

Nordea

Russian Markets - Daily

June 07, 2011

| | | | |
|--------------------------------------|------------|-------|---|
| RUB is stable | USD/RUB | 27.76 | ▼ |
| Liquidity has normalized | EUR/RUB | 40.67 | ▲ |
| Rates are finally comfortable | RUB basket | 33.58 | |

Hot News

- The net capital outflow was at USD 5bn in May, down from USD 7.8bn in April, according to CBR's Balance of Payments department director L. Troshina. According to her, the capital outflow will remain as long as the current account balance is strong. The outflow is mainly due to corporate transactions. /Interfax
- Inflation (CPI) was recorded at 0.5% m/m in May, thus the y/y inflation remained unchanged at 9.6% y/y. The core inflation continued to accelerate to 8.3% y/y in May up from 8.0% in April. /Rosstat
- CBR's Deputy Chairman Shvetsov reiterated that inflation remains the key priority over keeping the rouble from strengthening. According to him, the CBR is not going to repeat the mistake of after 1998 crisis when large FX interventions led to rapid growth of money supply and accelerating inflation. /RIA
- German Volkswagen plans in the medium term to increase car production in Russia in order to avoid high customs duties, according to the spokesman of the company. /Interfax
- BP is preparing to sell its stake in TNK-BP to Rosneft to save the partnership with the Russian company, the sources familiar with the matter told The Wall Street Journal. The British company notified on Monday its partners in TNK-BP - a consortium AAR - that soon they will receive a letter in which BP will notify them of its intention to sell part of the 50% stake in the joint venture. /WSJ

Money Market

Liquidity is normalizing in the beginning of the month. Central Bank's correspondent accounts and deposits reached RUB 957 bn. (+35 bn.). Overnight rates approached Central Bank depo rate which is now set at 3.5% and plays a role of floor. Recent Central Bank announcements tell us that key rates may stay unchanged in the coming few months. CBR will wait for summer inflation statistics, anticipating slight seasonal deflation.

Currency market

The RUB basket remained nearly unchanged during yesterday's session, losing 3 kopeck against the USD and EUR basket, finishing the session at 33.60. As expected the RUB gained further against USD, finishing the daily session stronger by 11.5 kopeck against it - yet it's mostly the broad USD weakness rather than RUB strength reflected in this move. Otherwise the RUB basket would be stronger. The risk sentiment remains negative in the global markets due to the fear over growth prospects. Oil prices retreated a bit further - the front month Brent traded at just above USD 114/bbl in the morning. Yesterday's Russia's inflation figures showed persistency in inflation, and the rising core inflation alongside retreating food price inflation speaks for the demand side-driven inflationary pressures which should concern the CBR. Also, Shvetsov's comment yesterday confirms that the CBR prioritizes inflation now and thus will not keep RUB from strengthening. Hence, the interest rate cycle will resume - maybe after pause of a month or two. Also, the capital outflow has reduced, and, as a seasonal rule, the capital account will improve in Q2 as exporters repatriate the export revenue. Today the RUB basket opened a few kopeck below yesterday's close. Equities also opened a bit higher and if risk appetite improves further the RUB basket may recoup the past few day's losses.

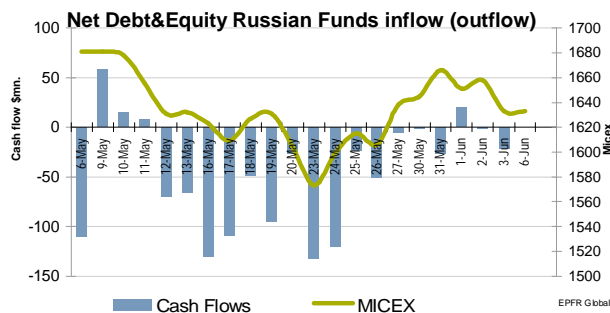
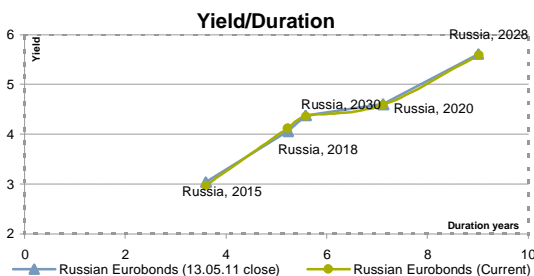
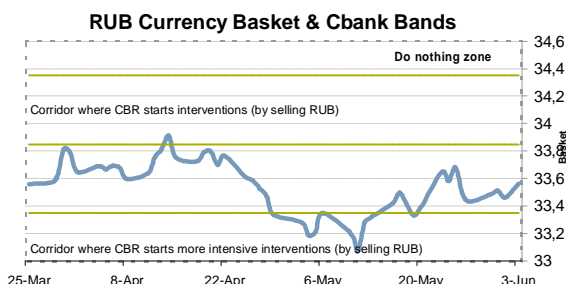
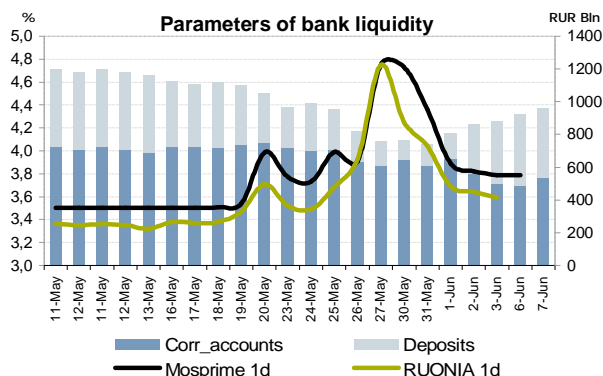
Debt and Equity Markets

Russian stock market was flat. Commodity market was unchanged, which gives very few speculative themes for local market participants. We expect continuation of flat dynamics.

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| Forwards | 1m. | 3m. | 6m. | |
|-----------------------|----------|--------|----------|---------|
| USD/RUB | 27,799 | 28,075 | 28,35 | |
| EUR/RUB | 40,724 | 40,904 | 41,184 | |
| Money Market | Close | Change | Max 12m | Min 12m |
| MosPrime 1M (%) | 4,05 | -0,03 | 4,26 | 3,23 |
| MIBOR 1m (%) | 4,44 | 0 | 4,49 | 3,81 |
| RUONIA 1d (%) | 3,59 | -0,05 | | |
| Implied NDF yield 6m% | 4,095 | -0,035 | 4,39 | 3,17 |
| Debt | Close | Change | Max 12m | Min 12m |
| Russia CDS 5yr | 133,33 | -2,67 | 218 | 119 |
| Eurobond Russia 30Y | 4,352 | -0,029 | 5,739 | 3,914 |
| EMBI + | 573,21 | -0,27 | 582,02 | 505,62 |
| Stock Indexes | Close | Change | Max 12m | Min 12m |
| RTSI | 1859,08 | 0,05 | 2123,56 | 1288,72 |
| Micex | 1633,49 | 0,03 | 1859,99 | 1254,65 |
| S&P 500 | 1286,17 | -1,08 | 1363,61 | 1022,58 |
| DJIA | 12089,96 | -0,50 | 12810,54 | 9686,48 |
| Brent | 113,93 | -1,39 | 129,43 | 67,20 |



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