

Russian Markets - Daily

February 28, 2011

RUB at Local highs vs. basket	USD/RUB	28.91	▼
MM digests CBR rates hike	EUR/RUB	39.80	▼
Liquidity decreased	RUB basket	33.82	▼

Hot News

- CBR raised all key interest rates by 25bps on Friday. Deposit rates were raised to 3.00%, repo rates to 5.25% and refinancing rates to 8.0%. In addition, the CBR further raised the reserve requirement rates by 50 bps to resident liabilities and by 100 bps to non-resident liabilities. /CBR
- French company AREP will act as the general contractor in the construction of the Skolkovo innovation center in Russia, said Skolkovo Foundator President V. Vekselberg on Friday. There were two companies on the tender short list, French AREP and Dutch OMA, and both have worked in Russia before. /Reuters
- Fiat SpA submitted a plan to produce vehicles to the Russian government, saying it wanted to make up to 300,000 cars, sports vehicles and vans per year. The decision came a week after failing to form a partnership with local producer OAO Sollers, who instead made an agreement to work together with Ford Motor Co. /Reuters
- German Gref, CEO of Russia's largest state bank, denied rumours about ongoing discussions to purchase a 25% share of the Austrian bank - Volksbank International. Gref noted that Sberbank has currently no plans to buy banks in western Europe, but is investigating opportunities to buy assets in eastern Europe. He said that Sberbank is primarily interested in possibilities to expand investment banking business. /Reuters

Money Market

RUB liquidity at Central Bank's correspondent accounts and deposits decreased by sizable 158bn to RUB 1160 bn due to tax payments. The MM rates showed growth. CBR raised all key interest rates by 25bps on Friday and it became a surprise. A lot of market participants expected only reserve requirements tightening or reference rate hike, but CBR raised all key interest rates along with reserve requirements. DEPO rate was raised to 3.00 percent, which is the new overnight floor for interbank market. The rise in reserve requirements for foreign liabilities, was double that on domestic ones. This should discourage inflows of speculative capital and a sign of the bank's concern that a stronger ruble would hurt growth.

Currency market

RUB basket finally showed some action on Friday, getting impulse after the Central Bank of Russia decided to tighten the monetary policy in the first hours of the trading session. The basket lost 11 kopeck during the day and closed at 33.83 - the strongest level since April 2010. USD/RUB dropped below 29.00, closing at 28.94 - ie by 7 kopeck lower than in the previous session. EUR/USD corrected on Friday over uncertainty in Ireland, thus helping RUB gains strength against EUR: EUR/RUB dropped by 16.5 kopeck, closing at 39.805.

Market conditions are excellent for further RUB strengthening. Front month Brent oil remains above USD 113/bbl on Middle East tensions, while the stocks have recouped some of the losses on Friday. Local equities in Russia have gapped up on the opening today. Central Bank tightening also supports, as they showed that they are not "behind the curve" - hence, the implied yields did not increase much on the tightening news. Today's RUB opening was strong, at 33.79. Watch out for potential widening of the RUB band in the coming weeks - at current levels the Central Bank is intervening in a cumulative fashion, buying USD 350m/day and producing more RUB liquidity. As Friday showed, they are concerned over excess liquidity, thus reducing interventions is the way forward. We see basket at 33 by the mid-year.

Equity and Debt Markets

Stock market indexes increased by 1.5% on high oil prices, which revive investor's interest after short drawdown. Today blue chips started with flat dynamics as some instruments are technically overbought. Dynamics in the bond market were slightly negative on Central Bank's interest rate hike. However yield curves are stable.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	28.942	29.093	29.38	30.092
EUR/RUB	39.8885	40.0585	40.376	41.126
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3.5	0	5.08	3.23
MIBOR 1m (%)	4.07	0	6.01	3.81
RUONIA 1d (%)	2.75	0.02		
Implied NDF yield 6m%	3.865	0.02	4.8	3.17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	144	-15	218	123
Eurobond Russia 30Y	4.707	-0.167	5.953	3.914
EMBI +	547.86	2.26	582.02	496.97
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1904.68	0.19	1935.15	1226.57
Micex	1715.93	0.04	1771.66	1197.39
S&P 500	1319.88	1.06	1343.01	1022.58
DJIA	12130.45	0.51	12391.25	9686.48
Brent	113.80	1.18	113.80	67.20



