

# MNB Commodity Price Monitor

## Russian Commodity Price Index increases almost 5% in October

The MNB Commodity Price Index continued to gain momentum and increased by almost 5% over the past month to reach 102.6 in October (January 2001=100), the highest level since February 2003 and subsequently moved above its 3-month moving average. While positive gains were registered across all components, the impetus for this month's growth surge was primarily influenced by the strong performance in the energy and metals & minerals indexes. Indeed, Urals crude oil prices reached a 7-month high of around US\$30.2 pb in mid-October as concerns regarding further cuts in OPEC's production quotas offset the impact of rising US product inventories. At the same time, better-than-expected global manufacturing data and heightened buying activity from Chinese markets provided a boost for base metal prices. Such external developments continue to highlight the favourable conditions inherent in Russia's commodity driven export sector, and thus serve to underpin the country's extremely solid external liquidity position.

The MNB Commodity Price Monitor is a monthly publication, researched and published by MNB Research and represents a comprehensive indicator of the current price developments on world commodity markets that are of considerable importance to the Russian economy.

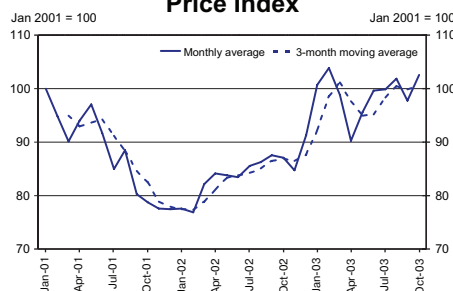
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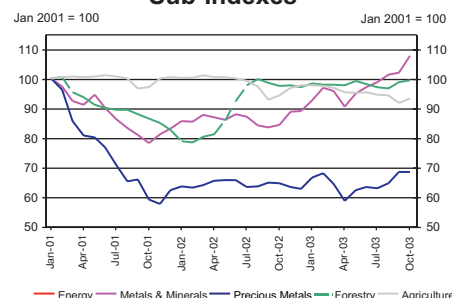
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### MNB Russian Commodity Price Index



### MNB Russian Commodity Price Sub-Indexes



### MNB Commodity Price Indexes

11-Nov-03

#### Growth Trends (% change)

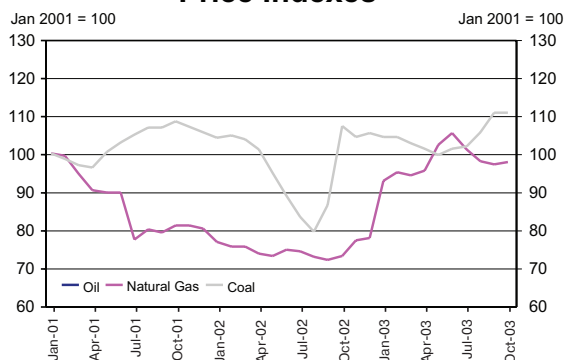
	Weights	One Month	Three Months	Six Months	One Year
All Commodity Price Index	100	4.9	2.6	7.2	19.7
Industrials					
Energy	71.55	5.4	0.9	6.3	20.1
Metals and Minerals	15.31	5.6	9.0	13.3	30.4
Precious Metals	7.78	0.1	8.7	9.7	6.7
Forestry Products	5.03	0.6	2.4	0.3	2.3
Agriculture	0.33	1.6	-1.3	-2.1	-1.3

#### Index Jan 2001 = 100

	October	September	August	July	June
All Commodity Price Index	102.6	97.8	102.0	100.0	99.7
Industrials					
Energy	105.6	100.2	106.7	104.7	104.4
Base Metals and Minerals	107.6	101.7	101.3	98.7	97.1
Precious Metals	68.4	68.3	64.6	62.9	63.4
Forestry Products	99.4	98.8	96.6	97.1	98.1
Agriculture	93.2	91.7	94.3	94.4	95.2

## Energy Index

### MNB Russian Energy Price Indexes



The MNB energy price index rose markedly over the past month, up 5.4% m-o-m to reach 105.6 in October, reflecting the sharp increase in average Urals crude oil prices and a modest strengthening in natural gas prices. Indeed, the natural gas component rose almost 1% over the previous month, as Russian gas export prices at Waidhaus delivery point traded at around US\$3.94 MMBtu in mid-October, compared to US\$2.94 MMBtu a year earlier. Given the seasonal demand factors and the lagged impact of fuel oil prices used in the pricing mechanism of European markets, the natural gas price component is expected to edge higher over the coming months. At the same time, latest data from the Ministry of Energy indicate that Russia's total gas output increased 4.4% y-o-y over the January to October period to reach 507.2 billion cubic metres, of which around 87% was attributable to Gazprom.

