

Russian Markets - Daily

February 10, 2011

Ruble is lower	USD/RUB	29.37	▲
Inflation slowed down	EUR/RUB	40.12	▲
Liquidity helps market	RUB basket	34.20	▲

Hot News

- Growth in the five key economic sectors (agriculture, industrial production, construction, transportation and retail sales) was recorded at 5.5% y/y in December, compared to 4.5% y/y in November and 3.2% y/y in October
- The Central Bank of Russia will stop providing loans for over 90-day periods, as well as 30-day fixed-rate lombard funds, effective from February 10th. The step comes as a natural sequence of unwinding anti-crisis measures on improving banking system
- Consumer prices grew 0.3% from 0.6% in the previous week (Feb 1-7), according to Rosstat, with the slow down mainly due to the wearing off of the seasonal utility price increases Half of the budget savings will be spent on modernization, said President Medvedev, with the aim to increase economic efficiency, lower the producer costs and increase the life quality among Russia's population
- The Finance Ministry sold RUB 80bn in Treasury bonds (OFZs) in 2-3 maturity segment on Wednesday. The amount sold was 25% more than the planned, as demand was robust on ample liquidity and strong RUB.

Money Market

Liquidity is constantly increasing. RUB liquidity at Central Bank's accounts and deposits totals RUB1578 bn. (+53 bn.). Overnight interest rates are flat. Consumer prices grew 0.3% from 0.6% in the previous week (Feb 1-7), but it is not enough to prevent CBR from monetary tightening. From the other side the Finance Ministry sold RUB 80bn in Treasury bonds (OFZs) in 2-3 maturity segment on Wednesday. But as you remember yesterday Russia's Finance Ministry placed 78.9 billion roubles (\$2.69 billion) of temporarily free budget funds in commercial banks (6m maturity). Rates differentials, duration and timing of these two actions tell that Ministry of Finance does not expect interest rate hike by Central Bank during next several months, and this is misleading signal for the market.

Currency market

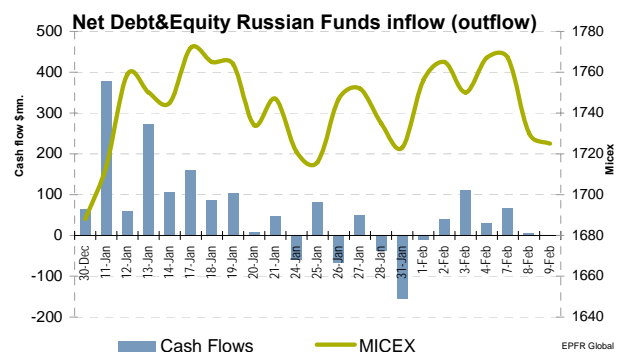
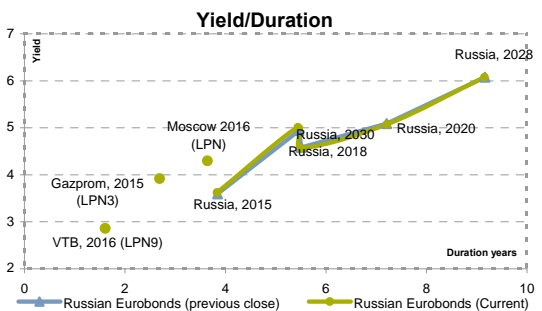
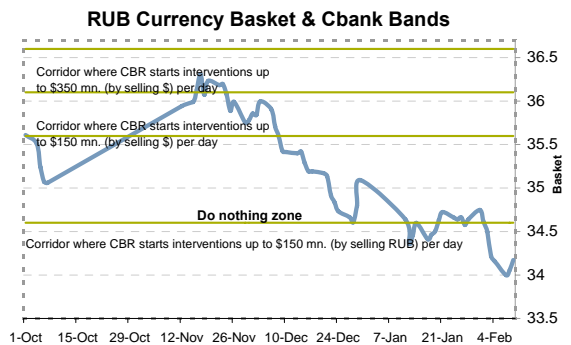
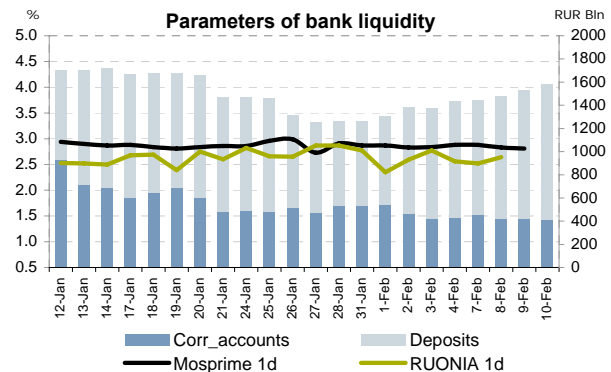
The RUB basket moved up, closing the daily session at 34.17, which is 11 kopeck higher than in the previous day, driven by the EUR leg: EUR/RUB rose by 17.55 kopeck compared to the day before. Meanwhile, the USD/RUB gained 5.25 kopeck. Today's opening was around the yesterday's close, with the market sentiment being neutral: the equity markets are slightly in the red on profit taking, while the Brent oil prices rose above USD 102/bbl today, still with concerns over tension in Egypt. As expected, breaking the 34.00 without a pause would be a hard task, and speculators decided to take profit on the long RUB position. 34.00 is a strong technical support level, but also the area where the Central Bank intervenes in a cumulative fashion, buying USD 350m per day and shifting the currency band by 5 kopeck lower after each USD 650m sold. Strong demand for RUB government bonds yesterday reflects confidence over the currency value, and we believe the strengthening trend is in tact and will resume after the temporary correction. If the RUB basket strengthens further, it is likely that the Central Bank of Russia will decide to widen the currency band (currently at 4 RUB width) before long, thus reducing the intervention sizes and levels, since accumulating reserves without adequate liquidity absorption adds to inflationary risks.

Debt and Equity Markets

Russian stock market showed weakness during yesterday's session (-0.5%). Market followed previous pattern. Technical factors still play against Russian market, but this is temporarily. Level of 1700 (Micex index) is good support for the market. Besides high oil prices do not motivate investors to sell.

Debt MKT: The Finance Ministry sold RUB 80bn in Treasury bonds (OFZs) in 2-3 maturity segment on Wednesday. Rates were at market levels, yield curve is stable.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	29.392	29.549	29.842	30.565
EUR/RUB	40.229	40.409	40.744	41.572
Money Market	Close	Change	Min 12m	Max 12m
MosPrime 1M (%)	3.5	0	5.26	3.23
MIBOR 1m (%)	4.08	0.01	6.1	3.81
RUONIA 1d (%)	2.64	0.12		
Implied NDF yield 6m%	3.88	0.015	5.5	3.17
Debt	Close	Change	Min 12m	Max 12m
Russia CDS 5yr	140	2	218	123
Eurobond Russia 30Y	4.956	0.027	5.953	3.914
EMBI +	546.65	-2.61	582.02	491.74
Stock Indexes	Close	Change	Min 12m	Max 12m
RTSI	1900.28	-0.53	1935.15	1226.57
Micex	1723.32	-0.36	1771.66	1197.39
S&P 500	1320.88	-0.28	1324.57	1022.58
DJIA	12239.89	0.06	12239.89	9686.48
Brent	102.00	1.67	103.18	67.20



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