11.5%	10.8%	9.3%
Corporate Debt Yieds						
Naftogaz Ukraine 14, 9.5	26.00	22.9%	35.1%	31.5%	17.6%	9.9%
Ukreximbank 15, 8.375	23.20	18.5%	20.0%	27.9%	16.4%	11.6%
Metinvest 18, 8.75	11.93	11.7%	12.9%	13.4%	11.2%	10.3%
Hryvnia-US$	12.71	11.01	9.70	9.25	8.62	8.24
UX Equity Index	1163.54	993.4	1003.6	910	889.5	910.0
Source: Bloomberg						

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The Hryvnia fell to a low of 13.45 mid-session on Friday before finishing at 12.71. When the Central Bank started to let the peg of 8.0 to the US dollar slip as the protests started last December we thought an appropriate level should be 12.0 to the dollar. It is a tough call right now to say whether Friday's level is an overshoot. Everything depends on the size, time and effectiveness of the external financial aid. Finance Minister, Oleksandr Shlapak, said on Friday that he is confident the government's forecast of Hryvnia-dollar 10.5 (average) for this year is still realistic. That really sounds like a best case scenario at this stage and that is the least likely outcome as the economy continues to deteriorate and because of the signs of funding dithering.

The Hryvnia is likely to rally from this level when the funding is confirmed in the coming days. But that rally is equally likely to be short-lived as economic problems prove tough to resolve. For now we stick with our forecast of 12.0 but the risks are more towards further weakness than a strong rally.

Russia capital markets

Russia retail funds, including ETFs, reported an inflow for the third consecutive week. The total for the week ended last Wednesday was $164 mln or 1.8% of AUM. ETFs acquired $168 million of new money as short-term and speculative investors are playing the cheap valuations and the political news. The big money EM funds are staying away for now.

Russia: Benchmark Yields, Currency and MICEX Index

	April 11th	Mar 31st	Mar 14th	Feb 28th	Jan 31st	Dec 31st '13
UST - 10 Yr Yield	2.65%	2.70%	2.72%	2.65%	2.71%	2.99%
Russia - Eurobond '28	**5.88%**	6.14%	6.30%	5.61%	5.66%	5.65%
Russia - Eurobond '30	**4.58%**	4.81%	5.00%	4.21%	4.29%	4.13%
OFZ - 10y	**8.79%**	9.09%	9.39%	8.30%	8.28%	7.67%
Rub-US$	**35.645**	35.76	36.63	35.88	35.18	32.85
MICEX Index	**1362.4**	1344.12	1237.43	1444.71	1455.20	1503.39
Source: Bloomberg						

The comment by First Deputy Prime Minister Shuvalov that Russian companies should consider delisting from foreign exchanges and switch to the Moscow Exchange caused some concerns last week. We don't see this as a major threat and do not believe that the government will legislate for such a move.

Here's the background:

The government is trying to force companies to register onshore so as to pay Russian taxes on profits earned in Russia. This is a measure first muted last year and is in keeping with the international trend to reduce tax avoidance. This is a serious effort and all Russian companies are likely to have to comply or risk negative consequences.

The government is keen for all Russian companies to have a local MICEX listing but this can be a dual listing, including in the format of RDRs, rather than forcing companies to delist from international bourses.

A local Russia only listing is impossible right now because of the small domestic investor base. There are plans to expand the domestic investor base via the opening-up of the pension management system and a new regulatory environment so as to allow insurance and pension money to have greater equity exposure. This is many years away from being completed.

Euroclear and Clearstream are scheduled to gain access to the local equity market settlement system on July 1st but this will not happen due to multiple technical considerations which need to be resolved. A more realistic target date is January 1st 2015.

Foreign investors own two-thirds of the equity market free-float via DRs. Foreign investors own approximately 25% of the local ruble debt market.

MSCI is unlikely to add any of the companies which decide to dual-list on MICEX into the MSCI Russia Index unless at least 25% of the trade in the shares actually takes place on the MICEX bourse. That is unlikely for all companies currently excluded from MSCI Russia Index. MSCI may be persuaded to lower the volume condition but this also is a long way off.

Ukraine election update

The outcome of the May 25th presidential election is becoming a lot clearer as the latest opinion poll shows. Unless there is a dramatic change in events over the coming weeks it is most likely that Petro Poroshenko will be elected in the first round of voting on May 25th. The withdrawal of Vitaly Klitschko has boosted Poroshenko's position while the number of undecided voters is now shrinking as the polling date gets closer.

The only possible challenger, i.e. to force a second round of voting but with still no hope of victory, is Yuia Tymoshenko. It is assumed that she is sticking with the race in order to re-formalize her position in national politics and, possibly, to place her as a candidate for prime minister after the Rada elections. No specific date for the Rada elections has yet been agreed.

The presidential election may yet be contentious and fractious in the east, especially as the IMF demanded austerity starts to bite with the 50% rise in domestic gas tariffs from May 1st. But, given that Poroshenko has such a commanding lead and there is no credible candidate from Yanakovich's party, the election should be relatively peaceful.

The same will not be the case during the Rada elections. It is during this campaign that the extent of the divisions in the country will really be seen. The new president will want time to repair national unity before taking the risk of the Rada elections.

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May 25th Presidential Election - Opinion Poll			
Candidate	**Affiliation**	**Expected Vote**	
		Mar-19	**Apr-02**
Petro Poroshenko	UDAR	24.9%	42.3%
Vitaly Klitschko	UDAR	8.9%	
Yulia Tymoshenko	Fatherland	8.2%	19.1%
Serhiy Tihipko	Party of Regions	7.3%	8.8%
Mikhail Dobkin	Party of Regions	4.2%	5.2%
Petro Symonenko	Communists	3.6%	4.6%
Oleh Lyashko	Radical Party	3.5%	
Anatoly Hrytsenko	Civil Position	3.2%	
Oleh Tyaknybok	Svoboda	1.7%	2.3%
Dmytro Yarosh	Right Sector	0.9%	
Don't Know/Others		33.6%	17.7%
Source: RATINGS, Razumkov Centre			

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