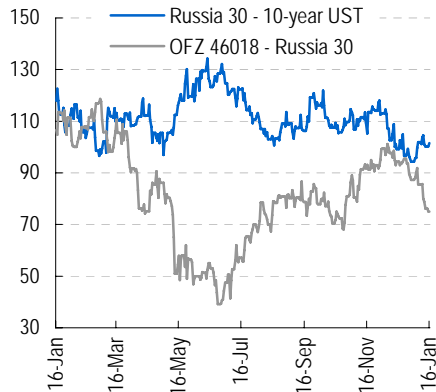
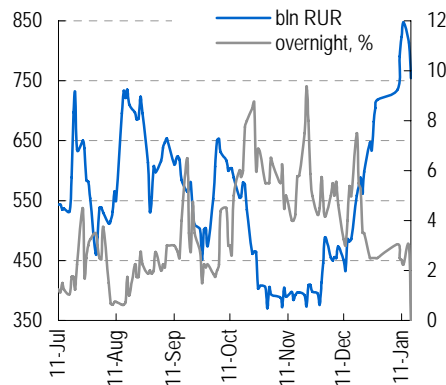


Thursday, January 18, 2007

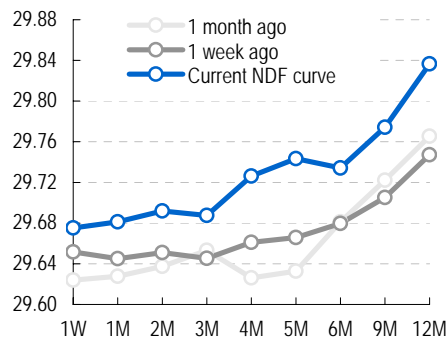
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

January 18	CPI, Philadelphia Fed data in the US
January 19	Michigan Confidence
January	New issues Privatbank, Tsesnabank, Alliance bank, MDM Bank, NOMOS Bank, Caspian Bank
January	X5 4Q trading update
January 22	VAT payments in Russia

MARKET COLOR

- Eurobonds:** US Treasury yields moved higher yesterday following a release of stronger than expected PPI and Industrial Production data in the US. EMBI+ spread hit its low at 165bp following a rally in Ecuador bonds. In the primary markets banks are lining up to issue new bonds. They are perhaps particularly inspired by the success of the dual issue of **TuranAlem** (total amount priced – US\$1bn) and the 7-year deal of **CenterCredit**. The latter was closed yesterday at YTM 8.85% (UST+410bp) and traded up afterwards. On top of **Alliance Bank**, **Tsesnabank** and **Privatbank** the following banks are likely to issue shortly – **MDM Bank**, **NOMOS Bank** and **Bank Caspian**.
- Rouble bonds:** MinFin yesterday priced a new OFZ issue (series 26199), which has a duration of 4.7 years. The auction showed solid demand (2x oversubscribed), but still most bids were placed at levels which implied a premium to the curve. The bond came out at YTM 6.42% and moved to 6.40% shortly afterwards. We would recommend to reduce duration of rouble bond portfolios since we expect rouble liquidity conditions to gradually deteriorate in February-March on the back of lower oil price and anti-inflationary policy measures of the government/Central Bank.

NEWS AND COMMENTS

- Brief: NKNK (B2/NR/B+) will consider a long-term investment program worth more than US\$5bn at the Board meeting on February 2.** According to the Chairman of NKNK's Board, the company will receive US\$1bn of equity injection before June 2007 and may need to raise around US\$4bn of debt to finance the investment program. We believe that NKNK may have to change its debt-related covenants of the Eurobond issue if the Board approves the proposed program. Increase in leverage may negatively affect NKNK's bond spreads.
- Brief: UVTB and Sibacadembank completed a merger into URSA Bank.** Moody's has equalized UVTB's rating with that of Sibacadembank (B1) and subsequently withdrew UVTB's rating. UVTB's short-dated 9% CLN has already tightened to 7.6%, which suggests no further price upside. Overall we view the merger as credit-positive for Sibacadembank expecting economies of scale.
- Brief: Russia's Supreme Court has confirmed that the recent prescription issued by a consumer watchdog Rospotrebnadzor to abolish banking commissions and fines when servicing loans was correct.** We believe this ruling may have a negative impact on the financial standing of local consumer finance banks (**Russian Standard**, **Home Credit**, **Finansbank**, etc.) that are most actively using such commissions.
- Brief: Moody's assigned a first time rating to Moscow Mortgage Agency (MIA) at Ba2/Stable, while Fitch issued a positive comment with regard to Russian telecoms.**

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.78	0	+0.19	+0.08
EMBI+ Spread, bp	171	0	-4	+2
EMBI+ Russia Spread, bp	99	0	+1	+3
Russia 30 Yield, %	5.78	0	+0.19	+0.13
OFZ 46018 Yield, %	6.53	-0.01	0	+0.01
Cash accounts at CBR, bln RUR	425.1	-49.0	-14.8	-241.0
Deposits at CBR, bln RUR	329.5	-9.8	+283.2	+214.8
Due from (to) CBR, bln RUR	145	-	-	-
Overnight RUR, %	3	+0.75	-	-
RUR/Bi-currency basket	29.69	+0.02	+0.03	+0.01
Crude oil (Brent), USD/barrel	53.1	+0.1	-10.4	-7.6
RTSI	1850	+52	-3	-60

Sources: DataStream, Bloomberg, MDM, company data



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