

Russian Markets - Daily

February 16, 2011

Ruble is slightly lower	USD/RUB	29.25	▼
Inflation focus	EUR/RUB	39.67	▲
Liquidity will suffer from tax	RUB basket	33.95	▲

Hot News

- Industrial production grew 6.7% y/y in January, up from 6.3% y/y in December and higher than consensus forecast (5.9% y/y). Manufacturing production was particularly strong, with growth at 13.5% y/y despite the diminishing base effects. Mining and quarrying production accelerated to 3.5% y/y, while electricity, gas and water production declined by 3.4% y/y - the latter due to milder weather in January and therefore heating energy demand.
- Medvedev's advisor Dvorkovich, member of VTB board, was the only one who was opposed to VTB's plan to purchase the City of Moscow share (currently 46.5%) in Bank of Moscow stock claiming that the deal should be done via the open tender.
- According to Ministry of Agriculture, the grain export ban, introduced on August 15, 2010, might be extended to October. The ban thus will likely be extended the second time already, as the first time the term was moved from December 21, 2010, to July 1, 2011. According to Agriculture Minister Skrinnik, only after the next autumn harvest is collected it will be possible to take off the grain export restriction.
- Russia, hit by drought-related inflation, may launch a state food intervention fund worth up to 5 billion roubles (\$171 million) to curb prices for potatoes and other staples. The fund, which is being considered by the ministries of agriculture, finance and economy - could work along the lines of state grain intervention stocks, according to documents obtained by the business daily.

Money Market

Liquidity decreased slightly yesterday due to tax payments are coming. Interbank rates were stable during the session. RUB liquidity at Central Bank's accounts and deposits totals RUB1475 bn. (-17 bn.). Market is trying to predict the next step of Central Bank which depends on inflation as CBR has moved its policy to the inflation targeting. Inflation stats will be published today.

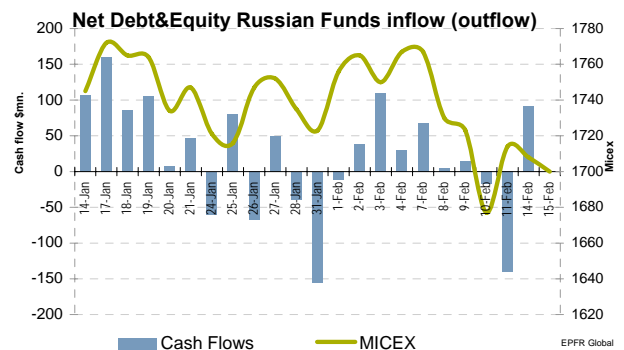
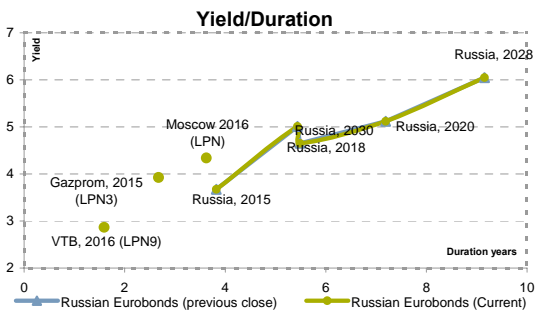
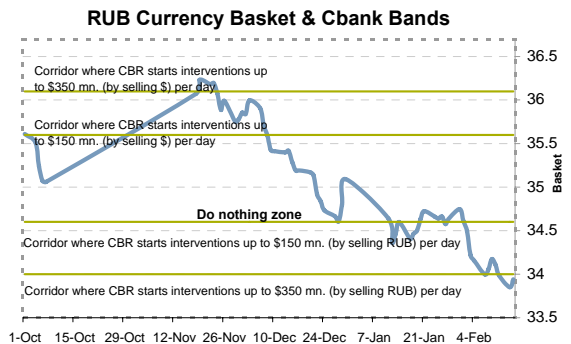
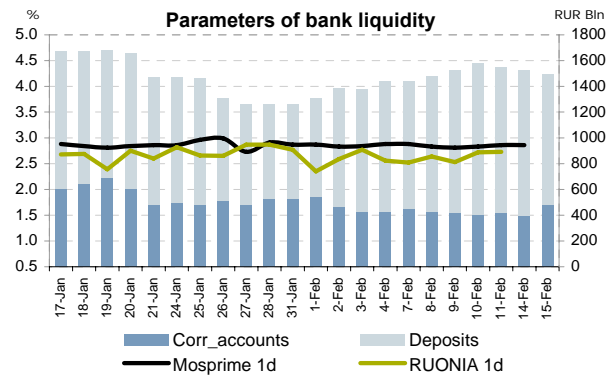
Currency market

After three days of strengthening streak the RUB basket paused yesterday, closing at 39.94, which is by 8 kopecks higher than in the previous session. USD/RUB was stable, finishing the session just by 0.5 kopeck higher - at 29.295, while the basket losses were driven by the EUR leg, as the EUR/RUB increased by 20.5 kopeck compared to the day before. Thus, clearly the EUR/USD was the key driver, as it corrected upward yesterday after better ZEW data from Germany. The tendency continues today, as EUR strengthens on rumors that Middle East sovereign wealth fund is buying EUR. Despite that the RUB basket opening today was strong, just 3 kopeck above yesterday's close. Brent oil prices remain firm above USD 100/bbl and the tax period supports RUB demand as local companies sell USD. Central Bank is intervening in a "cumulative" fashion at these levels and will probably shift the band by 5 kopeck down today. If RUB strengthening continues, we expect the Central Bank to go for the floating band widening, as with current intervention amounts (estimated USD 350m per day), in just 10 days extra RUB 100bn liquidity in the banking system is created, which is not helping to fight inflation. 34.00 is the resistance level while 33.40 is the next strong support for the RUB basket. We see the basket at 33.00 by mid-year.

Debt and Equity Markets

Russian stock market fell by 0.7% during yesterday's session. Flat oil prices did not let Russian market to resume growth. Today we see the same levels on the opening. Russia funds inflows are slowing down, but firm oil prices will stimulate cash inflows. Appreciating RUB also attracts investors. **Debt Market:** Russia's Finance Ministry will sell 30 billion roubles (\$1.0 billion) in 5-year OFZ treasury bills today at yields of 7.50-7.60 percent, offering the market only a minimal premium. Strong demand on last two weekly auctions was because of high liquidity, strong ruble and the fact that central bank kept interest rates unchanged in January.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	29.328	29.484	29.77	30.465
EUR/RUB	39.741	39.924	40.249	41.026
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3.5	0.01	5.24	3.23
MIBOR 1m (%)	4.1	0.03	6.1	3.81
RUONIA 1d (%)	2.73	0.01		
Implied NDF yield 6m%	3.85	-0.06	5.29	3.17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	146	1	218	123
Eurobond Russia 30Y	4.962	-0.001	5.953	3.914
EMBI +	542.64	-0.73	582.02	493.14
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1865.00	-0.77	1935.15	1226.57
Micex	1695.00	-0.79	1771.66	1197.39
S&P 500	1328.01	-0.32	1332.32	1022.58
DJIA	12226.64	-0.34	12273.26	9686.48
Brent	101.98	-1.38	103.36	67.20



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