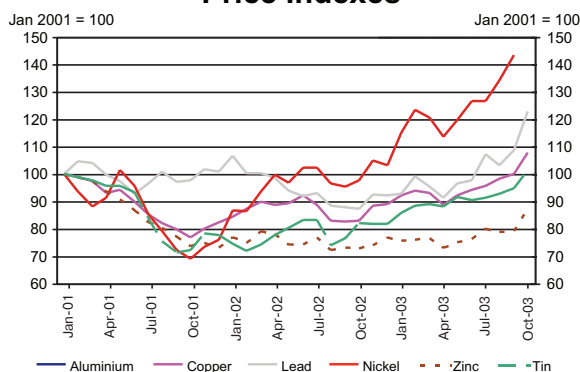
With regards to the oil price component, Russian crude oil prices continue to benefit from OPEC's successful supply

management and despite Urals crude oil prices easing from over US\$30 pb mid-month to around US\$26 by end-month, the average monthly price for October still remains 10% higher than the previous month. As mentioned previously, when observing the price path of crude oil in recent years it appears that in the absence of severe geopolitical risks, there remains some form of price resistance at over US\$30 pb, clearly evident in October's data, and the focus then shifts towards the downside risk factors. While Russian producers and subsequently the authorities continue to benefit from the current price environment concerns remain to such downside factors, in particular to the sustainability of the strength in crude oil prices and the medium term implications for the wider global economy. Indeed, only last week the Russian Energy Ministry openly urged OPEC members to boost output and thus engineer a gradual easing in prices to levels between US\$20-25 pb, a range that is deemed justified by Russian standards. In contrast, the futures market currently indicates a slightly higher crude oil price by year-end.

Notwithstanding the uncertainty surrounding OPEC's underlying production stance, Russia continues to raise its production levels and according to latest data released by the Ministry of Energy, total output in October reached another Russian Federation high of 8.79 mb/d, compared to 8.73 mb/d in September. In contrast, exports via the state monopoly Transneft (including oil transit from Kazakhstan and Azerbaijan) fell 2.5% over the month to reach 3.42 mb/d, albeit hampered by adverse weather conditions in the Black Sea region.

## Metals and Minerals Price Indexes

### MNB Russian Metals Price Indexes

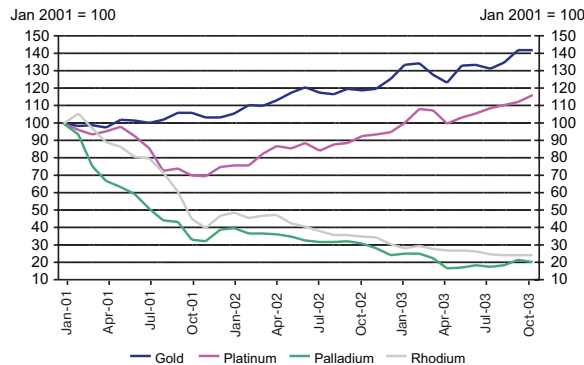


The metal & minerals index increased markedly in October, up 5.6% m-o-m to reach a survey high of 107.6, and registered the sixth consecutive month of positive gains. Indeed, the better-than-expected global manufacturing data,

particularly in the US, has provided a further boost to base metals prices and contributed to strong gains across all sub-index components. Such optimism regarding future demand was reflected in copper prices rising by almost 8% over the month to reach over US\$2,050 per tonne by end-October, the highest level since October 1997. At the same time, the aluminium price component reached its highest level since May 2001 and survey highs were also registered in both lead and tin price components. Nickel prices increased from US\$10,125 per tonne in early October to finish the month at around US\$11,945 per tonne, supported by tight supply fundamentals and extremely strong Chinese demand. While such advances remain encouraging, over the near term further evidence regarding the global recovery will be required to support current price levels and as such, some form of downside risk or sell-off remains.

