

# AB-ICI November: Stable on Lack of Capital Flight

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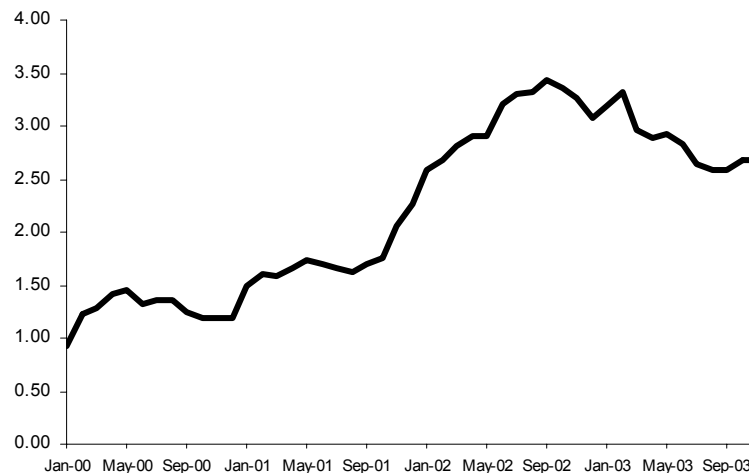
## Investment Summary

- AB-ICI remained flat in November as a huge return of capital offset the decline on the RTS
- Oil stocks under-performed on tax fears, but Trans-Siberian Gold's IPO compensated
- Money from offshore is returning to redeem tax obligations, thereby boosting CBR reserves

### **AB-ICI remained flat in November**

Alfa Bank's Investor Confidence Index remained virtually flat in November compared to October. While the equity market remained weak on Yukos' alleged tax arrears and the failure of its merger with Sibneft, the continuing capital inflow helped keep the Index unchanged.

**Figure 1. AB-ICI remained flat in November**



### **Concern about Yukos spread to the oil sector: oils recovered 9% vs. 13% growth of the RTS Index since November**

However, the stability of the Index belies interesting structural changes that are taking place. First, concern about the events surrounding Yukos in November was reinforced by rumors of \$5 bln in alleged tax arrears and the failure of the merger with Sibneft. Even worse, worries about Yukos soon spread throughout the oil sector. An expected increase in sector taxation from 2005 is making oil stocks much less attractive despite high crude prices. From the beginning of November prices for oil majors have recovered by only 9% whereas the RTS Index has risen 13%.

### **Trans-Siberian Gold's IPO was an important positive factor**

Second, the IPO of Trans-Siberian Gold in November was very good news for the AB-ICI. This was just the sixth IPO in Russia since the beginning of 2000, and despite the company's modest market capitalization of \$73 mln it represents an important step for the market.

### **Increase in CBR reserves was due to capital repatriation to pay taxes**

In November CBR reserves increased by \$3.2 bln, the highest level since May 2003. This confirms our view that the events surrounding Yukos have not provoked capital flight. Rather, the opposite seems to be the case: there are several indications that Russian companies have instead increased their fiscal contributions in order to bring their accounts into line and reduce the risk of possible investigations by the authorities. We expect this trend to continue in 1Q03, which in turn would support the AB-ICI.

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