

GLOBAL ECONOMIC TRENDS AND IMPACT ON RUSSIA

**VII CBONDS EMERGING MARKETS BOND CONFERENCE
20 APRIL 2018**

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MAIN THEMES

The Global Economy

Consensus view for 2018 is broad-based synchronised recovery but Asia accounts for two-thirds of global growth

Real global GDP expands 3.9% this year and next

EM economies expanding together for 1st time since 2011

Russian GDP growth 1.5% in 2017...2.2% this year...oil price in RUB terms at highs

World trade volumes rose 4.7% in 2017 ...strongest since 2011...but approximately the average since 1990...WTO expects trade growth of 4.4% in 2018

US fiscal expansion pushes US GDP growth up above 3% this year...

...but at the expense of trillion dollar US budget deficits and increase in US federal debt-GDP to above 100% over the next decade

Global debt at record highs...USD237bn....318% of global GDP. China debt-GDP ratio at 217% vs 171% in 2008.

Inflation in the major economies is creeping upwards from low levels since start of 2018

Oil price at elevated levels compared to 12 months ago

FINANCIAL MARKETS

Main Themes

“Bubble Finance”...the role of ultra-easy central bank policies in the major economies

...inflated financial asset prices...historic valuation extremes in US equities

...compressed bond yields ...

...but QE transitioning to QT...global liquidity fades...and low volatility ends

Fed envisages 3x25bp rate hikes this year and balance sheet roll-off reaching annualized USD600bn by October

ECB and BoJ face challenges

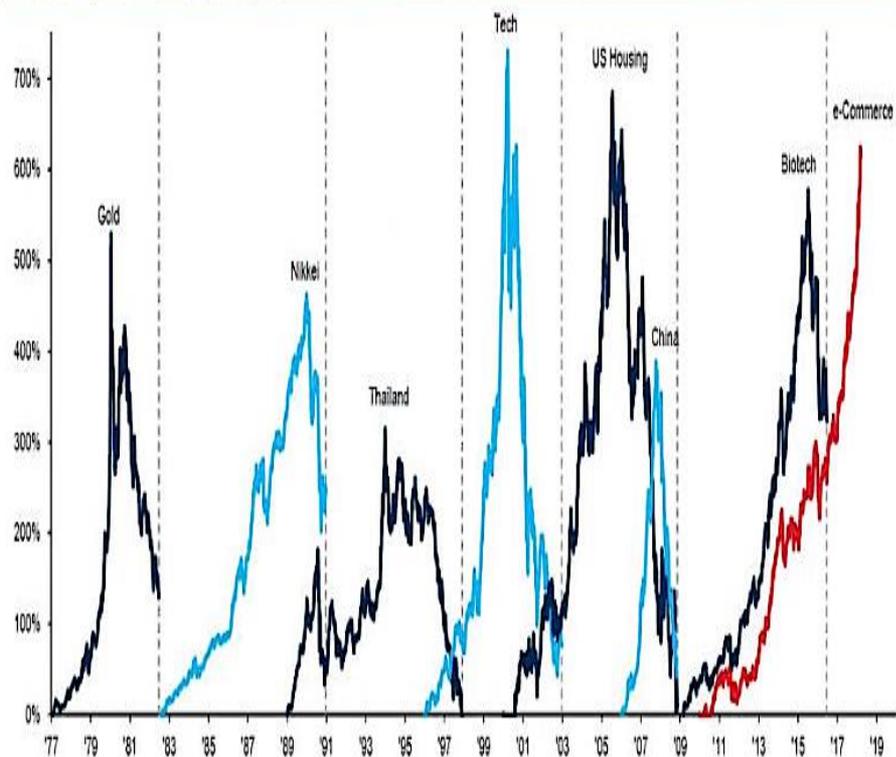
Russia key rate 6.75% end-2018, inflation down to 4.5% then 4.0% end-2019...USDRUB 63...Urals oil price 57... 1.0% budget surplus-GDP...Russian equity valuations attractive and RUB oversold

