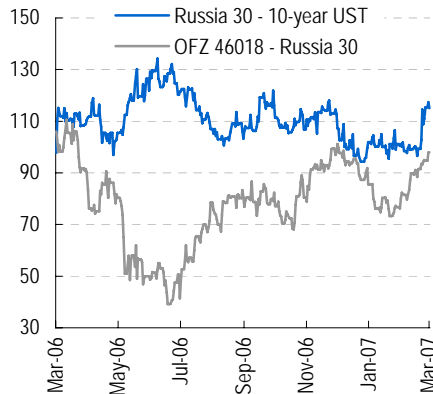
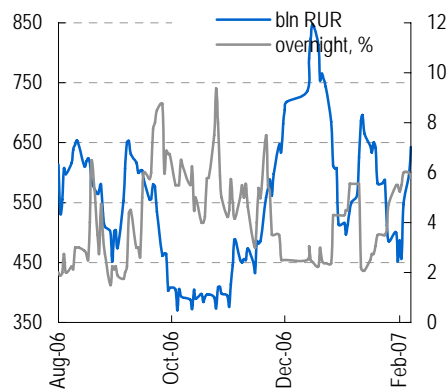


Tuesday, March 06, 2007

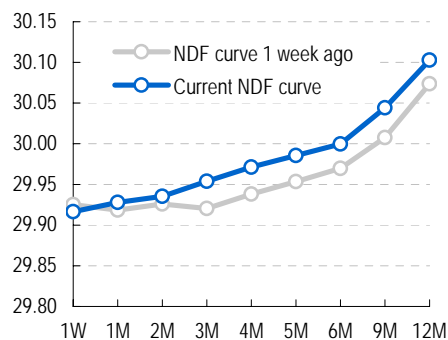
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



NDF on a basket of 0.55 USD+0.45 EUR (in RUR)



EVENT CALENDAR

6-Mar	New issue: RUB bonds Lebedyansky
6-Mar	New issue: RUB bonds Veba-Invest-1
6-Mar	New issue: RUB bonds MIAN-1
6-Mar	New issue: RUB bonds Uralektromed-1
6-Mar	New issue: RUB bonds RenCap-1
7-Mar	Fed's "Beige Book"
7-Mar	New issue: RUB bonds Vozrozhdenie-1
7-Mar	New issue: eurobonds RusAgrBank CHF

NEWS AND COMMENTS

- **Brief: Severstal (B1/BB-/BB-)** is rumored to be considering making a bid for select Corus assets in the UK which Tata may consider selling following the close of the Tata/Corus deal in April. The assets may cost roughly USD2bn. On a Net debt/EBITDA basis Severstal is currently below 1.0x. With EBITDA in excess of USD2bn we think that Severstal's current ratings should accommodate a USD2bn acquisition (if it were to take place).
- **Brief: the restructuring plan approved by RAO UES Board of Directors** last week may reportedly face opposition from the Kremlin, which sees the proposed plan (temporarily passing generation over to the Federal Grid Co. and HydroOGK) as contradicting the spirit of the reform. We view the news as moderately negative for the bondholders of Federal Grid Co, HydroOGK and the rest of Russian electricity companies as it may delay the capital-raising procedures that are required to feed the gigantic investment appetite of the sector.

MARKET COLOR

- **Eurobonds: Russia 30** continues to trade around 113 ¼ - 113 3/8. Spread wise volatility continues. Relatively quiet primary market given the weakened sentiment. No updates yet on the **Eurochem (BB-)** debut 5-year issue (hearing of 8.0%) and **Promsvyazbank 2011** tap. We expect Eurochem to offer a 50bp premium over Russian steel companies' curve (Evraz/Severstal have similar ratings) given the limited upside in the credit story of Eurochem (local gas prices are set to grow, which is likely to put pressure on margins of Russia's largest fertilizer).
- **Rouble bonds:** We are still seeing some sellers in the OFZs and first tier corporate issues as some investors are trying to make up for the losses in the equity market (local equity index is down 11% since the turmoil). We believe the price decline will not last long as many bonds have reached attractive levels, which should attract more buyers. Appetite for the 2-3 tier risk remains solid. Today we are having as many as 8 different issuers coming to the market. Names include 3rd tier construction companies with 13% price talk as well as solid names from metals&mining and food industry to be priced below 8.5%. We particularly like the **Renaissance Capital Bank (RCCF)** rouble issue, which is positioned at 10.5%-11.0% to a put in 1.5 years. We like the story and believe there is implied support from the related Investment Banking Group Renaissance Capital (the two businesses have common shareholders and also share the brand). RCCF's Euroclearable rouble bonds are currently trading around 10% or below.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.50	0	-0.32	-0.20
EMBI+ Spread, bp	193	+2	+27	+24
EMBI+ Russia Spread, bp	116	+2	+17	+20
Russia 30 Yield, %	5.67	+0.02	-0.16	+0.02
OFZ 46018 Yield, %	6.65	+0.05	+0.05	+0.13
Cash accounts at CBR, bln RUR	569.6	+45.7	+157.0	-96.5
Deposits at CBR, bln RUR	73.4	+2.2	-64.6	-41.3
Due from (to) CBR, bln RUR	-17.2	-	-	-
MOSPRIME O/N RUR, %	5.88	+0.07	-	-
RUR/Bi-currency basket	29.92	+0.01	+0.23	+0.24
Crude oil (Brent), USD/barrel	60.5	-1.6	+2.1	-0.2
RTSI	1738	-58	-185	-172

Sources: DataStream, Bloomberg, MDM, company data



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