

Russian Markets - Daily

February 01, 2011

| | | | |
|---|------------|-------|---|
| Central bank decision had insignificant impact | USD/RUB | 29.64 | ▼ |
| Ruble capitalizes on higher oil | EUR/RUB | 40.70 | ▲ |
| Money Market is stable | RUB basket | 34.62 | ▼ |

Hot News

- Russia's manufacturing sector continued to expand in January, as new orders accelerated. The HSBC purchasing managers' index (PMI) was unchanged at 53.5 in January, holding comfortably above the 50.0 mark that separates expansion from contraction.
- Russia's (GDP) rose 4.0 percent in 2010 to 44.5 trillion rouble (\$1.5 trillion)
- Russia's central bank unexpectedly left all interest rates on hold on Monday. Reserve requirements for liabilities before corporate non-residents in foreign currency and in Russian roubles will be raised by 100 basis points to 3.50 percent from Feb. 1.
- VTB is discussing an option to sell a 10 percent state-owned stake via a secondary share placement (SPO) rather than through a direct sale.
- Russia will offer bonds maturing in 2013 at an auction this week instead of the previously planned 2018 paper due to poor markets conditions.
- Sberbank's supervisory board will finalize details of its acquisition of Troika Dialog on Feb 25
- Russian oil company LUKOIL will increase its stake in Italian oil refinery ISAB. Russia's second biggest oil producer, said in a statement it would pay Italian joint venture partner ERG 205 million euros (\$281.2 million) for the 11 percent stake (M&A interest of Russian companies is slightly negative tendency for RUB)

Money Market

Liquidity is increasing as tax-paying period have come to the end. Total amount of liquidity in Russian banking system is at relative high level. RUB liquidity at Central Bank's accounts and deposits totals RUB1304 bn. However money market had some other drivers yesterday. The crucial point for the money market was Russia's Central Bank decision to keep interest rates unchanged. Particular focus was on the DEPO rate, which stayed at 2.75%. Therefore interbank market will likely continue to trade near current depo rate. Stricter reserve requirements can have only minor impact on liquidity in the system.

Currency market

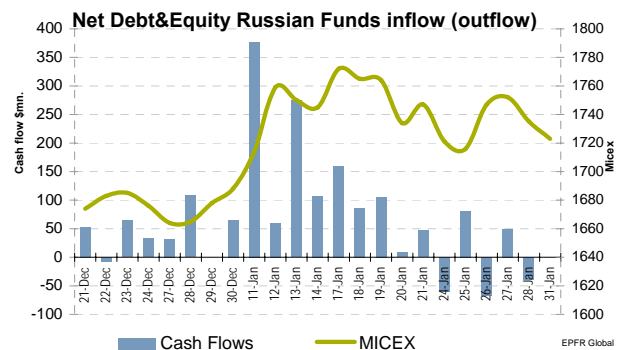
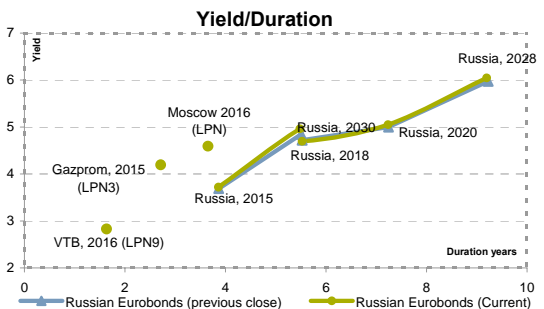
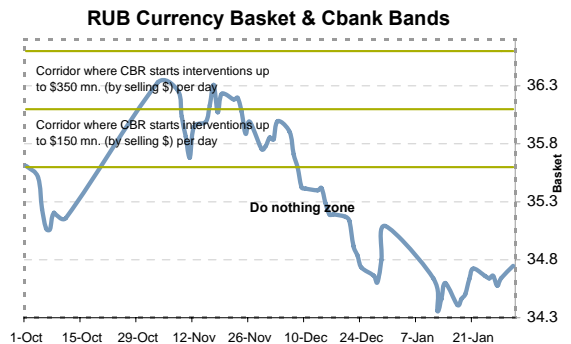
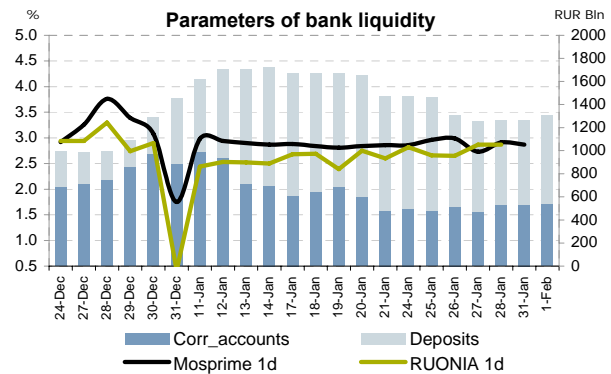
Ruble showed weakness yesterday as Central Bank unexpectedly decided to keep interest rates unchanged. All rates were left on hold, including the overnight deposit rate at 2.75 percent and the refinancing rate at 7.75 percent. Reference rates hike have been already priced by the market and therefore RUB declined. But nevertheless we believe that interest rate hike is a matter of time (1Q) and the pressure on RUB can not be sizable. Besides new oil price peaks support ruble. So we have several more or less offsetting factors and currency basket will likely continue to trade in the previous range of 34.3-34.9 with some tendency to the stronger RUB.

