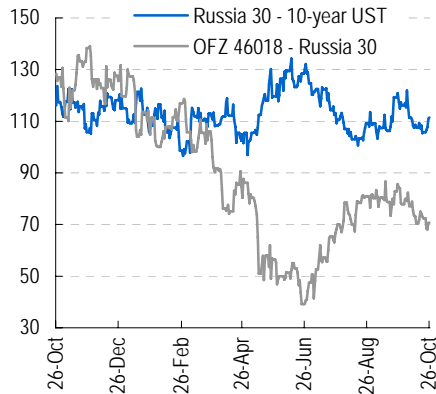
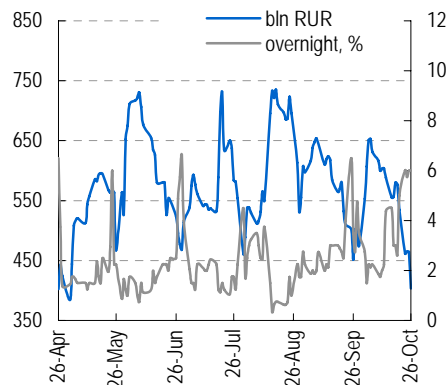


Thursday, October 26, 2006

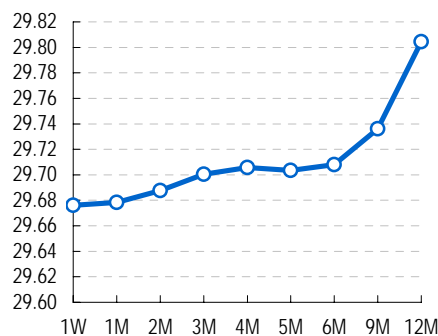
### Russia 30-UST and OFZ-Russia 30 spreads, bp



### Rouble liquidity available at banks, overnight



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



### EVENT CALENDAR

October 26	Rouble bond issue JFC
October 26	Rouble bond issue GSI
October 26	Rouble bond issue Sodruzhestvo
October 26	Durable Goods Orders (US)
October 26	Jobless Claims (US)
October	Road-shows Sberbank, VTB Don Stroi
November 1	Severstal 9m 06 RAS
November 3	Pyaterochka 3Q 06 financial report
November 6	Public holiday

### MARKET COLOR

- Russian Eurobonds spent another quiet day on Wednesday in anticipation of the FOMC decision. This morning the bonds traded up to reflect the upward move of UST following the release of FOMC comments. **Russia 30** is maintaining its spread at around 106-108bp.
- Rouble bonds remained under pressure from high overnight rates and tight liquidity conditions. The amount of cash in the banking system dropped by RUR61bn and reached 403bn, while there are more tax payments before the end of month. The **Central Bank** is still avoiding currency interventions in FX market. We may see the reversal of the trend only at the beginning of next week, when liquidity conditions are expected to improve. Intense new issuance from corporates continues. **Gazprom (Baa1/BBB-/BBB)** announced two new rouble issues.

### NEWS AND COMMENTS

- Brief: Rosneft (Baa2/BB/BB+)** plans to raise USD24bn in short-term loans from foreign banks to finance buy-out of YUKOS assets which are currently on sale under bankruptcy procedures (Source: Dow Jones, Vedomosti). We believe that such a massive new supply of Russia's quasi-sovereign risk may push banks to sell their exposure to Russian sovereign or other quasi-sovereign names or buy CDS, which may result into a short-term spread widening.
- Brief: President Putin** during his public q&a session said that he is encouraging to speed up the process of consolidation of Russia's aircraft construction companies into **United Aircraft Corporation**. Mr. Putin criticized both the government and companies involved for delays. We believe that the likely acceleration of the process is good news for the bondholders of **MiG (NR)**, **Irkut (B1 Moody's)** and other companies (**NPO Saturn (NR)**, **Salut (NR)**) that are due to shape UAC, since following the consolidation likelihood of government support with regard to these companies is likely to increase.
- Brief: Fitch revised Ukraine (Ba3/BB-/BB-)'s outlook from "Stable" to "Positive"** and subsequently took a similar rating action with regard to 5 banks. Fitch highlights Ukraine's solid economic growth supported by rising investment and consumption. Fitch also notes Ukraine's ability to absorb gas price increases, improved political environments and strength of fiscal numbers. We think that Fitch's action is an important signal for many investors to start gradually revising their negative credit views on Ukraine.
- Brief: In a separate rating action Fitch placed Naftogaz "B+" rating on CreditWatch "Negative"**, questioning ability of the gov-t to pass through offtake gas price onto end-consumers and support Naftogaz with cash injections in case of need. We tend to agree with Fitch that Naftogaz's financial performance is likely to remain very poor, but think that the state will provide necessary support in order to avoid a public default of Ukraine's target corporate.

### KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.76	-0.06	+0.18	+0.37
EMBI+ Spread, bp	184	-1	-34	-61
EMBI+ Russia Spread, bp	107	+1	-11	-11
Russia 30 Yield, %	5.87	-0.03	+0.11	+0.33
OFZ 46018 Yield, %	6.58	0	-0.02	-0.16
Cash accounts at CBR, bln RUR	336.3	-45.9	+0.6	-153.9
Deposits at CBR, bln RUR	67.2	-15.1	-56.7	-47.5
Due from (to) CBR, bln RUR	-16.5	-	-	-
Overnight RUR, %	6	+0.25	-	-
RUR/Bi-currency basket	29.66	0	0	-1.28
Crude oil (Brent), USD/barrel	62.1	+2.2	+1.9	+4.0
RTSI	1630	+21	+146	+508

Sources: DataStream, Bloomberg, MDM, company data



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