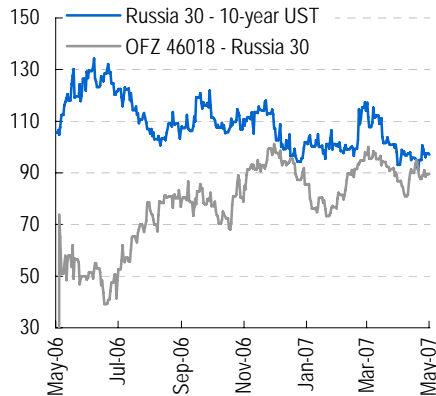
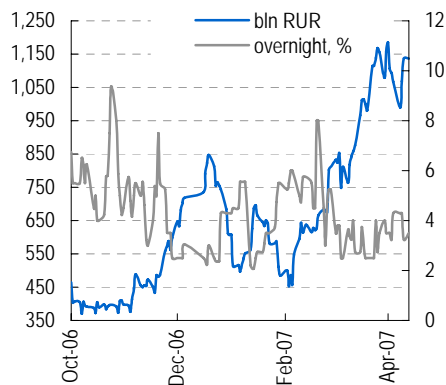


Monday, May 07, 2007

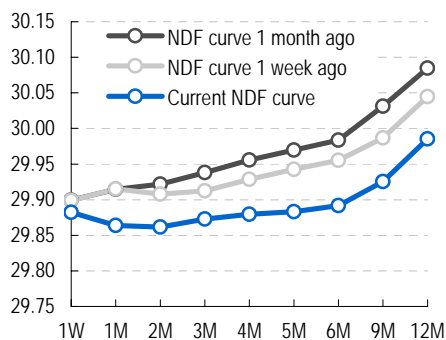
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

9-May	FOMC Meeting
10-May	Import Price Index (APR)
11-May	Producer Price Index (APR)
14-May	VTB IPO completion
15-May	New issue: RUB bonds Sibacademstroy-1
15-May	Social tax payments in Russia
15-May	Consumer Price Index (APR)
16-May	New issue: RUB bonds RusFinanceBank-3

NEWS AND COMMENTS

- **Brief: Moody's announced bank rating actions for Russia resulting from implementation of its new JDA methodology.** Among other things Moody's upgraded 15 Russian banks' global scale ratings by 1 notch. For a full press-release please see www.moody.com/jdabanks. Given the timing of the announcement (late Friday before the long weekend in London), large number of upgrades and certain scepticism towards the methodology, we doubt that the news will result into any price moves. At the same time, we think that Moody's methodology assumptions (that governments may bail out private banks to avoid systemic banking crises) make sense for Russia. Guta Bank (now VTB group) story is a good example.
- **Brief: Standard & Poor's raised two consumer finance banks – Russian Standard Bank and Home Credit & Finance Bank – by 1 notch to BB- and B+, respectively.** While in case with RUSB stand-alone performance was the key driver behind the upgrade, in case with HCFB it was about the strengthened positions of the parent PPF group, which is due to receive EUR1.1 as part of the deal with Assicurazioni Generali (AA). We think that both upgrades are deserved. We expect HCFB's performance to gradually improve on the back of recent management changes. Ruble issues of the two banks are trading with wider spreads over swaps compared to the US\$-denominated ones.
- **Brief: DIXY food retailer (NR) is due to start its IPO road-show today.** The core idea behind the IPO is to let the private equity funds (own 33.5% of equity) to exit. Currently the company's IFRS financial statements are adversely affected by the exit commitments given to these funds. If IPO generates good demand, we understand that the company itself may sell some new shares and in this way strengthen the balance sheet. DIXY's ruble issue is trading at 10.20% (97.90 of par) to maturity in 4 years. We think it could tighten by another 20bp in case IPO is successful.

MARKET COLOR

- **Eurobonds: Raspadskaya**, one of Russia's leading coaking coal companies, has received its first-time ratings (Ba3/B+) in anticipation of a debut Eurobond. Another exciting newcomer – **Novorossiysky Port** – has yet to receive the ratings. Both issuers are currently marketing 5-year US\$ bonds. We will comment on the companies themselves when the price talk is released.
- **Ruble bonds:** Low activity as many locals are still off on May holidays. Fundamentally the market is very strong, supported by low overnight and REPO rates. Massive inflow of capital related to YUKOS asset sales and Sberbank/VTB IPOs has flooded the banking system with ruble liquidity. We recommend profit-taking at the long end, which looks now overpriced from a spread-to-swaps perspective.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.64	-0.03	-0.01	-0.06
EMBI+ Spread, bp	167	+5	+3	-2
EMBI+ Russia Spread, bp	100	+4	0	+4
Russia 30 Yield, %	5.62	-0.02	-0.04	-0.03
OFZ 46018 Yield, %	6.51	-0.01	-0.05	-0.01
Cash accounts at CBR, bln RUR	384.9	-67.8	-46.3	-281.2
Deposits at CBR, bln RUR	752	+68.5	+306.9	+637.3
Due from (to) CBR, bln RUR	135.7	-	-	-
MOSPRIME O/N RUR, %	3.5	-0.04	-	-
RUR/Bi-currency basket	29.91	0	-0.01	+0.23
Crude oil (Brent), USD/barrel	66.1	-0.2	-2.3	+5.4
RTSI	1930	+7	-16	+20

Sources: DataStream, Bloomberg, MDM, company data



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