Equilibrium fx rates: EURUSD1.20, USDJPY 100, USDCNY 6.25 and GBPUSD1.35

Source: Peterson Institute for International Economics as at November 2017

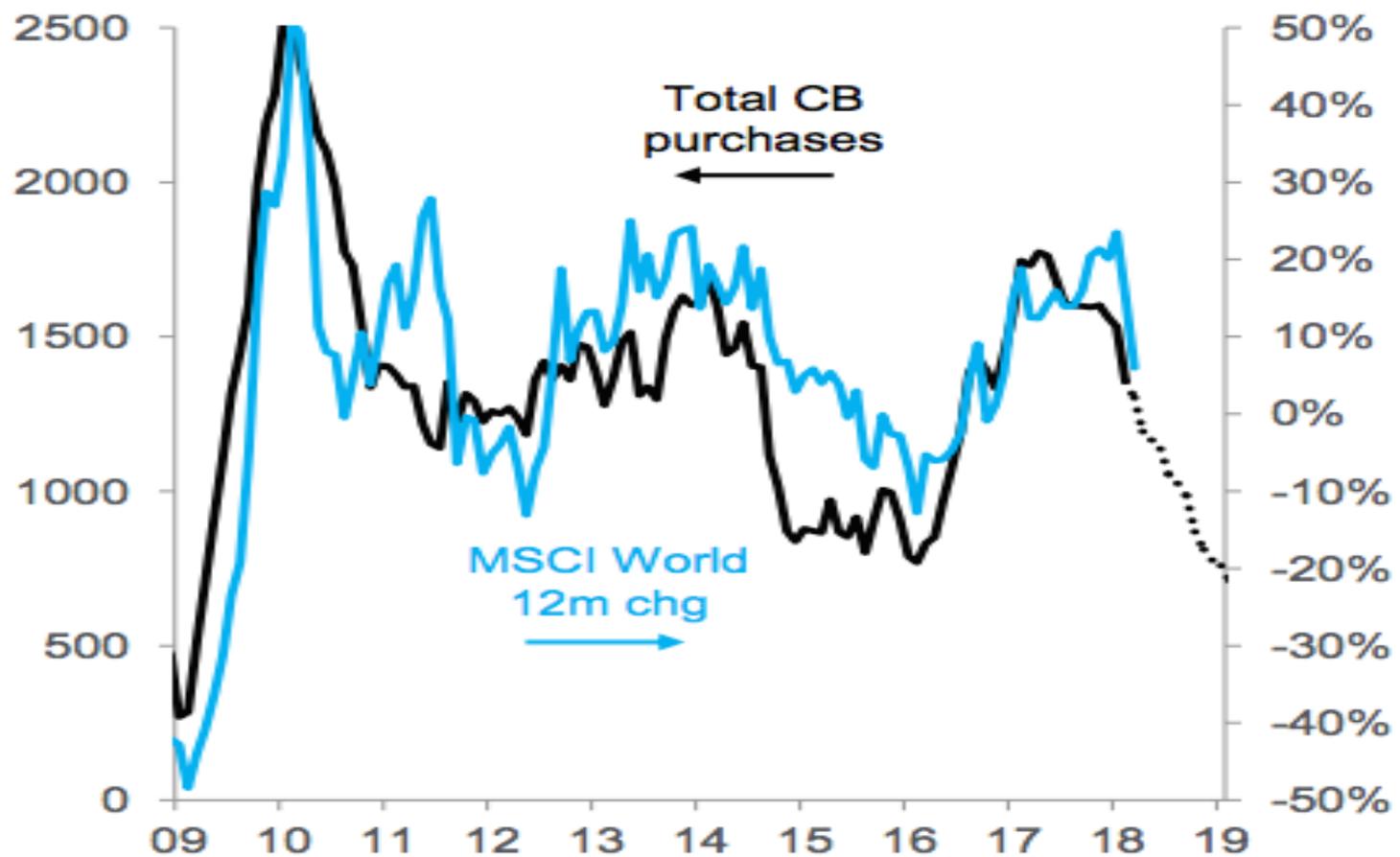
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Chart 11: Asset price bubbles of the past 40 years



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg; Note: Gold (VAU Currency), Japanese Equities (NYI Index), Thai Equities (SET Index), Tech (NDX Index)

