

Russian Markets - Daily

May 06, 2011

RUB retreated because of oil	USD/RUB	27.67	▲
Liquidity is rebounding	EUR/RUB	40.33	▼
O/N rates are near CBR depo	RUB basket	33.38	▲

Hot News

- Russia's Finance Minister Kudrin noted that the Central Bank of Russia is acting correctly in fighting inflation. "The central bank, in our opinion, is now operating correctly by using the methods that he has available, and thus makes us believe that it will manage to keep within the projected inflation - 6,5-7,5%." Kudrin also said that "...central bank will apply the necessary measures to contain inflation" going forward. /Interfax
- Russia's Prime Minister Putin explains the recent gasoline price increases with the collusion of the oil companies. "There is no deficit... it is not in short supply. The case of collusion. They agree among themselves..." - Putin said Thursday at a replica of the Deputy Prime Minister I. Sechin that rising fuel prices are due to its scarcity. /Vedomosti
- Inflation rose 0.2% in the week from April 26 to May 3, ie more than in any of the April weeks. Gasoline and diesel fuel prices were among the leaders in weekly price gains (2.8% and 1.5% increase in a week, respectively). /Rosstat
- International reserves rose by USD 6bn in the week from April 22 to 29, standing at USD 523.9bn as of April 29. /CBR

Money Market

Banking system liquidity continue to rebound. RUB liquidity at Central Bank's correspondent accounts and deposits increased by RUB 51bn. and reached RUB 1101 bn. Interbank interest rates decreased and overnight rates have almost reached Central Bank's depo level, which indicates normalization on the Money Market. Central Bank will provide the market with additional liquidity via depo auctions next week.

Currency market

After seven days gains in a row of the RUB eventually rose slightly yesterday, finishing at 33.21, which was 2 kopeck higher than the previous close. The game changer yesterday was ECB President Trichet, who managed to provoke a massive drop in EUR/USD simply by saying "monitor very closely" instead of the awaited "strong vigilance" phrase. As a result, RUB lost ground against USD, weakening by 24 kopeck during the day. Meanwhile, EUR lost 25.5 kopeck and EUR/RUB closed at 40.3. Whether yesterday's move was a beginning of a new trend is not certain yet. But it it were, then our call for a stronger USD toward the end of the year will start materializing now, meaning that RUB will have more potential to strengthen against EUR. But the timing is hard - this is why we said that RUB basket is a safer bet for the longer run. In the short term USD has a big chance to weaken further, provided the risk appetite returns to the market. No sign of that yet - the global equity markets falling the fourth day in a row. Brent oil lost USD 10 since yesterday, trading at above USD 110/bbl here in the morning. The RUB basket opened higher, trading around 33.30 here in the morning. Today's session will be volatile due to non-farm payrolls in US, lots of ECB and Fed comments and the thin session before the holiday in Russia on Monday. We still believe RUB basket will gain further once risk appetite returns, as commodity price correction is temporary and yesterday's FinMin's comments have again revealed Russian government's priorities.

Debt and Equity Markets

Russian stock market showed poor dynamic in general, but some blue chips rose against the market. Micex index decreased by 0.7% yesterday. In spite of local drawdown we do not see sizable funds outflow, which may indicate that market participants do not believe in continuous downtrend.

Forwards	1m.	3m.	6m.	
USD/RUB	27,774	27,933	28,205	
EUR/RUB	40,37	40,53	40,793	
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	3,88	-0,18	4,26	3,23
MIBOR 1m (%)	4,02	0	5,07	3,81
RUONIA 1d (%)		-3,78		
Implied NDF yield 6m%	3,96	0,23	4,76	3,17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	130	4	218	119
Eurobond Russia 30Y	4,614	0,018	5,953	3,914
EMBI +	565,65	0,18	582,02	500,33
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1916,33	-1,72	2123,56	1226,57
Micex	1644,92	-0,76	1859,99	1197,39
S&P 500	1335,10	-0,91	1363,61	1022,58
DJIA	12584,17	-1,10	12810,54	9686,48
Brent	111,87	-7,70	129,43	67,20



