

Russian Markets - Daily

May 03, 2011

RUB gained strongly	USD/RUB	27.36	▼
Liquidity deteriorated sharply	EUR/RUB	40.52	▼
Overnight rates rose	RUB basket	33.29	▼

Hot News

- The Central Bank of Russia raised the key interest rates by 25 basis points on Friday. Reserve requirement rates were left unchanged. Increase in inflation expectations and monetary pressures on inflation pointed out as key reasons. /CBR
- From May 1 the export tax on gasoline is increased by 44% to nearly USD 410 per ton. This decision was taken by the Russian government in an attempt to ensure that gasoline fuels primarily went to the domestic market where there have been shortages recently. /Vesti
- Almost a third of Russian banks would violate the norms (minimum equity ratio of 10%) of the Central Bank of Russia in the case of market turmoil that happened in 2008, after which the regulator would have to deny them a license. These conclusions follow from the stress tests conducted by the CBR. The study is published in the annual report on the development of the banking sector and banking supervision. /Vedomosti
- President of Russia's largest bank Sberbank German Gref expects further strengthening the ruble, and he estimated that it could appreciate by 10%. "Given the situation on the commodity markets, the ruble has a very strong currency" - said Gref. /Interfax
- Gazprom is discussing options for selling 16.7% stake in Gazprombank, which the bank itself estimates at USD 2.2-2.5bn. /Vesti

Money Market

Banking system liquidity decreased significantly in the end of last week. RUB liquidity at Central Bank's correspondent accounts and deposits reached RUB 879 bn. which is relative low level. Banks even bid for CBR repo which can be considered as a signal of insufficient liquidity. Tax paying period ended and this can partially relax the current liquidity squeeze.

Interbank interest rates rose sharply after Central Bank of Russia raised the key interest rates by 25 basis points on Friday. Market did not expect depo rate hike and the reaction was quite emotional. Due to poor liquidity situation it can take some time for overnight rates to return to the Central Bank's depo level (3.25%).

Currency market

RUB strengthened further on Friday. The basket closed at 33.33, having lost 15 kopeck since the previous session. The RUB strengthened thus 44 kopeck against the basket last week.

Friday gains were concentrated on the USD leg, as RUB gained 17.35 kopeck against USD, falling to the new record lows of 27.35. Clearly, the Central Bank of Russia's move to raise the interest rates raised the appetite for RUB. Increase of deposit rates implies makes carry trades more attractive at the margin, and also sends a signal to the market participants that the CBR is not overly worried about that. Liquidity has tightened in the domestic bank market during the tax period - but tightening was even larger than could have been expected, suggesting strong demand for RUB. Maybe domestic exporters have heard and understood the priorities of the Russian government, and finally started to sell the oil revenues instead of keeping them in foreign accounts? Today's opening was strong, the basket fell a few kopeck more during the first minutes of the daily session, and we expect more strength. In the short term we favour short USDRUB, as it's most sensitive to oil, equities, credit premia and other factors. Yet it's just a matter of time before USD starts to strengthen when Fed turns from QE2 mode to tightening bias, which will at least slow down the rate of RUB appreciation against USD. Thus RUB against the basket is a safer long term bet.

Debt and Equity Markets

Russian stock market traded weaker than its peers last week. However we believe that it is temporary situation. Foreign fund inflows continue which can help Russian market to rebound RUB yield curve shifted upward after CBR decision. Debt market traded lower.

Forwards	1m.	3m.	6m.	
USD/RUB	27,486	27,635	27,894	
EUR/RUB	40,643	40,791	41,038	
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3,7	0,21	4,26	3,23
MIBOR 1m (%)	4,02	0,15	5,07	3,81
RUONIA 1d (%)		-3,88		
Implied NDF yield 6m%	3,685	-0,065	4,76	3,17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	126	0	218	119
Eurobond Russia 30Y	4,675	0,024	5,953	3,914
EMBI +	564,44	17,79	582,02	500,33
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	2026,94	-0,01	2123,56	1226,57
Micex	1741,84	-0,45	1859,99	1197,39
S&P 500	1361,22	-0,18	1361,22	1022,58
DJIA	12807,36	-0,02	12807,36	9686,48
Brent	124,71	1,80	129,43	67,20



