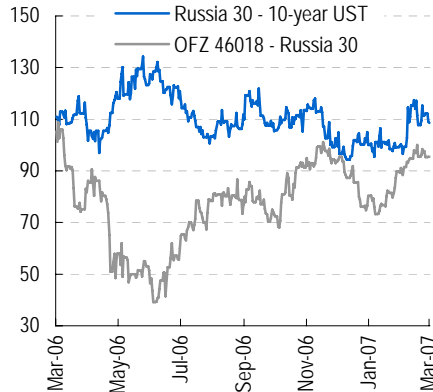
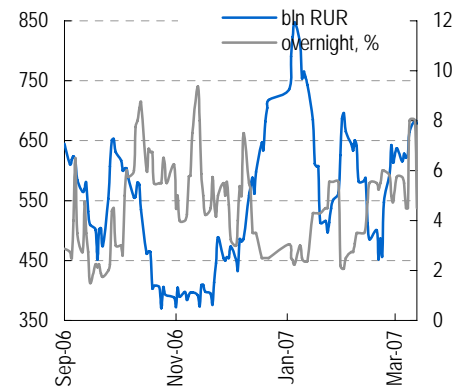


Tuesday, March 20, 2007

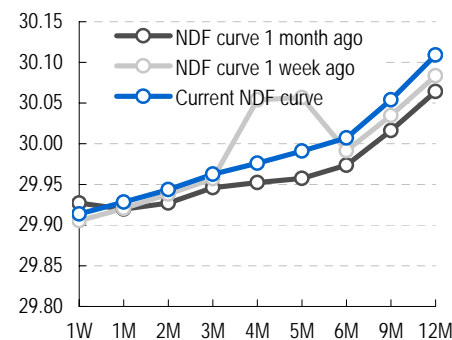
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

| | |
|--------|-------------------------------------|
| 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 |
| 22-Mar | Initial Jobless Claims |

NEWS AND COMMENTS

- **Brief: Interfax reports that Russian Agricultural Bank (A3/NR/BBB+) as well as Russian Bank for Development (Baa2/BBB+)** are included into the draft privatization list for 2008. We view this as another formal attempt of the government to stick to the thesis of reducing state presence in the banking sector. We remind that according to Russia's official development strategy in this sector even Sbebank and VTB could theoretically be privatized. In reality we cannot see how Russia reduces its holdings in any of those banks to below 50% given their importance to the financial system and government policies. What could happen though is that the banks' shares will be shifted from one state-controlled vehicle to another. RUBKD, for instance, is due to be merged with VEB into what is planned to be Russia's Development Bank. Anyway, we don't rule out some selling in RSHB or RUBKD bonds on the back of the news, and in case of significant spread widening we recommend to increase exposure. Both banks have "change of control" covenants in most of their funding agreements including Eurobond issues (though this doesn't help much as bonds are trading above par).
- **Brief: Financial Times reports that Banca Intesa's (Aa3/AA-/AA-) acquisition of UkrSotsbank (Ba1/B/B-) may fall apart.** USBUZ 10 issue has traded down to 99.75 (8.10%) from 101.00 following the report.
- **Brief: Concern Stiroi (Caa1/NR/B-) has eventually acknowledged covenant violation and announced an unprecedented 2.5% waiver solicitation fee.** Given the company's solid financial standing (still cash positive, according to our estimates) we view the corporate governance risk as key in Stiroi's credit profile. The fact that the company acknowledged covenant violation suggests that it has in mind new capital markets transactions and want to improve governance. The CONSTI 08 issue is currently offered at 98.00 (9.47%), which looks quite attractive, factoring in the waiver fee.
- **Brief: Standard & Poor's raised Renaissance Capital brokerage to BB-/Stable.** RENOTE 09 is currently trading at 8.10%, with some 30-60bp over other Russia's banks with BB- rating.

MARKET COLOR

- **Eurobonds:** Very quiet day yesterday for Russian bonds. At the same time, we have seen some recovery in **Kazakh banks**, where bids went up ½ – ¾. Activity is likely to reduce in anticipation of the results of the FOMC meeting.
- **Rouble bonds:** Another day of flat market. Overnight rates plunged yesterday to 3%, but this morning they moved back to 5.5-6.0%. In the primary market today there are two placements – **KMPO** (small state-controlled engine-building company, price talk 9.75% yield to a 1.5 year put, we view as interesting) and **TGK-1** (8.0% to a 3-year put, a solid electricity generation company, we are not excited as there will be more electricity supply).

KEY MARKET INDICATORS

| | Close | Change | | |
|-------------------------------|-------|--------|--------|--------|
| | | 1 day | 1 week | 1 year |
| UST 10 Year Yield, % | 4.57 | +0.02 | -0.12 | -0.13 |
| EMBI+ Spread, bp | 178 | -4 | +8 | +9 |
| EMBI+ Russia Spread, bp | 107 | -2 | +7 | +11 |
| Russia 30 Yield, % | 5.66 | -0.01 | -0.02 | +0.01 |
| OFZ 46018 Yield, % | 6.61 | -0.01 | +0.03 | +0.09 |
| Cash accounts at CBR, bln RUR | 605.9 | -5.6 | +221.4 | -60.2 |
| Deposits at CBR, bln RUR | 72.8 | +0.8 | -124.8 | -41.9 |
| Due from (to) CBR, bln RUR | 58.8 | - | - | - |
| MOSPRIME O/N RUR, % | 5.25 | 0 | - | - |
| RUR/Bi-currency basket | 29.91 | -0.01 | -0.02 | +0.23 |
| Crude oil (Brent), USD/barrel | 60.5 | +0.2 | +2.5 | -0.2 |
| RTSI | 1846 | +25 | -48 | -64 |



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