

Russian Markets - Daily

February 17, 2011

Ruble is slightly lower	USD/RUB	29.24	▼
Inflation slightly decelerated	EUR/RUB	39.77	▲
Liquidity is high enough	RUB basket	33.96	▲

Hot News

- Inflation was recorded at 0.2% w/w in the week from 8 to 14 February, according to Rosstat data. Thereby CPI has increased by 2.9% since the beginning of the year. Food and vegetable prices increased by 0.7% w/w last week, which is somewhat lower than the previous week's increase of 1.2%.
- Russia's Central Bank chose the new Deputy Chairman - Sergei Shvetsov - now heading the open market operations on money and currency markets.
- In an effort to fight corruption Russia's President Medvedev proposed to increase fines to officials taking bribes to up to 100 times the bribe size via an amendment to criminal code.
- Russian tycoon Suleiman Kerimov bought \$500 million worth of shares of Russia's second largest lender VTB, business to become the bank's largest private shareholder.
- Prime Minister Vladimir Putin tasked top economists on Wednesday with reworking Russia's long-term economic strategy. The panel of experts, comparable to Germany's 'wise men', is due to report back before parliamentary elections in December, ensuring that an economic platform will be in place in time for the March 2012 presidential vote.

Money Market

Liquidity insignificantly increased yesterday. Interbank rates were stable during the session but coming tax-paying period may jack up the interbank market.

Market tries to predict the next step of Central Bank which depends on inflation. Inflation was recorded at 0.2% w/w in the week from 8 to 14 February. CPI has increased by 2.9% since the beginning of the year. This is very uncomfortable numbers but comparing to January inflation is decelerating. From this point of view if the process will continue, then Central Bank can keep interest rates unchanged in February and tighten only reserve requirements.

Currency market

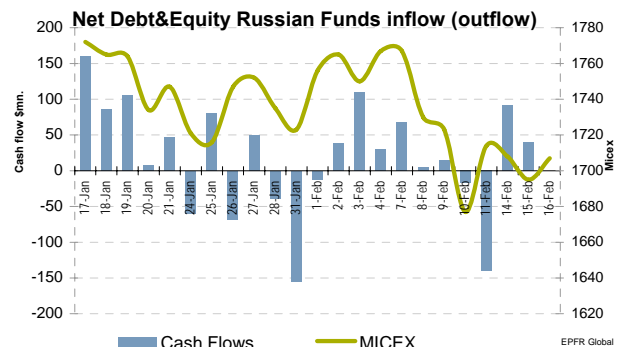
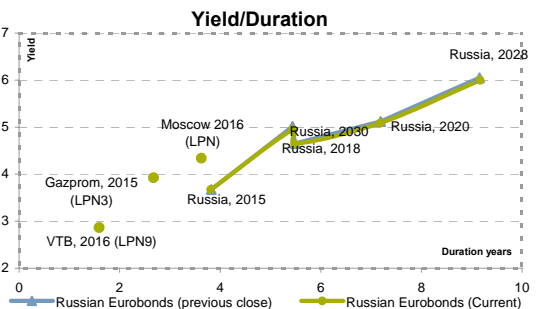
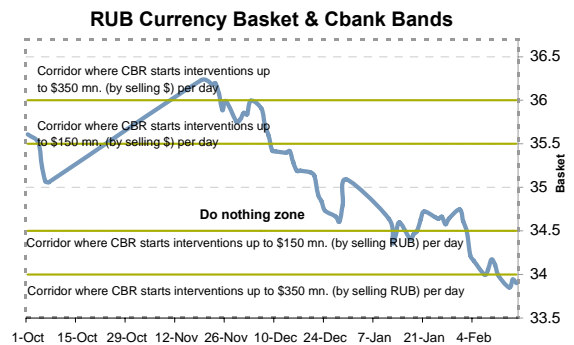
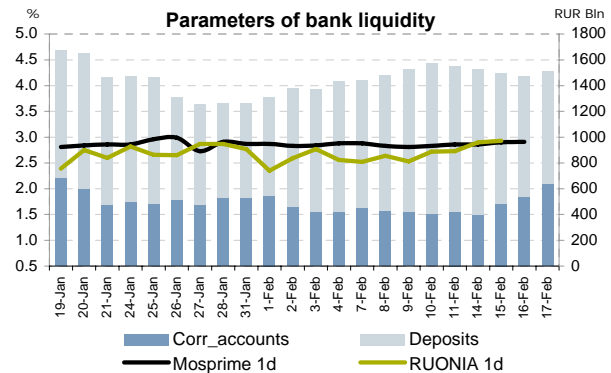
The RUB basket rose slightly yesterday, closing at 33.9, ie by 4 kopeck below the previous day's close. As it has become common in the past few days, the USD leg kept steady, while the basket was moved by the EUR side. Yesterday EUR/RUB dropped by 11.74 to 39.41, while USD/RUB increased by just 2.5 kopeck, closing at 29.32. The strong demand for long term government bonds (bid-to-cover above 2) reflects the market trust in Central Bank credibility and RUB stability. Today's opening was strong, with the basket starting the session at 33.88, ie just below yesterday's close. Due to a correction in EUR/USD during the night now the USD leg has earned the gains for RUB basket. The oil prices spiked yesterday, with the front month Brent reaching 104.52, levels last seen only in September 2008, on the new tensions in the oil-rich Middle East, as Iran's war vessels crossed the Suez Canal - a move which Israel called a "provocation". Domestically the Central Bank continues intervening, buying an estimated USD 350m per day and shifting the basket down by 5 kopeck after a cumulative USD 650m bought. USD 350m is not a huge amount compared to daily turnovers of USD 3-10bn in RUB FX market, but it smooths volatility somewhat and makes market players more cautious. RUB demand will be supported by upcoming VAT tax payments (Feb. 21) and tax for mineral extraction (Feb. 25).

Debt and Equity Markets

Russian stock market rose by 0.6% during yesterday's session. Firm oil prices and quite optimistic Europe session support local market. Today blue chips opened higher, but technical pressure will probably keep stocks in flat mode.

Debt Market: Ministry of Finance sold RUB 29.8bn in 5-year government bonds (OFZ) on Wednesday, thus satisfying only 40% of the bids. The cut-off rate was at 7.60, the upper boundary of the ministry's yield guidance announced the day before. Strong demand on last two weekly auctions was because of high liquidity, strong ruble and the fact that central bank can keep interest rates unchanged even in February.

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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