

## AB-ICI August: Falling to May's Level

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### Investment Summary

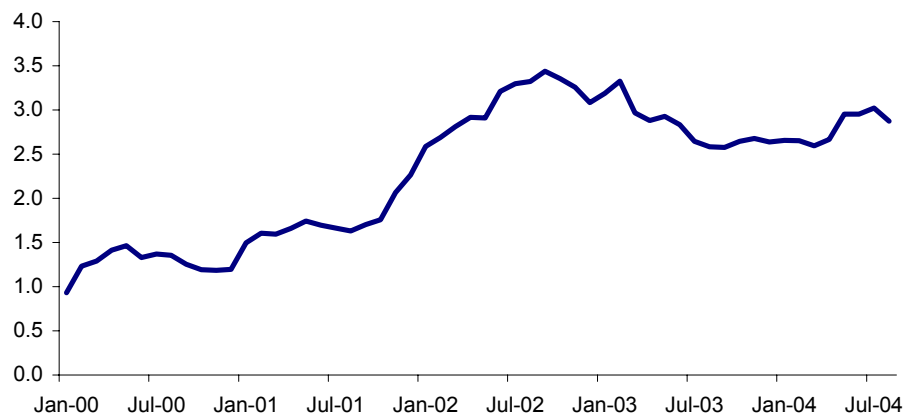
- AB-ICI dropped 5% in August, approaching May's level; reflects unresolved liquidity problem
- Foreign interest will support the Index, i.e. deals are expected involving Total and Conoco
- But poor liquidity could weigh on financial markets and slow recovery in the banking sector

*AB-ICI declined 5% in August, reflecting the consequences of the banking crisis*

### AB-ICI down 5% in August, as expected

As expected, Alfa Bank's Investor Confidence Index (AB-ICI) declined 5% in August, reflecting the consequences of the banking crisis and a decline on Russia's financial markets. The fall in all three Index components – economic, market and foreign confidence – has pushed the AB-ICI back to the level of last May.

**Figure 1. Alfa Bank Investor Confidence Index: Down 5% on lack of good news**



Sources: New School of Economics, Alfa Bank

*Decline in AB-ICI was delayed due to good FDI figures in July*

The AB-ICI was expected to decline after the July banking crisis, but this did not take place thanks to good FDI numbers published that month. Recently, no good fundamental news has appeared to support the Index performance.

*Withdrawal of \$400 mln in retail deposits from the banking sector weighed on the Index*

The AB-ICI suffered from an increase in capital outflows and a decline in savings. CBR reserves increased just \$92 mln in August despite booming oil prices, which reflects the mounting capital outflow. As for the savings rate, the \$400 mln decline in retail deposits alongside an increase in disposable income explains the lower economic index. Clients redistributing in favor of foreign and state banks is also worrying news.

**Figure 2. Retail Deposit Inflows to Top Banks**

Bank	Deposit inflow in July, \$ mln	Monthly change, %	Deposits as of August 1, \$ mln
Sberbank	289	0.8	37 515
Bank of Moscow	-113	-7.2	1 460
VTB	117	9.7	1 330
Alfa Bank	-14	-1.3	1 079
Gazprombank	17	1.7	935
Rosbank	-27	-4.5	605
Raiffeisen	45	9.3	543

Sources: Vedomosti, CBR



**SMEs likely to cut their exposure to corporate bonds, thereby weighing on the Index**

The main pressure on the market component of the Index came from the decline in the market share of small and mid-sized enterprises (SMEs) on the corporate bond market. We believe that most SMEs with redemptions planned over the next few months will be unable to refinance their bonds on the market and will reduce their exposure, thereby negatively affecting the Index.

**Figure 3. Corporate Bond Redemptions in August 2004-March 2005, R mln**

	Corporate bonds for redemption
August-04	4 675
September-04	10 663
October-04	5 630
November-04	9 600
December-04	5 400
January-05	3 100
February-05	11 500
March-05	17 356

Source: Alfa Bank

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