12 global central bank securities purchases (\$bn) vs MSCI World

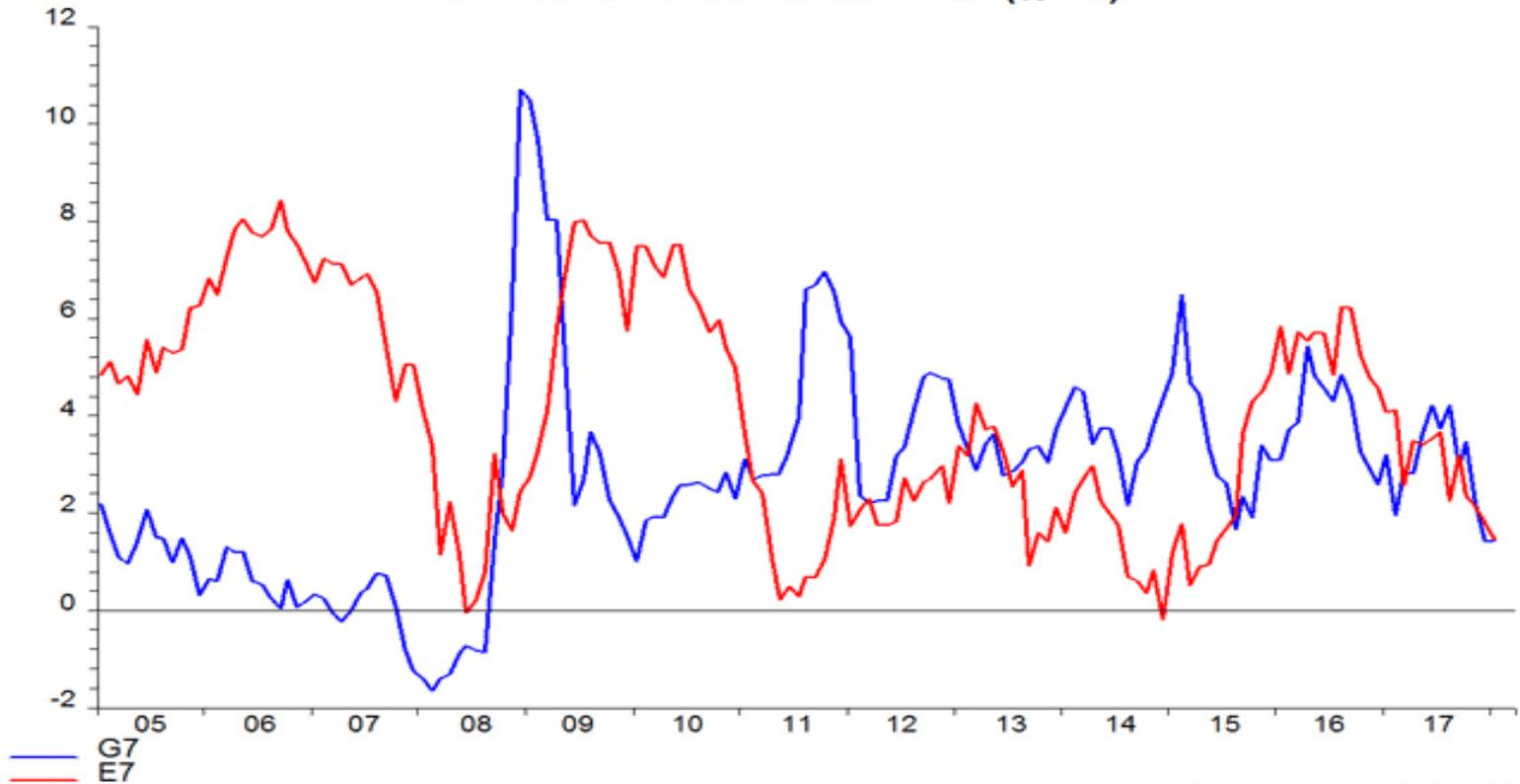


Source: Citi Research, national central banks.

MONETARY TRENDS

Money supply growth slows

G7 & E7 REAL NARROW MONEY (% 6M)



