

|                            |            |       |   |
|----------------------------|------------|-------|---|
| <b>RUB gained</b>          | USD/RUB    | 31.23 | ▼ |
| <b>O/N rates increased</b> | EUR/RUB    | 40.86 | ▼ |
| <b>Liquidity is stable</b> | RUB basket | 35.55 | ▼ |

### Hot News

- Russia's central bank cut its refinancing rate and raised the deposit rate on Friday, but left its key one-day repo rate unchanged in a decision it said was "neutral" for the conduct of monetary policy. In a surprise move, the central bank eased its largely-symbolic refinancing rate by a quarter point to 8.00 percent and raised its deposit rate, also by a quarter point, to 4.00 percent. But it left its one-day repo rate - the most relevant policy rate at a time of tight market liquidity - unchanged at 5.25 percent.
- Russia's gold and foreign exchange reserves shed almost \$12 billion last week, their biggest decline since January 2009, the central bank's data showed on Thursday. The reserves fell to \$501.3 billion in the week to Dec. 16 from \$513.0 billion a week earlier, but still remained the world's third biggest and large enough to absorb mid-term shocks.
- Russia is ready to increase purchases of natural gas from Turkmenistan in order to retain its monopoly on gas exports to Europe from Central Asia, Kommersant daily says prior to Friday's meeting between presidents of Russia and Turkmenistan.
- Political risk in Russia is likely already priced in by financial markets, central bank Chairman Sergei Ignatyev said on Thursday, adding he did not expect sharp moves in the rouble exchange rate.
- President Dmitry Medvedev called on Thursday for sweeping reform of Russia's political system to try to appease protesters staging the biggest demonstrations since Vladimir Putin rose to power 12 years ago. In his last state of the nation address to parliament as president, Medvedev outlined plans that would ease the Kremlin's tight grip on power, including restoring the election of regional governors and allowing half the seats in the State Duma lower house of parliament to be directly elected in the regions. His opponents, preparing for new protests across Russia on Saturday, dismissed his offer as the empty promises of a lame-duck president who is stepping aside for Putin to return to the main seat of power next year after four years as premier.

### Money Market

Liquidity is stable but rates continued to increase on tax payments and corresponding high demand for rouble. Total liquidity on the deposits and correspondent accounts with the Central Bank is above 1 trillion rubles. However relative low Central bank REPO limit made market nervous and interbank rates are increased. Today regulator increased 1-day REPO limit to 100 bn. Overnight rates will probably stay within 6%-6.5% band. 3-month rates will be above 7.2%.

Today Russia's central bank cut its refinancing rate and raised the deposit rate on Friday, but left its key one-day repo rate unchanged in a decision it said was "neutral" for the conduct of monetary policy. Interest rates were stable.

