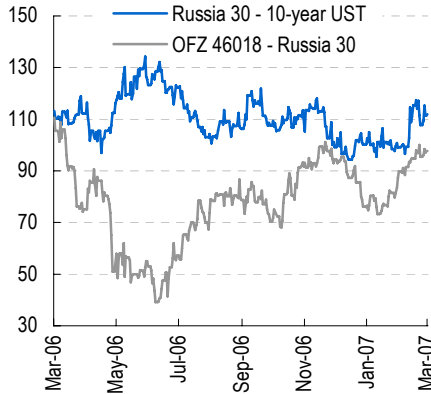
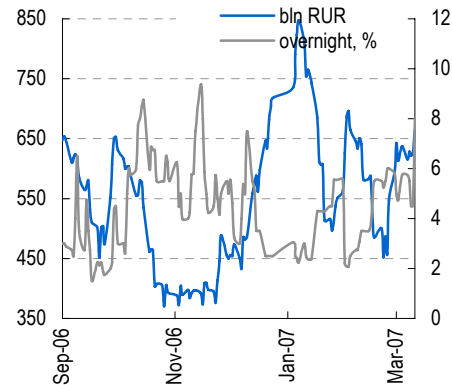


Friday, March 16, 2007

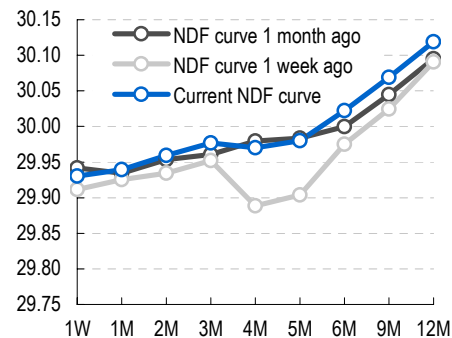
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

16-Mar	Consumer Price Index (CPI)
20-Mar	VAT payments in Russia
20-Mar	New issue: RUB bonds KMPO-Finance-1
20-Mar	New issue: RUB bonds TGK1-1
20-Mar	Housing Starts
21-Mar	New eurobond issue: Absolut Bank
21-Mar	FOMC Rate Decision
21-Mar	New issue: RUB bonds East Express-1

NEWS AND COMMENTS

- Brief: X5 Retail Group (B1/BB-)** has made a presentation on its medium-term development strategy. According to the announced plans, the company will spend at least USD700m on capex (ex acquisitions). We estimate that the company will be able to fund approximately half of that from internally generated cash flow (sales in 2007 will total approx. USD5bn, EBITDA – just over USD500 mn). Hence we think that Debt/EBITDA of X5 will remain above 3.0x in 2007 (estimated 3.7x at 2006FYE). Given the company's intention to refinance approximately USD850m of its current debt, we assume that in 2007 the company will place all the three registered bond issues totaling RUB25 bn. We are not questioning X5's creditworthiness, which is supported by solid market positions, strong shareholder and well-established access to equity markets. Still, we think that the new bond supply will negatively affect the **Pyatorochka-2** issue (YTM 8.45%). Prospects for **Pyatorochka-1** (YTM 8.38%) are more positive, as the company wants to buy back this issue. On a slightly different subject, X5 confirmed its intentions to exercise its option to acquire hypermarket chain **Karusel** (9.04%) in 2008.
- Brief: Evraz (B2/BB-/BB)** is buying 93.35% of the shares of **West Siberian HPP** for USD228m (source: Evraz). The acquisition itself is not a big one for the company like Evraz. It also makes sense from a business perspective, as it improves the degree of the group's vertical integration (the plant supplies electricity to ZapSib). However, given Evraz's recent acquisition of US-based Oregon Steel Mills for USD2.3bn, the HPP deal makes it even more difficult for Evraz to explain that it will stick to its through-the-cycle ceiling of 1.5x for Net Debt/EBITDA ratio (1.55x pro forma after Oregon Steel deal). As a reminder, Standard & Poor's has already revised its outlook on Evraz rating to "Negative". We do not rule out that Evraz's HPP deal will trigger a downgrade from S&P and negative feedback from Moody's and Fitch.

ARKET COLOR

- Eurobonds:** Russia 30 is trading around 113 ½ (UST+112bp). Very few moves in corporates. The market on new **Mirax 2011_09 CLN** issue is 100 ½ - 100 5/8. We have seen trades at 100.50 in this issue (9.17% to a put in 2 years).
- Rouble bonds:** Market looks solid despite high overnight rates (6-7%). We maintain our moderately-negative view on liquidity conditions (Sberbank IPO and YUKOS asset sale are putting pressure on liquidity along with taxes). We point out at the following government-supported risk that, in our view, looks relatively attractive: **NPO Saturn-1** (8.93%, 50bp over the company's 2nd issue); **EMAlliance** (8.91%) and **MOITK-1** (9.40%). **Zenit Bank** announced a new rouble issue with a 1 year put. Price-talk is 8.52%-8.78%, which makes the longer dated Zenit-2 (8.61%) look a bit expensive.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.54	0	-0.20	-0.16
EMBI+ Spread, bp	183	-2	+15	+14
EMBI+ Russia Spread, bp	111	-1	+12	+15
Russia 30 Yield, %	5.65	0	-0.10	0
OFZ 46018 Yield, %	6.63	+0.01	+0.05	+0.11
Cash accounts at CBR, bln RUR	592.6	+42.1	+190.7	-73.5
Deposits at CBR, bln RUR	72.6	-3.7	-176.0	-42.1
Due from (to) CBR, bln RUR	3.2	-	-	-
MOSPRIME O/N RUR, %	7.04	+0.80	-	-
RUR/Bi-currency basket	29.91	0	-0.02	+0.23
Crude oil (Brent), USD/barrel	60.7	-0.4	+1.8	+0.0
RTSI	1809	+30	-88	-101

Sources: DataStream, Bloomberg, MDM, company data



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