

Nordea

Russian Markets - Daily

October 31, 2011

RUB touched local peaks	USD/RUB	30.10
Liquidity is poor	EUR/RUB	42.23
O/N rates will stay high	RUB basket	35.56

Hot News

- The CBR kept the deposit and repo interest rates, as well as reserve requirements unchanged. The CBR acknowledged the recent lack of liquidity, but noted that the liquidity provided already will help restrain the money market interest rate growth. The CBR also noted growing inflation risks – not least due to RUB weakening. /CBR
- The Russian ruble is stable currency, said the First Deputy Prime Minister Igor Shuvalov on the TV channel "Russia 1". "The ruble no more risk than the euro, maybe even the opposite...If is weak today, tomorrow it will be strengthened", - said the first vice-premier. Mr Shuvalov also stressed that in the event of a severe decline in oil prices the Russian ruble will not weaken, as "the authorities have a definite plan...We will deploy the reserve fund" - said Igor Shuvalov. /Intrrfax
- The privatization of Sberbank, Russia's largest state bank, will only be possible upon share prices rising to around RUB 100, said Sberbank's head G. Gref (price was at around 84 on Friday). /Interfax

Money Market

Liquidity is extremely low, but tax payments came to an end and this fact will help market to calm down. Today in the morning hours banks had 645 billion rubles (-112 bn.) on deposit and in correspondent accounts with the Central Bank. CBR continues to provide market with liquidity conducting REPO and DEPO auctions. On its meeting Central Bank decided to leave interest rates unchanged and not to provide liquidity via unsecured loans. We expect current liquidity squeeze will relax during this week. The tax payments will stop to deteriorate liquidity and finally we expect acceleration of budget spending during November.

Currency Market

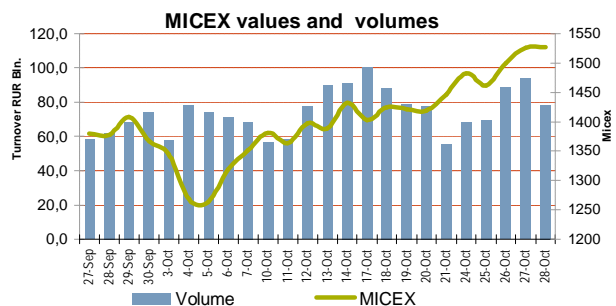
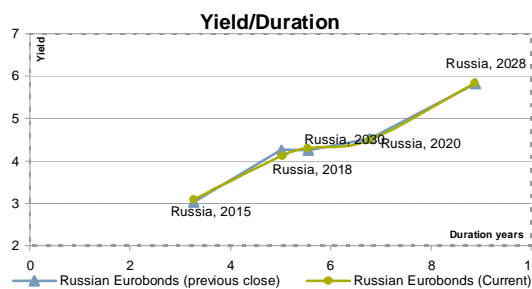
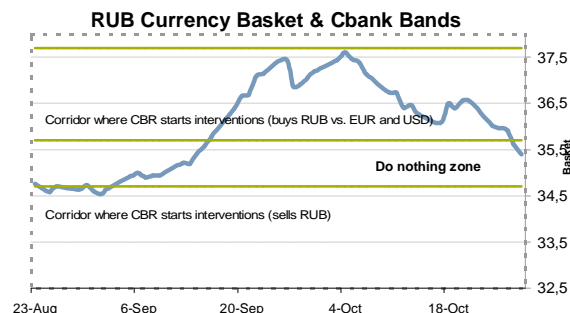
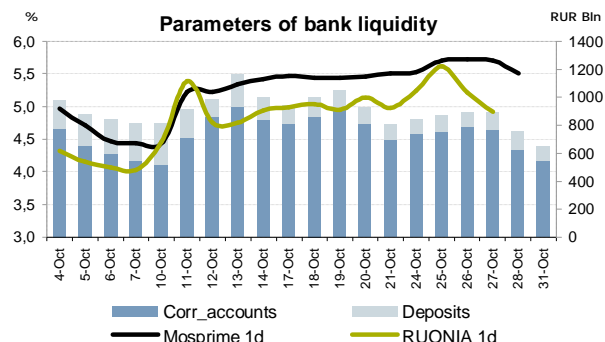
After the Euphorious Thursday RUB continued to gain against the EUR and USD on Friday, with the basket dropping 25 kopeck and closing at 35.30. This was, however, in contrast to what the other Emerging Market currencies were doing, as most high beta FX actually lost. The worries increased on Friday again following the poor Italian auction results. Over the weekend the market participants reevaluated the substance of the "solution" offered by the European leaders on Thursday and realized there is not much "flesh on the bones" yet. Moreover, German Finance Minister and ECB's former chief Trichet are out on the lines saying that the crisis is not finished yet and that Europe still has a long way to go. Thus, the USD index is trending higher again, the Asian equities lost around 1% and the Russian equity markets opened lower. The Brent oil prices retreated to just over USD 109/bbl here in the morning. CBR was quiet hawkish on Friday monetary policy meeting – as well as comfortable with that the liquidity situation should improve. So we are. The government official's comments that RUB is no less risky than EUR make sense, and the fact that government has a "contingency plan" if something happens to oil prices, also increases confidence in RUB. Today the RUB basket opens somewhat higher, trading at 35.55 in the first hour of the session, reflecting the subdued risk appetite. We have a crucial week of macro data ahead – from PMIs tomorrow to US payrolls Friday. If the data comes out positive this will be good reason for USD to weaken and for the EM currencies to get ground on improving risk appetite.

Debt and Equity Markets

MICEX Index was flat on Friday and today market started session with drawdown due to external market's bad sentiment. We expect technical correction during coming few sessions.

Dmitry Savchenko +7 495 7773477 Dmitry.Savchenko@nordea.ru
 Aurelija Augulyte +45 3333 6437 Aurelija.Augulyte@nordea.com

Forwards	1m.	3m.	6m.	
USD/RUB	29,86	30,324	30,533	
EUR/RUB	42,02	42,41	42,95	
Money Market	Close	Change	Max 12m	Min 12m
MosPrime 1M (%)	6,29	-0,1	6,38	3,23
MIBOR 1m (%)	6,22	-0,05	6,22	3,86
RUONIA 1d (%)	5,21	-0,4		
Implied NDF yield 6m%	6,06	-0,07	8,48	3,42
Debt	Close	Change	Max 12m	Min 12m
Russia CDS 5yr	230	0	306,75	119
Eurobond Russia 30Y	4,287	0,009	5,48	3,914
EMBI +	597,97	-0,43	598,99	542,64
Stock Indexes	Close	Change	Max 12m	Min 12m
RTSI	1610,32	1,09	2123,56	1217,21
Micex	1526,57	0,07	1859,99	1265,67
S&P 500	1285,09	0,04	1363,61	1099,23
DJIA	12231,11	0,18	12810,54	10655,30
Brent	108,96	-2,37	129,43	67,20



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