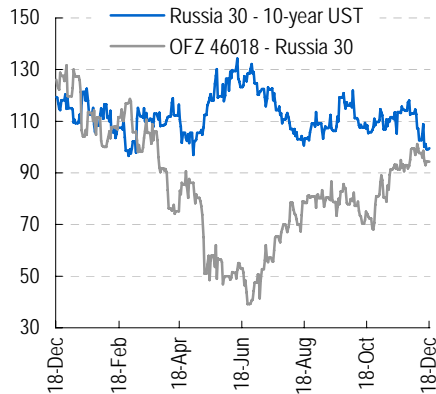
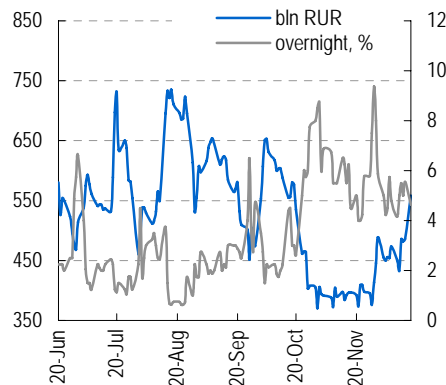


Monday, December 18, 2006

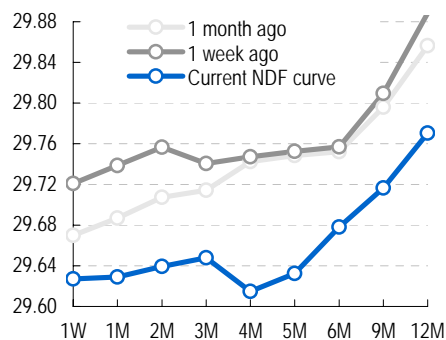
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

December 18	NWTelecom to vote on TT merger
December 19	PPI data in the US
December 19	WBD to vote on consolidation of dairy
December 19	5 rouble bond issues (corporates)
December 20	VAT payments
December 20	5 rouble bond issues (corporates)
December 21	GDP 3Q data in the US
December	Gazprom 2Q IFRS results

MARKET COLOR

- **Eurobonds:** Emerging Market bonds are holding firm despite CPI-driven volatility in US Treasuries. EMBI+ spread is approaching its record lows. **Russia 30** is trading at 113 ⁹/₁₆, 102-103bp over US Treasuries.
- **Rouble bonds:** A net inflow of around RUB70bn came into the banking system on Friday as the Central Bank bought its **OBR-3** bond and failed to place any significant amount of this bond's new issue. This resulted into a decline of overnight rates down to 3.5-4.5% and triggered increased activity in the rouble bonds. Highlights include a strong demand in **Federal Grid** bonds (series 2, 3, 4), which added another 5-15bp pricewise. We also explain the buying interest by expectations of a multi-notch upgrade that S&P is due to give to the Federal Grid (the rating is currently on **CreditWatch Positive**). The budget expenditures are yet not coming into the banking system, which moderates optimism in the rouble bonds.

NEWS AND COMMENTS

- **Brief:** Moody's raised the ratings of 5 Russian local & regional governments (LRGs) and 3 Ukrainian LRGs as a result of application of its new joint-default analysis criteria (in this case just a different way of factoring in government support). **City of Moscow, Moscow oblast, Republic of Komi, Republic of Chuvashia, Samara oblast, City of Kyiv, City of Berdyansk and City of Kharkiv** were raised 1 notch. The ratings of other LRGs in Russia, Ukraine and Kazakhstan publicly rated by Moody's were affirmed. We note that following the rating action Komi and Chuvashia Republics now qualify to join the **Lombard List** of Russia's Central Bank (Ba2/BB issuer rating is required). This is a positive technical factor which should support the bonds. The fact that Tatarstan's ratings remained unchanged is a small disappointment.
- **Brief:** S&P raised MegaFon to "BB" on solid financial performance. In a separate rating action S&P has also affirmed ratings on **Irkutsk oblast (B+)** and **Republic of Sakha (ruA+ national scale)**.
- **Brief:** Perm Motors (NR) along with NPO Saturn (NR) and UMPO (NR) will soon shape a united aircraft engine-building corporation. Sistema, which owns Perm Motors, has initiated the process and has reached an agreement with Rosoboronexport, VTB and Vnesheconombank to jointly work on this project (*reported by Kommersant daily*). We tend to believe the report as the merger idea is in line with Russia's official development strategy for the aviation industry. We like the Perm Motors rouble issue (10.25% to a put in July 2007). UMPO will issue a debut rouble bond this Thursday.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.60	0	0	+0.21
EMBI+ Spread, bp	175	-1	-13	-70
EMBI+ Russia Spread, bp	98	0	-12	-20
Russia 30 Yield, %	5.59	-0.02	-0.15	+0.05
OFZ 46018 Yield, %	6.53	-0.01	-0.12	-0.21
Cash accounts at CBR, bln RUR	499.7	+59.8	+161.8	+9.5
Deposits at CBR, bln RUR	58.8	+12.5	-0.1	-55.9
Due from (to) CBR, bln RUR	21.1	-	-	-
Overnight RUR, %	5	-0.55	-	-
RUR/Bi-currency basket	29.66	0	0	-1.21
Crude oil (Brent), USD/barrel	63.5	+1.4	+4.5	+5.4
RTSI	1853	+13	+164	+731

Sources: DataStream, Bloomberg, MDM, company data



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