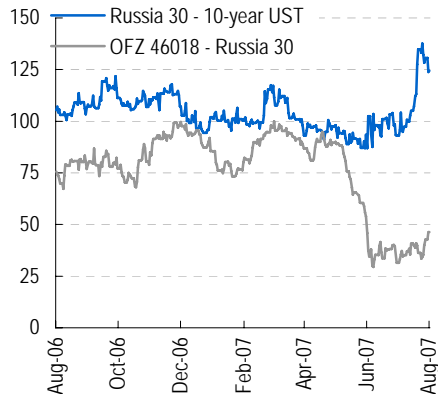
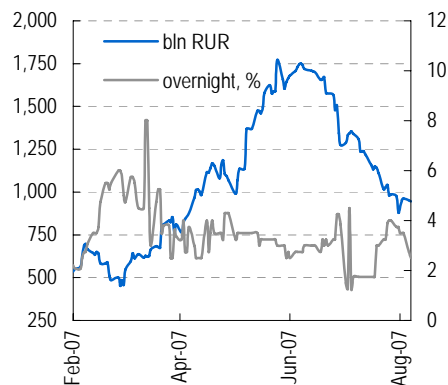


Tuesday, August 07, 2007

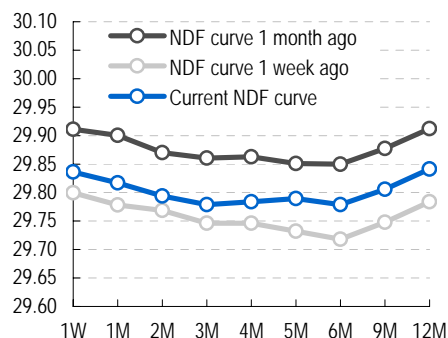
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

| | |
|--------|-----------------------------------|
| 7-Aug | New issue: RUB bonds MORE-Plaza-1 |
| 7-Aug | New issue: RUB bonds DVTG-1 |
| 7-Aug | FOMC Rate Decision |
| 7-Aug | ABC Consumer Confidence Index |
| 9-Aug | New issue: RUB bonds Miratorg-1 |
| 10-Aug | New issue: RUB bonds Eurostyle-1 |
| 10-Aug | Import Price Index |
| 15-Aug | New issue: RUB bonds Transfin-M-2 |

NEWS, IDEAS AND COMMENTS

- **Russia's Anti-monopoly watchdog (FAS) has found no evidence that leading retail lender Russian Standard Bank misled customers over its lending rates.** We think that the news should support RUSB issues, which have severely underperformed over the last 7-8 weeks vs peers (almost 200bp widening vs 120-150 in HCFB or URSAP). However we note that this may not be the end of the story as the Prosecutor's Office asked not only FAS, but also the Central Bank and the Financial Monitoring Agency to check the bank (results yet unknown).
- **Official July inflation in Russia came out at 0.9%,** bringing the 7 month figure to 6.6% (6.9% in 2006). Given the fact that the full year target stands at 8.0%, we think that disappointing CPI data further enhances expectations for nominal ruble appreciation (the most efficient tool against inflation).

SOME OF THE CORPORATE NEWS THAT CAME OUT IN THE LAST TWO WEEKS WHEN WE WERE ON "RESEARCH VACATIONS":

- **The founder and principal owner Russneft (NR) has reportedly agreed to sell the distressed oil company to the powerful Basic Element Group** (among other things controls RUSAL – global aluminium leader). This deal should result into a release of regulatory pressure on Russneft and significantly reduce credit risks. The Russneft-1 ruble issue rallied from 75-80pp to some 92-96pp (12-17%).
- **The officials of the Republic Tatarstan (one of Russia's regions) have said they may agree to sell an equity stake in the petrochemical company Kazanorgsintez (B-NR/B) to Gazprom (A3/BBB).** We think that the likelihood of such a transaction is material (some 50-60%) and therefore view the recent outperformance of KZOSRU 11 (9.00%) issue as justified.
- **One of Russia's largest real estate and development firms – MIAN (NR) – has received some RUB1bn of tax claims.** We think that other companies in the sector are at risk of facing similar problems (all lacking transparency).
- **Recent rating actions:** upgrades of MDM Bank by S&P, Rosbank by Fitch, Positive outlook on Gallery Capital by Moody's, affirmation of Ukraine by S&P.

SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Eurobonds:** Quiet market in anticipation of FOMC decision, no primary deals. We recommend to do some cherry-picking in the corporates, that offer a number of good buying opportunities after a major sell-off (RUSB, TATFON, EUCHEM, RASPAD).
- **Ruble bonds:** Neutral dynamics after an insignificant correction in OFZs and first tier names. AHML, Mosoblast, HCFB-4 and some other issues look appealing from a relative value perspective. We also like DIXYF (10.5%) bond.

KEY MARKET INDICATORS

| | Close | Change | | |
|-------------------------------|-------|--------|---------|--------|
| | | 1 day | 1 month | 1 year |
| UST 10 Year Yield, % | 4.74 | +0.05 | -0.44 | +0.04 |
| EMBI+ Spread, bp | 216 | -3 | +55 | +47 |
| EMBI+ Russia Spread, bp | 124 | -5 | +32 | +28 |
| Russia 30 Yield, % | 5.98 | -0.01 | -0.14 | +0.33 |
| OFZ 46018 Yield, % | 6.44 | +0.02 | +0.01 | -0.08 |
| Cash accounts at CBR, bln RUR | 463.9 | -11.1 | -25.8 | -202.2 |
| Deposits at CBR, bln RUR | 482.2 | +5.7 | -367.3 | +367.5 |
| Due from (to) CBR, bln RUR | 27.0 | - | - | - |
| MOSPRIME O/N RUR, % | 3.25 | -0.21 | - | - |
| RUR/Bi-currency basket | 29.84 | +0.02 | -0.01 | +0.16 |
| Crude oil (Brent), USD/barrel | 71.2 | -3.6 | -4.4 | +10.5 |
| RTSI | 1945 | -26 | -30 | +35 |



33/1 Kotelnicheskaya Nab.,
Moscow, Russia 115172
el.+7 (495) 795-2521

Managing Director, Head of Fixed Income Sales and Trading

Sergey Babayan

Sergey.Babayan@mdmbank.com

Sales: bond_sales@mdmbank.com

| | |
|----------------------|------------------|
| Corrado Taveggia | +7 495 787 94 52 |
| Natalia Ermolitskaya | +7 495 960 22 56 |
| Linaida Eremina | +7 495 363 55 83 |
| Dmitry Omelchenko | +7 495 363 55 84 |
| Darya Grischenko | +7 495 363 27 44 |

Fixed Income Trading

| | |
|------------------|------------------------------|
| Nicolay Panyukov | Nicolay.Panyukov@mdmbank.com |
| Alexander Zubkov | Alexander.Zubkov@mdmbank.com |
| Evgeny Lysenko | Evgeny.Lysenko@mdmbank.com |

Repo Desk

| | |
|----------------|----------------------------|
| Alexei Bazarov | Alexei.Bazarov@mdmbank.com |
| Denis Anokhin | Denis.Anokhin@mdmbank.com |

Fixed Income Research

| | | | |
|----------------|----------------------------|-----------------|-----------------------------|
| Mikhail Galkin | Mikhail.Galkin@mdmbank.com | Maxim Korovin | Maxim.Korovin@mdmbank.com |
| Denis Vodnev | Denis.Vodnev@mdmbank.com | Dmitry Smelov | Dmitry.Smelov@mdmbank.com |
| Olga Nikolaeva | Olga.Nikolaeva@mdmbank.com | Maria Radchenko | Maria.Radchenko@mdmbank.com |

Telecoms

| | |
|----------------------|----------------------------------|
| Ekaterina Generalova | Ekaterina.Generalova@mdmbank.com |
|----------------------|----------------------------------|

Utilities

| | |
|-----------------------|-----------------------------------|
| George Lilis | George.Lilis@mdmbank.com |
| Vladislav Nigmatullin | Vladislav.Nigmatullin@mdmbank.com |

Editors/Production

| | |
|---------------------|---------------------------------|
| Thomas Lavrakas | Thomas.Lavrakas@mdmbank.com |
| Ekaterina Ogurtsova | Ekaterina.Ogurtsova@mdmbank.com |
| Andrey Goncharov | Andrey.Goncharov@mdmbank.com |
| Mikhail Remennikov | Mikhail.Remennikov@mdmbank.com |

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