

Nordea

Russian Markets - Daily

May 11, 2011

| | | | |
|-----------------------------------|------------|-------|---|
| RUB showed strong dynamics | USD/RUB | 27.64 | ▼ |
| Liquidity increased | EUR/RUB | 39.76 | ▼ |
| MM rates are comfortable | RUB basket | 33.10 | ▼ |

Hot News

- In Q1 2011 foreign trade turnover of Russia (balance of payments methodology) increased 29.4% compared to Q1 2010. The volume of Russian exports for January - March 2011 rose 23.7%, while the volume of imports increased by 41.1%. /CBR
- Russia's largest state bank Sberbank and aircraft manufacturer Boeing signed an agreement whose subject is the development of mutually beneficial opportunities for the aviation finance and leasing market in Russia and CIS. Under the agreement the parties undertake to work together on finding and implementing projects related to acquisition financing and leasing products and services to Boeing to existing and potential customers in Russia and CIS. /Interfax
- The Agency of Strategic Initiatives, initiated by PM Putin last week in the inter-regional conference of United Russia, will receive the status of state authority which will assume the functions of the Ministry of Economic Development and Ministry of Education. The details of the project have not been disclosed yet - Putin only named three areas: a "new business" (for effective management of business support for start-ups), "young professionals" (a system of professional qualifications) and social projects (education initiatives, health, culture). This initiative is seen as a political move in the runup to presidential elections. /Lenta

Money Market

RUB liquidity at Central Bank's correspondent accounts and deposits increased by RUB 41bn. and reached RUB 1200 bn. Interbank interest rates have stabilizing at adequate levels. Overnight interbank rates have returned to CBR depo rate. Still the threat of interest rate growth exists in the long run. Recent Central Bank's interest rate hike was unexpected for the vast majority of market participants. This shows that market underestimates further monetary tightening. We do not expect key interest rates hike in May, but Central Bank can increase reserve requirements.

Currency market

As the market sentiment improved the RUB basket managed to regain the lost positions in the previous day - the basket rose 13.5 kopeck during the day, closing at 33.21. RUB remained nearly unchanged against USD, losing just 4 kopeck against it. Meanwhile, EUR/RUB crashed by 35.27 kopeck during the day, closing below the 40 mark - at 39.89.

RUB should remain supported, as the risk appetite is back to the markets, with Asian equities in plus over the night. Russia equity markets also managed to edge up yesterday after the lousy opening yesterday, and resumed the positive trend today in the morning. On top of that the oil prices are back on track again, as we expected, with the front month Brent trading shy of USD 118/bbl mark here in the morning. In addition to favourable external sentiment, RUB will be supported by domestic factors - liquidity in the banking sector, now around RUB 1.2trl, while partially restored from the end-of-month tax payment, is still below the levels seen early in April (RUB 1.6trl). We believe in scarcer liquidity in the near term, as the government budget remains in profit and monetary policy tightening takes effect. Also, the reduction in liquidity could be facilitated by reduction of CBR interventions, if they decide to do so. In this environment we expect the lagged effect for RUB demand from oil export revenue to materialize, as exporters start to repatriate the Q1 windfall. Today RUB gapped down on the opening, reaching 33.08 in the first minutes of the session. Long RUB basket - we might challenge 33.00 today.

Debt and Equity Markets

Russian stock market was flat yesterday. Yield curve slightly shifted downward on stronger RUB and restored liquidity.

| Forwards | 1m. | 3m. | 6m. | |
|-----------------------|----------|--------|----------|---------|
| USD/RUB | 27,834 | 27,996 | 28,28 | |
| EUR/RUB | 40,015 | 40,178 | 40,455 | |
| Money Market | Close | Change | Max 12m | Min 12m |
| MosPrime 1M (%) | 3,84 | 0,01 | 4,26 | 3,23 |
| MIBOR 1m (%) | 4,16 | -0,04 | 4,95 | 3,81 |
| RUONIA 1d (%) | 3,34 | -0,04 | | |
| Implied NDF yield 6m% | 4,08 | 0,04 | 4,58 | 3,17 |
| Debt | Close | Change | Max 12m | Min 12m |
| Russia CDS 5yr | 129 | -3 | 218 | 119 |
| Eurobond Russia 30Y | 4,539 | -0,05 | 5,879 | 3,914 |
| EMBI + | 567,49 | 0,2 | 582,02 | 501,48 |
| Stock Indexes | Close | Change | Max 12m | Min 12m |
| RTSI | 1927,82 | -0,44 | 2123,56 | 1226,57 |
| Micex | 1678,13 | -0,17 | 1859,99 | 1197,39 |
| S&P 500 | 1357,16 | 0,81 | 1363,61 | 1022,58 |
| DJIA | 12760,36 | 0,60 | 12810,54 | 9686,48 |
| Brent | 117,46 | 1,3 | 129,43 | 67,20 |



