

Nordea

Russian Markets - Daily

May 31, 2011

RUB slightly retreated	USD/RUB	27.96	▼
Liquidity problems continue	EUR/RUB	40.28	▲
Rates stays elevated	RUB basket	33.52	▲

Hot News

- The Central Bank of Russia raised the overnight deposit interest rates from 3.25% to 3.5%. The repo and refinancing rates and the reserve requirements were left unchanged. /CBR
- CBR chief S. Ignatyev said that resumption of grain exports from July 1 will be the key inflation risk going forward. /Reuters
- Prime Minister Putin reiterated that the retirement age will not be raised in the near future - the government will return to this question to earlier than five years, ie in 2016. /Interfax
- Russia will spend \$285 billion over the next decade to double the rate of road building, Prime Minister Vladimir Putin said on Monday. The World Bank said that Russia's road infrastructure is viewed as one of the key restrictions for economic growth, with only a third of all federal roads meeting quality standards.
- A Moody's Investors Service vice president said on Monday the agency is keeping a stable outlook for Russian oil and gas companies, saying they look strong comparing to international players due to high output and low costs.
- Russia's Economy Ministry is proposing to spin off refineries from oil companies as a measure to stabilize fuel prices, a senior ministry official said on Monday. The ministry's head of competition and market dynamics, Alexander Pirozhenko, said independent refineries would be more competitive than those integrated with oil companies' upstream operations and would lead to cheaper fuel for customers.

Money Market

Liquidity is uncomfortable, leading to high interbank rates. Central Bank's correspondent accounts and deposits have crossed down the critical line of RUB 800 bn. and have reached RUB 738 bn. (-27 bn.). The last tax payments were paid yesterday and in the beginning of June we expect liquidity to improve. Besides today market is waiting for Depo auction. This week Central bank will try to offset current liquidity squeeze by conducting depo auctions. CBR daily repo turnover increased to RUB 11 bn. Overnight rates are expected to decrease in coming few weeks.

Currency market

The RUB basket remained nearly unchanged during the daily session yesterday, closing 6 kopeck higher (at 33.49) than the previous session, driven mainly by stronger RUB. In the morning RUB was helped a bit by the CBR decision to raise the deposit rates by 25bp, but the reaction was temporary, as the global risk appetite remained subdued still and the Western investors did not have a chance to react to the interest rate raise due to public holiday. The RUB has become a more attractive currency to hold at the margin, and further systematic reduction in RUB liquidity domestically will further contribute to this. The CBR signalled a pause for the "coming months" in their statement yesterday, yet right after the CBR chief Ignatyev expressed the concern over lifting the embargo on grain. The agricultural commodity prices have started to trend higher again in the past few weeks, thus it is clearly the major risk for inflation going forward (food constitutes 37% of CPI basket in Russia). Thus, any risks there would make the CBR more hawkish. Today the risk sentiment has improved, as Asian stock markets rose and the front month Brent oil rose above USD 115/bbl again. The Russian equities gapped up on the opening again. The RUB basket opened around yesterday's close levels and may go lower today.

Debt and Equity Markets

Russian stock market continued to rebound yesterday. Commodity market shows positive dynamics due to local dollar weakness and Russian energy sector capitalize on that.

Bond market showed no significant dynamics in spite of Central Bank depo rate hike.

Forwards	1m.	3m.	6m.	
USD/RUB	28,056	28,238	28,515	
EUR/RUB	40,3025	40,48	40,77	
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	4,16	0,03	4,26	3,23
MIBOR 1m (%)	4,27	0	4,71	3,81
RUONIA 1d (%)	4,75	0,82		
Implied NDF yield 6m%	4,215	-0,015	4,39	3,17
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	139	0	218	119
Eurobond Russia 30Y	4,613	0,09	5,739	3,914
EMBI +	569,11	0	582,02	505,62
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1865,74	0,40	2123,56	1288,72
Micex	1644,99	0,42	1859,99	1254,65
S&P 500	1331,10	0,41	1363,61	1022,58
DJIA	12441,58	0,31	12810,54	9686,48
Brent	115,33	0,34	129,43	67,20



