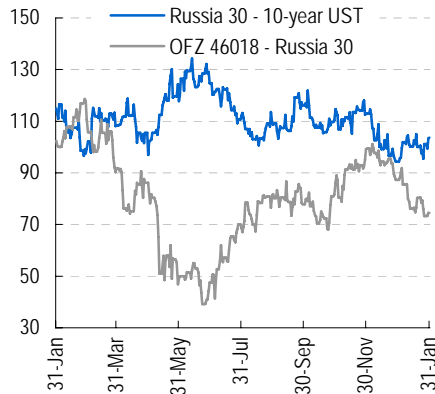
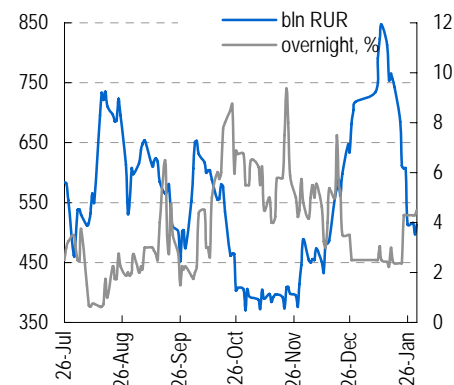


Wednesday, January 31, 2007

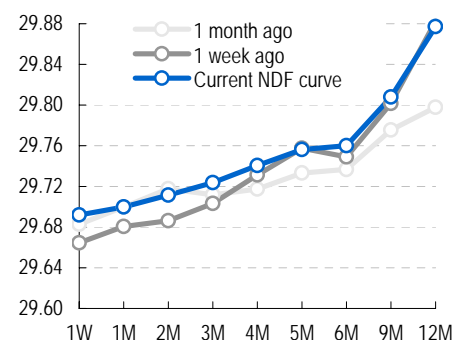
### Russia 30-UST and OFZ-Russia 30 spreads, bp



### Rouble liquidity available at banks, overnight



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



### EVENT CALENDAR

January 31	GDP 4Q (US)
January 31	FOMC meeting
February 2	Lenenergo-2 rouble bond issue
February 8	AHML-9 rouble bond issue
February 8	Arsenal rouble bond issue
February	Belon-2 rouble bond issue
January-February	New issues Caspian Bank, Bank of Georgia, Alfa Bank, IIB, Gazprombank, FUI Bank, WBD, Ukrsotsbank

### NEWS AND COMMENTS

- **Brief: Russia's MinFin announced its OFZ issuance plan for 2007.** Out of total of 225bn roubles, approximately two thirds will be issued in 1H, since MinFin expects weaker market sentiment in 4Q (as it was the case in 2006). We are neutral on the news and believe that the new supply will be largely digested by the Pension Fund and Russian banks. Interestingly, MinFin also said that since 2008 it may adjust issuance plans upwards if Russia changes the principles of budget-planning, whereas all oil-related revenues will be accumulated in a separate Fund. MinFin said it doesn't even rule out new Eurobond issues. We think that it is too early to discuss these plans as they are very much preliminary.
- **Brief: Fitch analysts forewarned investors of likely rise in credit risks of Russia's electric utilities** at the rating agency presentation in Moscow (Source: Reuters). Being aware of the tremendous investment appetite (USD100bn by 2010), Fitch expects the companies to quickly leverage up. We are also negative on the sector in the medium-term. In the short term (next 12 months) core capex will likely be funded from IPO proceeds that over a dozen of generation companies plan to execute. Following the IPOs, gencos will likely join transmission and distribution in their fundraising efforts in the debt market. We think that mounting leverage and intense new supply will play against the bonds issued by electric utilities and recommend to underweight the sector.
- **Brief: Alliance Oil Company (NR) will sell USD300m worth of new shares at an IPO planned for April-May,** according to Kommersant business daily. We believe Alliance stands good chance to close this deal, given attractiveness of the industry and decent transparency of this mid-sized oil company. Currently the company is finalizing the buy-out of minority shares in key subsidiaries. We think that **Alliance-1** (YTP 9.04%) is likely to narrow its spread if IPO is a success.

### MARKET COLOR

- **Eurobonds:** Little changes in the secondary market before the FOMC meeting and GDP numbers. The only interesting move was a material decline in prices of **BIN BANK's 2009 Eurobond** issue, which traded down to 98.00 (YTP 16.5%) as investors eventually realized that the bank is closely affiliated with the troubled oil company **Rusneft** (See our comments from Jan 29 and 30). In the primary market **Cascade Hydro Cherec (NR)**, a soon-to-be subsidiary of Russia's **HydroOGK (Baa3)**, is expected to issue a 6-year US\$60m bond at 12.0%. Since we view the fair yield at 8.5-9.0% (with further upside), we view the issue as extremely attractive.
- **Rouble bonds:** The only highlight is **Rusneft-1**, which keeps trading at 90.0 (YTM 16.2%). Otherwise market largely unchanged, with many sell/buy trades, which a usual end-of-month balance sheet cleaning done by some market players.

### KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.87	-0.02	+0.17	+0.17
EMBI+ Spread, bp	169	0	0	0
EMBI+ Russia Spread, bp	99	+1	+3	+3
Russia 30 Yield, %	5.91	+0.02	+0.26	+0.26
OFZ 46018 Yield, %	6.65	+0.03	+0.13	+0.13
Cash accounts at CBR, bln RUR	421.4	+37.5	-244.7	-244.7
Deposits at CBR, bln RUR	92.3	-20.8	+40.6	-22.4
Due from (to) CBR, bln RUR	9.3	-	-	-
MOSPRIME O/N RUR, %	5.88	+1.48	-	-
RUR/Bi-currency basket	29.67	0	-0.01	-0.01
Crude oil (Brent), USD/barrel	56.4	+2.7	-4.5	-4.3
RTSI	1825	-12	-97	-85

Sources: DataStream, Bloomberg, MDM, company data



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