

Russian Markets - Daily

March 01, 2011

RUB is at local highs	USD/RUB	28.72	▼
Interest rates rise	EUR/RUB	39.68	▼
Liquidity decreases	RUB basket	33.66	▼

Hot News

- Russia's budget deficit in 2011 may be at 2% or less, said Finance Minister Kudrin. The current budget envisions a deficit at 3.6% this year, but the oil prices have been much higher than the baseline in the budget draft so far (USD 75/bbl), and if remain so will continue to provide higher than planned budget revenues this year. /TASS
- February manufacturing PMI came at 55.2 - highest level in 3 years.
- According to Kudrin, oil Reserve fund will not be used this year. Kudrin reiterated Prime Minister Putin's comment earlier last week that the Reserve fund might double this year to around RUB 1.5trl. Higher oil prices may help reduce the planned government bond issuance in 2011. /TASS
- The last week's Russia's first sovereign ruble Eurobond issue (RUB 40bn) attracted foreign investors based in UK (46% of the issue), US (27%), continental Europe (22%). Local investors bought only 5% of the issue. Across the investor type, fund managers bought 70% of the bonds, banks and retail deposits acquired 20%, while insurance and pension funds bought 10%. According to Kudrin, government intends to continue issue to eurobonds denominated in RUB in the coming years. /Reuters

Money Market

RUB liquidity at Central Bank's correspondent accounts and deposits continue to decrease, pushing interest rates higher. Besides liquidity problems helps RUB to gain vs. currency basket. Another factor for the money market is Central Bank's interest rate hike. The most important for MM - DEPO rate - was raised to 3.00 percent. Yesterday overnight interbank rates rose by 50 bp during the session, but it was just emotional reaction on interest rates hike and liquidity squeeze. When it all comes down, overnight rates will stabilize near depo rate slightly above 3%.

Currency market

RUB basket continued strengthening yesterday - as expected, a combination of high oil prices and increasing equity prices has proved to be a moving force for RUB to move lower. The gains were with the USD/RUB, which fell by 12.5 kopeck compared to the previous day's close. Yesterday we closed at 33.81 on the basket. EUR leg is still under pressure due to hawkish comments from ECB, with EUR reaching levels last seen in November 2010 against the USD - today's inflation figures for euro zone, Bernanke's testimony and US ISM will be its driving forces, where we expect some support for USD. Oil prices remain steady, with front month Brent trading above USD 112/bbl. here in the morning. Further oil price increases have been curbed by Saudi Arabia official, saying that under-production in Libya will be compensated by higher production of Saudi Arabia. In any case, the oil prices at current levels are more than enough for RUB - further increases could actually be harmful due to negative impact on global growth. Today basket is opening strongly again, reaching new record of 33.66 on the basket during the first minutes of the session. CBR continues intervening, buying USD 350m/day, shifting the floating band by 5 kopeck after USD 650m bought. The band is now at 32.90 - 36.90, according to our estimates. Notably, CBR seems friendly to new RUB strengths - so far we have received no negative comments. An announcement of RUB band widening, which we expect, would cause the basket to move sharply lower.

Equity and Debt Markets

Stock market indexes rose by more than 1% on high oil prices, corporate news. However energy sector was not the leading one. Banks and utilities were in the forefront. Today blue chips started higher. Dynamics in the bond market were flat. Interest rates hike had only small impact on prices due to market have already priced this CBR move.

Forwards	1m.	2m.	3m.	6m.
USD/RUB	28.845	28.998	29.285	29.965
EUR/RUB	39.848	40.011	40.316	41.071
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3.51	0.01	4.89	3.23
MIBOR 1m (%)	4.04	-0.03	6.01	3.81
RUONIA 1d (%)	2.93	0.18		
Implied NDF yield 6m%	3.785	-0.08	4.76	3.17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	138	-6	218	123
Eurobond Russia 30Y	4.795	0.088	5.953	3.914
EMBI +	549.1	1.24	582.02	500.33
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1969.91	1.92	1969.91	1226.57
Micex	1777.84	1.72	1777.84	1197.39
S&P 500	1327.22	0.56	1343.01	1022.58
DJIA	12226.34	0.79	12391.25	9686.48
Brent	112.39	-1.41	113.80	67.20



