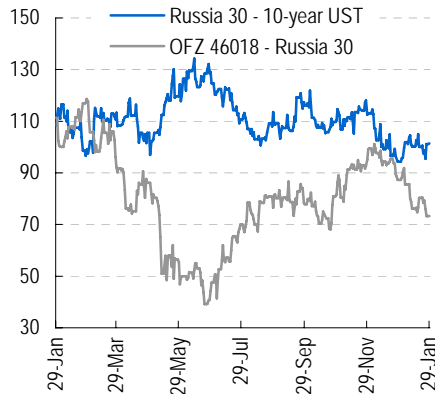
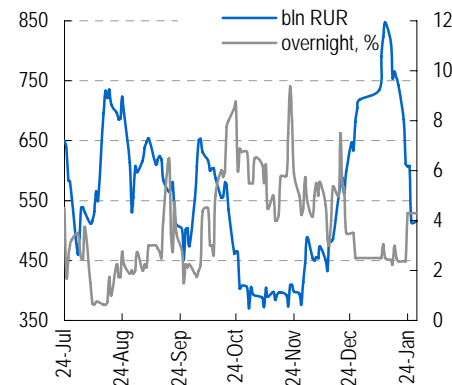


Monday, January 29, 2007

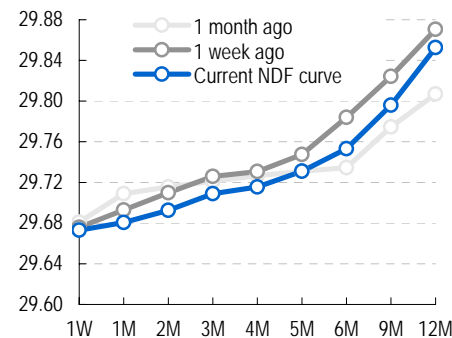
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

January 29	Profit tax payments
January 30	Home Price, Consumer Confidence
January 31	GDP 4Q (US)
January 31	FOMC meeting
January 2	Lenenergo rouble bond issue
January-February	New issues Alliance bank, Caspian Bank, Bank of Georgia, Alfa Bank, IIB

NEWS AND COMMENTS

- Brief: Kommersant daily report that last week Russia's Ministry of the Interior** carried out searches at **Russneft (NR)** oil company in regard to a criminal investigation announced last year. At this stage we don't see how the investigation may seriously damage Russneft's credit profile. We believe that in the worst case scenario (financial difficulties or increased regulatory/political pressure) Russneft will be acquired by a major oil&gas company, which ultimately will be a credit-positive development. The company pursues a very aggressive investment policy and lacks financial transparency, but still it represents an attractive acquisition target as organic growth opportunities in the Russian oil sector are limited. The **Russneft-1** rouble issue has sold off during the last weeks (98.50, 10.4%), primarily due to the announcement of RUR14bn of new issues coming shortly.
- Brief: RAO UES(S&P B+) has decided to transfer** USD2 bn-worth of generating facilities in Russia and CIS to its subsidiary Inter RAO (Source: Vedomosti). No doubt, such a massive capital injection will result in further strengthening of Inter RAO's credit profile. We like the **INTRAO 7.75% CLN 2008**, which offers attractive pick-up over other US\$-denominated bonds of state-controlled companies. Inter RAO is of strategic importance to the Russian government.
- Brief: Wal-Mart (AA), Carrefour (A) and Tesco (A+) are mulling acquisition of the X5 (B1/BB-) retail chain**, according to Kommersant. We believe the deal won't materialize over the next 12 months at least, since X5's shareholders see good stand-alone growth capabilities at this stage. However, the news implicitly supports our thesis that even leveraged food retailers are a safe play in Russia due to the strong acquisition appetite of the majors.
- Brief: Ministry of Finance brings in amendments to legislation** to allow to invest pension funds in mortgage-backed bonds. In our opinion, if approved, the amendments will provide good technical support to the bonds of Russia's State Mortgage Agency (AHML (NR)) We view longer dated **AHML** issues as the most attractive in the rouble high grade segment. They benefit from a state guarantee on principal but trade at some 150bp over OFZ curve.

MARKET COLOR

- Eurobonds:** In the primary market **NOMOS Bank (Ba3/B+)** and **Tsesnabank (B1/B-)** launched their 3-year bonds at 8.1875% and 10.125%, respectively. We don't see immediate upside in any of the two bonds. Tsesnabank looks more attractive as a carry play. Activity is expected to be low this week before FOMC decision.
- Rouble bonds:** We continue to see sellers in the first tier bonds and buyers in the 2-3 tier as investors are reducing duration in anticipation of deteriorating liquidity conditions.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.88	0	+0.18	+0.18
EMBI+ Spread, bp	169	+3	-6	0
EMBI+ Russia Spread, bp	99	+5	+1	+3
Russia 30 Yield, %	5.89	+0.06	+0.24	+0.24
OFZ 46018 Yield, %	6.62	+0.03	+0.10	+0.10
Cash accounts at CBR, bln RUR	397.4	+8.3	-268.7	-268.7
Deposits at CBR, bln RUR	118.7	-5.4	+67.0	+4.0
Due from (to) CBR, bln RUR	14.5	-	-	-
MOSPRIME O/N RUR, %	4.4	+0.02	-	-
RUR/Bi-currency basket	29.66	0	-0.02	-0.02
Crude oil (Brent), USD/barrel	55.3	+1.2	-5.6	-5.4
RTSI	1863	-17	-59	-47



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