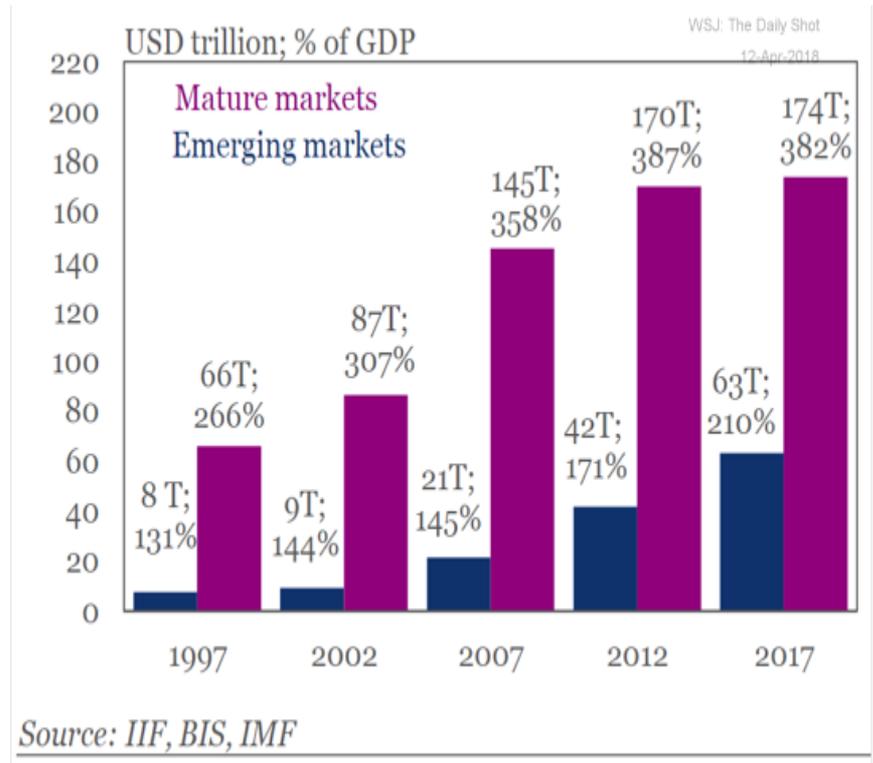
Source: Thomson Reuters Datastream

ECONOMIC RISKS

War games

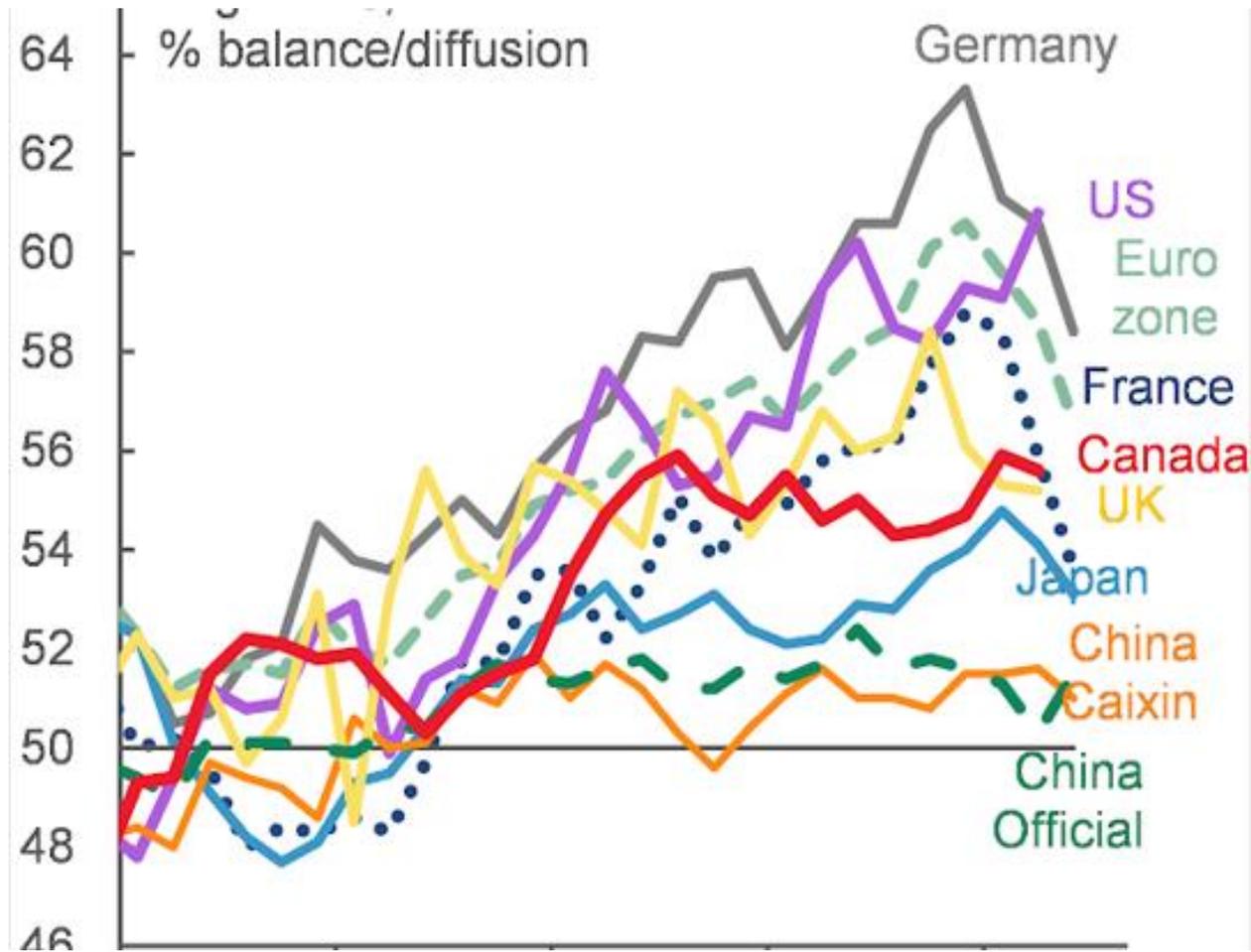
- Global trade war...US-China dispute
- Currency wars
- Geo-political risks...Syria, sanctions on Russia
- “Trump Tweets”...unpredictability and dysfunctionality
- America’s “twin deficits”....weak US dollar...the 7-year itch... “our currency, your problem”
- Global PMI data shows economic growth at 16-month low
- Recession risks ? Debt overhang ... chart>>
- German economy slowing...string of poor data recently
- Eurozone ...peak integration...Italian uncertainty
- Brexit...UK economy has not collapsed ! No bank has moved to Frankfurt or Paris !