## Precious Metals Index

### MNB Russian Precious Metals Price Indexes

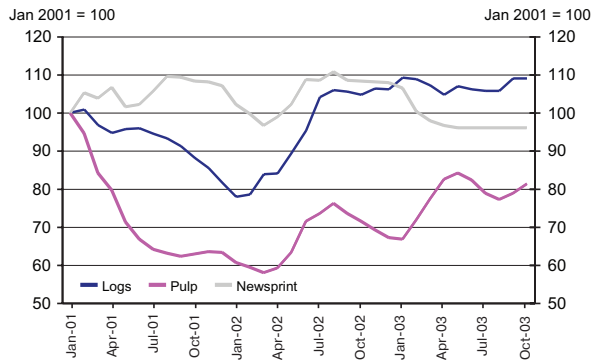


The precious metals index remained almost stagnant during October at around 68.4, as the gains in the platinum price component were offset by lower palladium prices and a flat

performance in the gold price component. Surprisingly, platinum prices continue to extend the impressive performance, rising for the seventh consecutive month, influenced by both strong industrial demand and speculative interest as a perceived asset class. At present platinum trades at around US\$750 per oz, a 23-year high, and thus represents a substantial premium to its sister metal, palladium. Indeed, the anticipated recovery in palladium has failed to materialise and the price component retreated by around 5% over the past month as prices fell from US\$220 per oz in September to under US\$200 per oz in mid-October. With regards to the gold price component, its performance continues to reflect movements in the USD and the perceived attractiveness of its non-interest bearing asset status. In general, this trend is likely to continue over the near term and thus further price advances for the precious metals price index appear limited.

## Forestry Products Index

### MNB Russian Forestry Products Price Indexes



The forestry products index consolidated its recent advance and edged higher in October, rising 0.6% m-o-m to reach a preliminary 99.4, its highest level since August 2002. With both the log and newsprint price components remaining stagnant over the month, the support for this month's rise was primarily influenced by the 3% m-o-m increase in pulp prices. Following the recent price hikes across European markets lower inventories were cited as the reason for the latest improvement in pulp prices. Despite the relatively subdued performance of the overall forestry products index throughout the past six months, up only 0.3%, the better-than-expected global manufacturing data is likely to provide a much needed boost to market conditions and a further strengthening is likely.

## Agriculture Index

### MNB Russian Agriculture Price Indexes



The agricultural index reversed three consecutive months of declines and posted a 1.6% m-o-m gain, as all sub-index components registered positive growth. The strongest gains were recorded in the barley price component, up 3.8% over the month, and the rye price component, up 2.4%. Still, on an annual basis the overall index still remains around 1.3% lower than levels reached a year earlier. As highlighted previously, there appears to be a seasonal price rise in the overall agricultural index during the final quarter of the year and this certainty appears evident in the latest monthly data. Moreover, concerns regarding a potential shortfall in the domestic market and the increasing need to import grain to satisfy demand are factors that are likely to contribute to further upside pressures and a firming in the overall index is expected over the near term.

## Technical Notes

The MNB Commodity Price Index is a fixed weight, export based index that encompasses the price movements of 22 commodities key to Russian exports. Weights are each commodity's average share of export values during the period 1996-2001. Similarly, weights of sub-index components reflect the relative importance within their respective product group. Unless otherwise specified, all indexes reported in this publication are compiled by Moscow Narodny Bank.

### MNB Commodity Price Indexes

The all Commodities index and sub-indexes consist of the following:

	Weight in all-commodities Index (%)	Weight in sub-commodities Index (%)		Weight in all-commodities Index (%)	Weight in sub-commodities Index (%)
<b>Energy</b>	<b>71.5</b>	<b>100.0</b>	<b>Precious Metals</b>	<b>7.8</b>	<b>100.0</b>
Oil	36.2	50.5	Gold	2.2	27.7
Gas	33.3	46.7	Platinum	1.0	15.1
Coal	2.0	2.8	Palladium	4.2	53.3
			Rhodium	0.3	3.9
<b>Metals</b>	<b>15.3</b>	<b>100.0</b>	<b>Forestry Products</b>	<b>5.0</b>	<b>100.0</b>
Aluminium	8.3	54.4	Logs	2.6	53.7
Copper	2.1	13.6	Pulp	1.3	24.4
Lead	0.0	0.1	Newsprint	1.1	21.9
Nickel	2.6	16.2			
Zinc	0.3	1.8	<b>Agriculture</b>	<b>0.3</b>	<b>100.0</b>
Tin	0.1	0.4	Wheat	0.2	62.9
Iron	0.6	4.2	Rye	0.0	1.1
Nitrogen	1.3	9.2	Barley	0.1	36.1
Phosphate	0.0	0.0			

Source: Weights were calculated using the following data sources, Goskomstat, State Customs Committee, Johnson Matthey, Gold Fields Mineral Services Ltd.

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