

Russian Markets - Daily

February 03, 2011

Strong Rouble	USD/RUB	29.34	▼
Ample Liquidity	EUR/RUB	40.55	▼
Money Market is stable	RUB basket	34.38	▼

Hot News

- Russian consumer prices rose 2.4% mom in January (9.6% yoy). Key driver is still food price - buckwheat, potato, etc. - increases. In addition, the costs of utilities increased as a seasonal rule. Transportation and energy costs also trend higher, as gasoline prices have spiked 6.5% ytd
- Russia's service sector growth slowed in January from a seven-month peak recorded in December as surging costs forced transport and telecommunications providers to jack up prices, data showed on Thursday. PMI fell to 54.2 in January from 56.4 in December, staying well above the 50 mark that separates expansion from contraction for the fifth month.
- According to Ulyukayev, there is a chance of interest rate hikes in the first half of 2011. According to him, the CBR is looking at inflation risks and will use a variety of tools against it
- Russia's Finance Minister Kudrin said that inflation will be higher than expected in the first half of the year, but "hopes" that it will be reduced in the second half of the year. To tame food price acceleration government starts selling grain from the intervention on the 4th of February
- Discussions and agreement on Russia's entry to WTO should be finalized by May-June, the key negotiator Medvedkov said
- Government plans to sell 20% of the VTB stocks this year, which is larger than the 10% stake on the privatization plan
- Finance Minister Kudrin noted that the times where the economy grew on the expansion in oil and has sector are over. According to him, the main growth engine going forward is investments growing at 7-10% per year and modernization of the economy

Money Market

Liquidity is increasing. Total amount of liquidity in Russian banking system is high, pushing interbank rates down to Central Bank depo rate. RUB liquidity at Central Bank's accounts and deposits totals RUB1374 bn. Market is anticipating interest rates hike in the coming months. Central Bank is concerned about inflation risks, consumer prices rose by 2.4% mom in January.

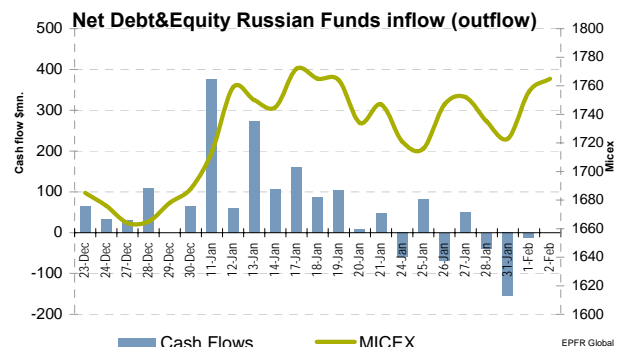
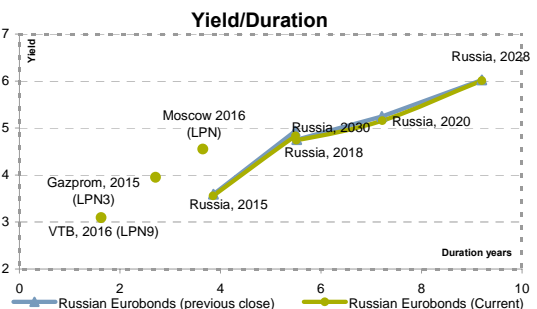
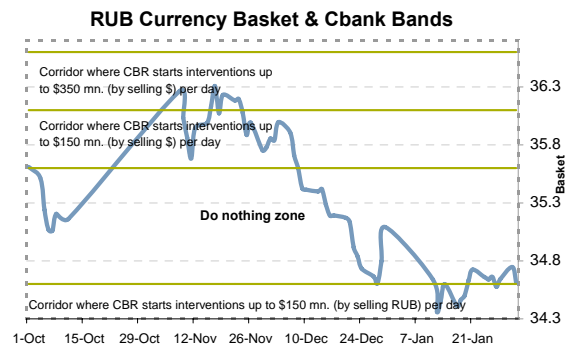
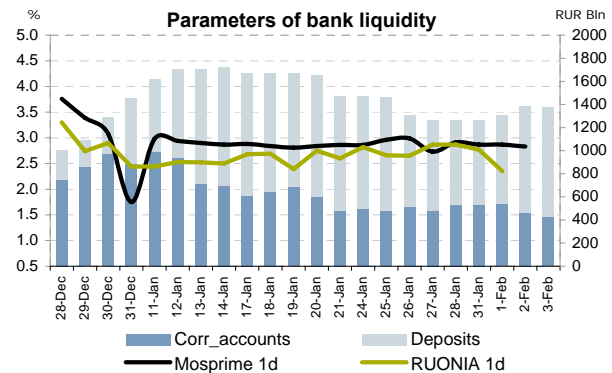
Currency market

The RUB basket strengthened second day in a row, closing 11 kopeck below the previous day, at 34.50, opening today at even lower levels. Just like the day before the gains yesterday were concentrated in the USD leg: USD/RUB decreased by 16.25 kopeck to 29.4525, while EUR/RUB fell by 4.25 kopeck to 40.6675. According to our estimates, the basket is currently trading at the level where the CBR is intervening in small sizes, buying USD 150m/day. Ulyukayev said yesterday that the CBR bought a "few hundreds of millions USD" in January, which is consistent with the levels where the basket traded. RUB is supported by high oil prices, as Brent has exceeded USD 103/bbl today - even despite the fact that the reason for the recent oil price spike is risk aversion on the unrest in Egypt. Such yesterday's news as progress in WTO entry and increasing the share of privatization of VTB, also create a positive sentiment in the RUB market.

Debt and Equity Markets

Russian stock market rose slightly during yesterday's session on high commodity prices. Thus commodity sector companies continue to play the leading role on the Russian stock market. Shares of Russia's banking sector were weaker due to higher reserve requirements and news that Government plans to sell 20% of the VTB stocks this year, which is larger than was announced previously. Today the external background is neutral, opening of the market was slightly higher.
 Debt MKT: Russia sold almost double its planned offer of two-year rouble bonds on Wednesday, after the central bank's surprise decision to leave its benchmark interest rate on hold boosted investor appetite for the paper.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	29.433	29.595	29.898	30.65
EUR/RUB	40.62	40.81	41.16	42.02
Money Market	Close	Change	Min 12m	Max 12m
MosPrime 1M (%)	3.5	0	5.39	3.23
MIBOR 1m (%)	4.12	0	6.82	3.81
RUONIA 1d (%)	2.35	-0.42		
Implied NDF yield 6m%	3.94	-0.075	5.6	3.17
Debt	Close	Change	Min 12m	Max 12m
Russia CDS 5yr	144	3	218	123
Eurobond Russia 30Y	4.912	-0.003	5.953	3.914
EMBI +	552.31	0.72	582.02	489.19
Stock Indexes	Close	Change	Min 12m	Max 12m
RTSI	1931.38	1.12	1931.38	1226.57
Micex	1765.42	0.54	1771.66	1197.39
S&P 500	1304.03	-0.27	1307.59	1022.58
DJIA	12041.97	0.02	12041.97	9686.48
Brent	103.18	1.63	103.18	67.20



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