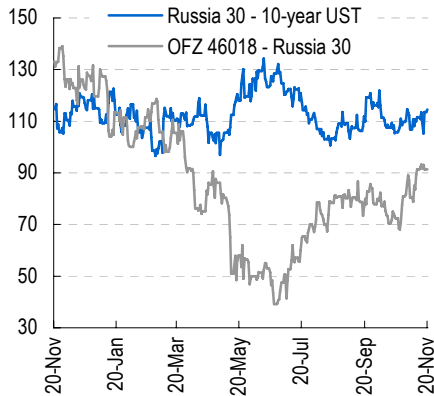
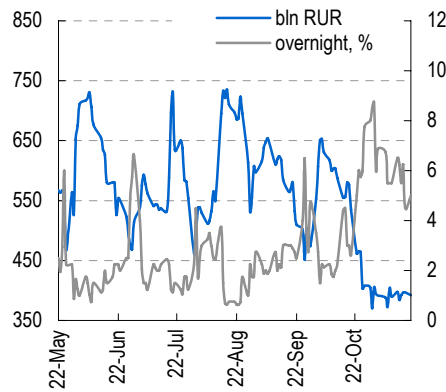


Monday, November 20, 2006

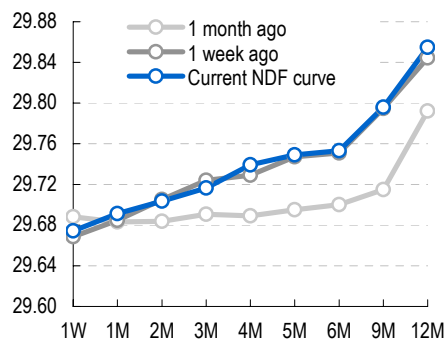
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



NDF on a basket of 0.6 USD + 0.4 EUR (in RUR)



EVENT CALENDAR

November 20	VAT payment in Russia
November 20	Leading indicators data in the US
November 21	Seventh Continent 9m06 results
November 21	Rouble bond issue Tensor-Finans
November 22	Rouble bond issue OHZ
November 22	Jobless claims data in the US
November 23	Thanksgiving Day in the US
November 23	36.6 pharmacy chain 9m06 results
November	Gazprom, MTS, Magnit results

MARKET COLOR

- **Eurobonds:** Russia 30 spread has widened along with the rest of EM bonds after UST moved higher on Friday. Lower oil price is one of the reasons explaining spread widening. We saw some selling in the longer-dated corporates – perhaps investors are gradually reducing exposure at the end of the financial year. In the primary market Gazprom (Baa1/BBB-/BBB) launched its US\$ and EUR 10-year tranches at MS+110bp and MS+118bp respectively. Bank of Moscow (A3/NR/BBB) priced its RUR5bn rouble Eurobond at 7.25%, which suggests a 100bp premium over its USD curve. We view the premium as attractive – for other Russian issuers the spread between RUR and US\$ instruments of comparable duration is usually in the 70-100bp range. Here we are talking about a rouble bond which foreign investors can access through Euroclear.
- **Rouble bonds:** Rouble bond market was a little weaker on Friday (5-10bp lower) as liquidity conditions remained relatively tight. Federal Grid announced a new 3-year RUR5bn bond, which triggered selling in its outstanding issues. We remind that Federal Grid is likely to strongly benefit from the recent initiative of Standard & Poor's to revise its ratings on Russia's state-owned corporates.

NEWS AND COMMENTS

- **Brief:** Tyre maker Amtel-Vredestein (NR) is reportedly discussing a sale to a German Continental AG (Baa1/BBB+/BBB). Also, AV plans to dispose one of its operating companies Amtel-Kuzbass (Source: Kommersant). The company has officially confirmed talks with Continental although didn't specify the content. We view both news (talks with Continental and asset sale) as credit-positive. Following a series of debt-financed acquisitions and a decline in operating margins AV is now extremely leveraged and is at risk of violating its CLN covenant (Net Debt/Sales ratio should be within 70%, 9m06 Sales were US\$548m, Net Debt stood at US\$592m at September 30, 2006). Its market cap has declined 3.5 times during the last 12 months and currently stands at US\$275m. We think that Amtel's shareholders have little flexibility now and therefore believe they won't be very price-sensitive in their talks with Continental. Bid on Amtel 2007 CLN has moved today from 97.0 to 97.75.
- **Brief:** Evraz (B2/BB-/BB) has made a US\$2.3bn acquisition offer to the shareholders of Oregon Steel Mills (1.6m tons of annual steel output). Representative of Evraz told us this morning that the company will still stick to its internal policy of keeping Net Debt/EBITDA <= 1.5x. Evraz representative said that their pro forma estimates show Net Debt/EBITDA will be around 1.5-1.55x post acquisition. As of June 30, 2006 Evraz had Net Debt of around US\$2.1bn and 6 months EBITDA of US\$1.1bn. Our equity analysts view the deal as value accretive. We think Evraz's credit ratings will remain unchanged.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.60	-0.07	-0.19	+0.21
EMBI+ Spread, bp	191	+5	+3	-54
EMBI+ Russia Spread, bp	113	+5	+7	-5
Russia 30 Yield, %	5.74	+0.02	-0.11	+0.20
OFZ 46018 Yield, %	6.65	0	+0.08	-0.09
Cash accounts at CBR, bln RUR	335.3	-2.6	-6.8	-154.9
Deposits at CBR, bln RUR	56.7	-2.2	-135.9	-58.0
Due from (to) CBR, bln RUR	21.4	-	-	-
Overnight RUR, %	5	+0.50	-	-
RUR/Bi-currency basket	29.66	0	-0.01	-1.21
Crude oil (Brent), USD/barrel	59.0	+0.5	-0.7	+0.9
RTSI	1689	-24	+59	+567

Sources: DataStream, Bloomberg, MDM, company data



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