

Russian Markets - Daily

January 28, 2011

RUB is volatile	USD/RUB	29.66	▼
Market waits for CBR move	EUR/RUB	40.65	▲
Liquidity is stabilizing	RUB basket	34.61	▲

Hot News

- Retail sales in Russia rose in December by 3.4% y/y (consensus: 4.2%), while the fixed capital investments expanded 10.1% y/y (consensus: 7.5%)
- President Medvedev said that he will decide this year whether to participate in the presidential elections next year. "I will see how things develop" - he said to Bloomberg in an interview - "if I think this would be good for the country, for the political system and our citizens, I will be participating."
- CBR governor Ulyukayev said that high inflation risk will remain a concern for the coming few months. According to him, to reach their official target of 6-7% this year will be extremely difficult.
- Uyukayev also noted that there is a big chance of large capital inflows to the country this year, which concerns him. "...It is tens of billions, 50-60-70 bn USD", he said. Last year there was 38bn USD outflow.
- Future sale of Rosneft shares will have to be discussed with BP, said First Deputy Minister of Russia Shuvalov, since it is one of the largest stockholders now. According to the privatization plan, government plans to sell 25%-1 share of Rosneft, out of which 15% might be sold on the open market, while 10% via the swap of assets with the investors. According to Shuvalov, Rosneft might get one more strategic investor.

Money Market

Liquidity is stabilizing as tax paying period is coming to the end. Total amount of liquidity in Russian banking system increased by RUB 5 bn. RUB liquidity at Central Bank's accounts and deposits totals RUB1263 bn. The level is sufficient to support interest rates at relative low levels in spite of anticipation of Central Bank interest rate hike. Interbank interest rates stay near depo rate. But Central Bank will likely increase depo rate on the next meeting (January 31st), which means that money market will be destabilized in the coming weeks.

Currency market

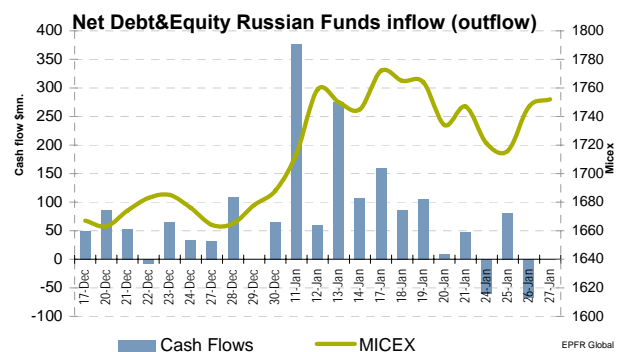
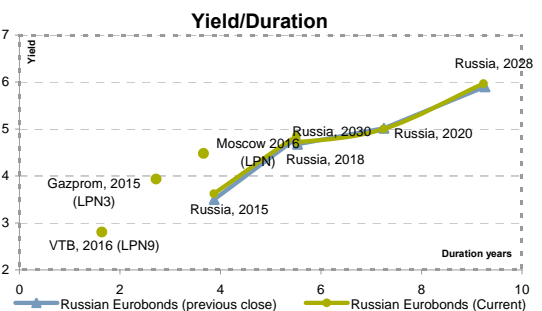
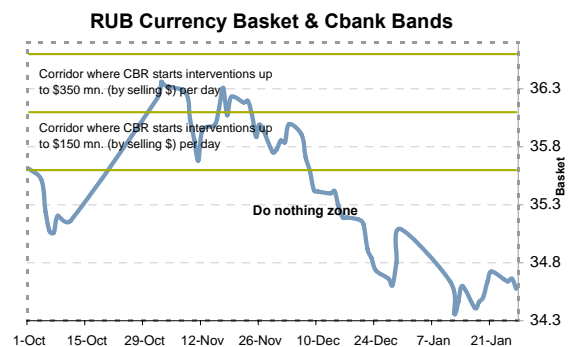
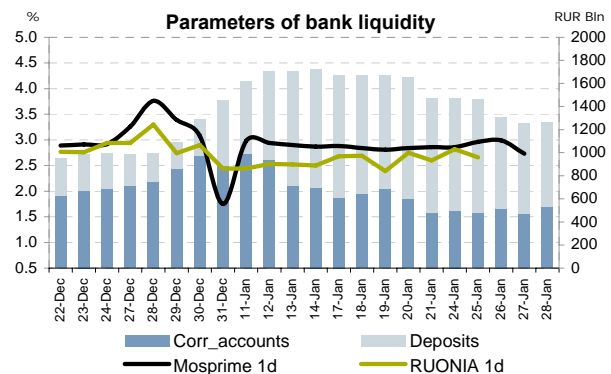
RUB strengthened against the bi-currency basket yesterday by 8 kopeck, closing at 34.5758. The downgrade of Japan by S&P had only short term negative reaction. RUB gains were driven by the USD/RUB leg, where the cross finished the daily session lower by 14 kopeck compared to the day before, finishing at 29.595 while the EUR/RUB closed only a touch lower, 40.6799. The expectation that the Central Bank of Russia will hike the rates on the 31st of January is nearly a consensus view now, also helping RUB at the moment, but also creating the risk if they choose to do nothing. RUB was also supported by oil prices, yesterday pushing higher from the 2-month lows reached earlier this week, and local equities, despite the correction during the day, closed in the green.

But oil has retreated after the session, however, on speculation that OPEC will boost production to cool price, as the head of Kuwait Petroleum Corp said high oil prices threaten global recovery. Therefore RUB trades lower today (34.63 against basket).

Debt and Equity Markets

Russian stock market slightly increased yesterday, but the pressure was noticeable. The downgrade of Japan by S&P had negative effect on stock market. Blue chips closed discordantly: Gazprom and Rosneft were leaders who supported all market from drawdown. Today we see quite negative start of the session on poor dynamics of commodity prices, weak technical background. The Russian domestic bond market closed lower yesterday – state, municipal and corporate bond price indexes had a negative change. The interest rate curve of Russian domestic Treasuries continues to stay at the previous level mostly with a small volatility. Expectations of interest rate hikes deteriorate demand. Prices of Russian dollar denominated state Eurobonds were mostly stable.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	29.703	29.873	30.191	30.953
EUR/RUB	40.727	40.927	41.3045	42.177
Money Market	Close	Change	Min 12m	Max 12m
MosPrime 1M (%)	3.5	0	5.54	3.23
MIBOR 1m (%)	4.12	0.02	6.98	3.81
RUONIA 1d (%)	2.66	-0.16		
Implied NDF yield 6m%	4.22	-0.035	5.61	3.17
Debt	Close	Change	Min 12m	Max 12m
Russia CDS 5yr	141	4	218	123
Eurobond Russia 30Y	4.898	0.074	5.953	3.914
EMBI +	551.23	-0.34	582.02	489.19
Stock Indexes	Close	Change	Min 12m	Max 12m
RTSI	1911.48	0.87	1911.48	1226.57
Micex	1751.54	0.29	1771.66	1197.39
S&P 500	1299.54	0.22	1299.54	1022.58
DJIA	11989.83	0.04	11989.83	9686.48
Brent	97.97	0.15	98.36	67.20



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