Debt and Equity Markets

Russian stock market decreased slightly during yesterday's session. However major Russian indices found local bottom and today try to rebound on high oil prices. Brent trades near \$100 per barrel, inspired by Egypt unrest.

The Russian domestic bond market closed higher yesterday – state, municipal and corporate bond price indexes rose. Unchanged Central Bank's rates can lead to local higher demand. The interest rate curve of Russian domestic Treasuries stays at the previous levels. Russia will offer bonds maturing in 2013 at an auction this week instead of the previously planned 2018 paper due to poor markets conditions. The ministry, which plans to borrow up to 1.74 trillion roubles (\$58.66 billion) in domestic currency this year, said it would offer 30 billion roubles in the new issue of 2-year bonds at Wednesday's auction.

| Forwards | 1m. | 2m. | 3m. | 6m. |
|-----------------------|----------|---------|----------|---------|
| USD/RUB | 29.725 | 29.896 | 30.2 | 30.96 |
| EUR/RUB | 40.8 | 41.3201 | 41.6833 | 42.5188 |
| Money Market | Close | Change | Min 12m | Max 12m |
| MosPrime 1M (%) | 3.51 | 0 | 5.5 | 3.23 |
| MIBOR 1m (%) | 4.09 | 0 | 6.85 | 3.81 |
| RUONIA 1d (%) | 2.87 | 0.22 | | |
| Implied NDF yield 6m% | 4.065 | -0.19 | 5.61 | 3.17 |
| Debt | Close | Change | Min 12m | Max 12m |
| Russia CDS 5yr | 153 | 4 | 218 | 123 |
| Eurobond Russia 30Y | 5.013 | 0.02 | 5.953 | 3.914 |
| EMBI + | 548.14 | -5.45 | 582.02 | 489.19 |
| Stock Indexes | Close | Change | Min 12m | Max 12m |
| RTSI | 1870.31 | -0.81 | 1911.48 | 1226.57 |
| Micex | 1723.42 | -0.67 | 1771.66 | 1197.39 |
| S&P 500 | 1286.12 | 0.77 | 1299.54 | 1022.58 |
| DJIA | 11891.93 | 0.58 | 11989.83 | 9686.48 |
| Brent | 100.57 | 1.02 | 100.57 | 67.20 |



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