

Russian Markets - Daily

May 04, 2011

RUB gained vs. US dollar	USD/RUB	27.35	▼
Liquidity began to restore	EUR/RUB	40.55	▲
O/N rates are uncomfortable	RUB basket	33.30	

Hot News

- The Oil Reserve Fund value of the Russian Federation stood at RUB 745,71bn as of May 1, 2011. The RUB 27,11bn loss in value compared to April 1 was due to strengthening of the ruble. /Reuters
- Finance Ministry is against the proposal of the Federal Antimonopoly Service (FAS) to reduce the rate of excise duty on petroleum products in the event of a sharp rise in world oil prices and increased export duties, although no detailed proposals by the Office have yet been submitted. "It (the proposal FAS - Ed.) would have a negative impact on the budget for the formation of road funds... it's not pleasant to us" - said Deputy Finance Minister Sergei Shatalov. /RIA
- Underwriters and selling shareholders valued "Yandex" at USD 6-7bn. The company is preparing for the IPO. /Interfax
- The CBR injected RUB 19,4bn into the banking system at two auctions yesterday. The amount was doubled due to the local liquidity strains. /Reuters
- Deposit auction by the Finance Ministry on placing of temporarily RUB 50bn free budget funds yesterday recognized as failed due to lack of applications from credit institutions. /Interfax

Money Market

Banking system liquidity began to restore as tax paying period came to the end. RUB liquidity at Central Bank's correspondent accounts and deposits increased by RUB 104bn. and reached RUB 983 bn. which is still relative low level. Central Bank helped commercial banks yesterday by conducting Depo auctions. Interbank interest rates rose sharply last week after Central Bank of Russia raised the key interest rates by 25 basis points on Friday. We think that It can take several weeks for overnight rates to return to the Central Bank's depo level (3.25%).

Currency market

The RUB basket held remarkably well yesterday, despite the risk aversion globally, retreating oil prices and the local equities literally crashing by nearly 3% during the day. RUB gained the sixth session in a row, finishing yesterday at 33.28 and reaching the two month lows of 33.20 during the session. Clearly the local liquidity squeeze supports the RUB, as the domestic corporates are forced to sell FX to get RUB. In addition, the interest for RUB has increased among foreign investors after the Friday's Central Bank move. At the level of 33.28 the Central Bank of Russia should have switched to cumulative interventions of around USD 300m/day. If RUB continues strengthening it will be a test for the CBR - will they be able to live up to their inflation mandate and let the FX inflows through to the RUB strength instead of building up reserves? That requires: 1) reduction in the size of cumulative interventions, 2) widening of the RUB band. Any of these alongside RUB-positive comments from the officials will mean seriousness about the intentions of inflation targeting. Fiscal profit will help keep the domestic liquidity tight in the coming months, thus also contributing to the demand for RUB. The risk appetite is still subdued today, with Asian equities falling and Brent oil retreating further to USD 122.50 here in the morning. Russian equities gapped down again. The RUB is stoic regardless - the basket opened at around yesterday's levels.

Debt and Equity Markets

Russian stock market experienced serious drawdown yesterday. Commodity market traded lower, stimulating sales on the Russian market. Micex index has reached its trend supporting line. And rebounding is near. RUB yield curve was stable yesterday. The main negative factors remain the same – sudden interest rate hike and local problems with liquidity.

Forwards	1m.	3m.	6m.	
USD/RUB	27,45	27,599	27,855	
EUR/RUB	40,609	40,754	41,004	
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3,98	0,28	4,26	3,23
MIBOR 1m (%)	4,02	0	5,07	3,81
RUONIA 1d (%)		-4,61		
Implied NDF yield 6m%	3,785	0,1	4,76	3,17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	125	-1	218	119
Eurobond Russia 30Y	4,617	-0,058	5,953	3,914
EMBI +	565,04	0,6	582,02	500,33
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1976,74	-2,48	2123,56	1226,57
Micex	1691,45	-2,89	1859,99	1197,39
S&P 500	1356,62	-0,34	1363,61	1022,58
DJIA	12807,51	0,00	12810,54	9686,48
Brent	122,33	-1,91	129,43	67,20