Source: Wall Street Journal



THE BEST IT GETS?

Monthly PMI's peak

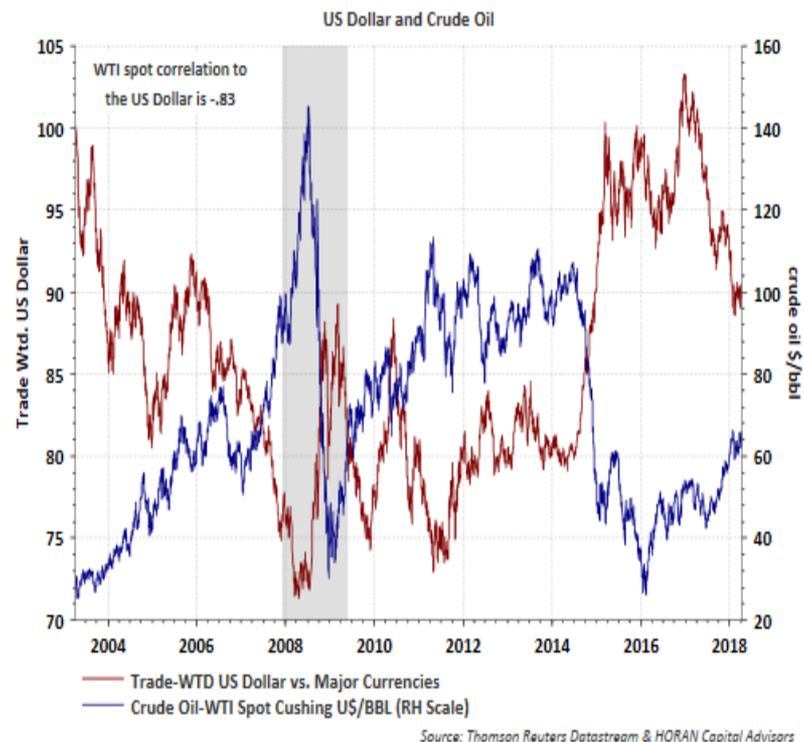


Source: PMI

MARKET RISKS

Volatility increases

- YTD global returns: commodities 5.2%, government bonds 2.7%, HY bonds 0.5%, cash 0.4%, equities 0.0%, USD minus 2.8%
- Upward trend in major equity markets faltering...200 day moving averages being tested
- Watch risk-off proxies such as AUDJPY exchange rate, gold, HY credit
- US 10 year Treasury yield 3.0%+ ...or move lower pointing to recession risk and low inflation even with oil at USD80?
- Fed policy...question-mark over longer term interest rate trajectory
- “Plaza2” dollar shock? Liquidity risk as EM FX pegs like HKD crack despite intervention
- Politics: US mid-term Congressionals in November
- Russia: sanctions risk near term caution but fundamentals improving



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THANK YOU!