### Currency Market

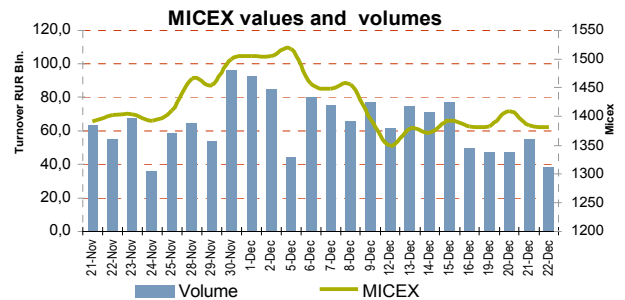
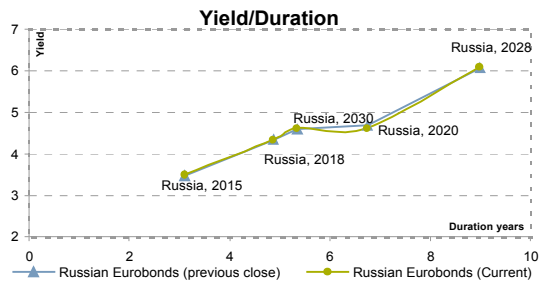
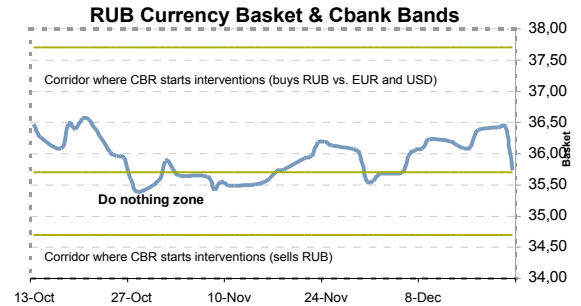
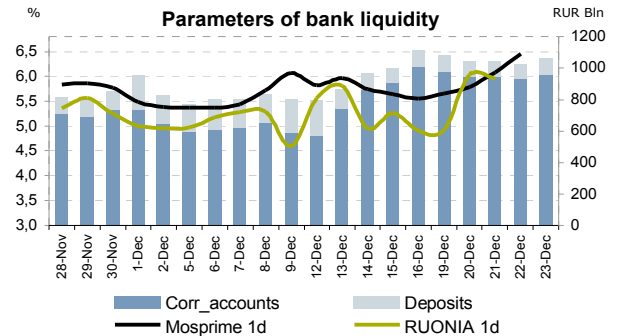
Ruble surged further supported by relative stable oil prices and high demand for RUB during tax payments. Currency basket decreased by more than 40 kopecks yesterday, USD and EUR retreated by 40 kopecks. Exporters continued to accelerate RUB purchases due to tax payment. Big tax payments are expected on Monday. Depo rate increase also supported rouble. Central bank Chairman Sergei Ignatyev said political risk in Russia was priced in by financial markets and he did not expect any high volatility in the rouble exchange rate.

Today rouble basket opened lower, but from technical point of view the pace of decrease can slow down. Rouble entered CBR «do-nothing» zone. Political tension in anticipation of Saturday street protests will also become impediment for Russian currency.

### Debt and Equity Markets

MICEX Index insignificantly increased by 0.04% yesterday. Oil stays roughly around USD107/bbl., supporting energy shares. Russian stock market opened with slightly rose today. An improving U.S. economic picture boosted global markets. But sentiment is still very wait-and-see because debt problems persist in euro zone.

| Forwards              | 1m.      | 3m.    | 6m.      |          |  |
|-----------------------|----------|--------|----------|----------|--|
| USD/RUB               | 31,476   | 31,753 | 32,189   |          |  |
| EUR/RUB               | 41,07    | 41,352 | 41,852   |          |  |
| Money Market          | Close    | Change | Max 12m  | Min 12m  |  |
| MosPrime 1M (%)       | 6.92     | 0.09   | 6.92     | 3.43     |  |
| MIBOR 1m (%)          | 6.72     | 0.07   | 6.72     | 3.87     |  |
| RUONIA 1d (%)         | 6.03     | 1.11   |          |          |  |
| Implied NDF yield 6m% | 6.32     | 0.19   | 8.48     | 3.42     |  |
| Debt                  | Close    | Change | Max 12m  | Min 12m  |  |
| Russia CDS 5yr        | 274.5    | 1.5    | 338      | 119      |  |
| Eurobond Russia 30Y   | 4,649    | -0,021 | 5,48     | 4,039    |  |
| EMBI +                | 600,04   | 0      | 603,86   | 542,64   |  |
| Stock Indexes         | Close    | Change | Max 12m  | Min 12m  |  |
| RTSI                  | 1388,57  | 0,44   | 2123,56  | 1217,21  |  |
| Micex                 | 1381,89  | -0,21  | 1859,99  | 1265,67  |  |
| S&P 500               | 1254,00  | 0,83   | 1363,61  | 1099,23  |  |
| DJIA                  | 12169,65 | 0,51   | 12810,54 | 10655,30 |  |
| Brent                 | 107,75   | 0,23   | 129,43   | 67,20    |  |



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