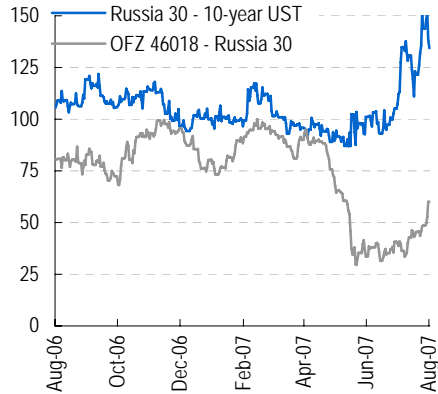
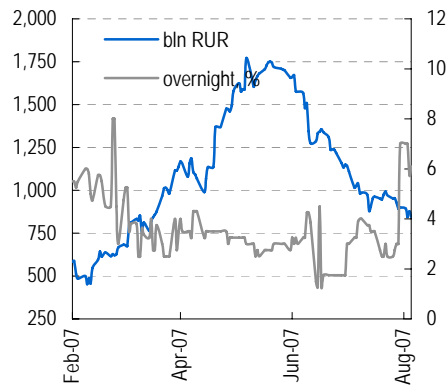


Thursday, August 23, 2007

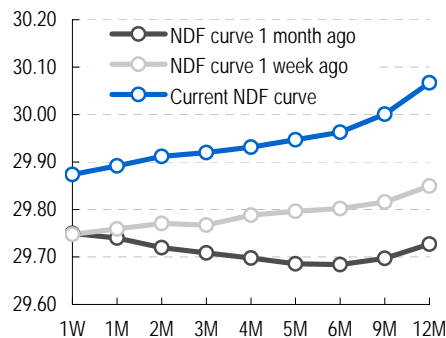
### Russia 30-UST and OFZ-Russia 30 spreads, bp



### Rouble liquidity available at banks, overnight



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



### EVENT CALENDAR

24-Aug	New Home Sales (JUL)
27-Aug	Excise duty, MET payments in Russia
27-Aug	Existing Home Sales (JUL)
28-Aug	Income tax payments in Russia
31-Aug	MET payments in Russia
12-Sep	OFZ 46018 auction (RUB 3 bln.)
12-Sep	OFZ 46020 auction (RUB 10 bln.)
17-Sep	New RUB bond issue: OBR-3

### NEWS, IDEAS AND COMMENTS

- **Brief: Russia's leading newspapers are writing today that Russian banks may have to follow Russian Standard Bank and cut or cancel penalties and fees in their credit products as a result of regulatory pressure.** It is difficult so far to estimate the potential damage to the credit profile of the banks. At any rate, the news does not help the recovery of Russian banks' bonds, which already severely underperformed the rest of the Russian corporate universe during the recent sell-off.
- **Brief: DIXY food retailer (NR) posted solid 1H07 IFRS financials.** The results reflect a major improvement in leverage ratios on the back of IPO-related increase in equity and partial debt redemptions. Debt/EBITDA fell below 3.0x from almost 6x at the end of 2006. We think that from a credit perspective DIXY is now very close to the segment leaders – X5 Retail Group (BB-), Magnit (NR) and Seventh Continent (NR). However, DIXY ruble bonds (10.5%) are still trading 200bp over these peers. We think that DIXY issue will strongly outperform going forward. We recommend to switch into this bond from other retail papers or buy it outright at first signs of market recovery.
- **Brief: Eurochem (NR/BB-/BB-) eyes a mineral fertilizer plant in Ukraine.** The starting price at the privatization auction may exceed USD500 mn. Eurochem's financial metrics are strong enough to digest an acquisition like that (debt/EBITDA≈1x, annual EBITDA≈USD500 mn). However, given the high political risks of participating in privatization in Ukraine, we would view the deal as moderately negative for the company's credit profile.
- **Brief: Moody's yesterday assigned its first-time rating to the Republic of Belarus at B1/Stable.** The day before S&P rated Belarus at B+. Moody's notes high probability of increased international borrowings from the government of Belarus and local issuers.

### SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Eurobonds:** Certain tightening in **RUSSIA 30** (135bp over UST) on the back of some positive signals of reduced liquidity concerns from the **US** and **Europe**. In corporates we see some careful bids in the quasi-sovereign names, otherwise liquidity is very low.
- **Ruble bonds:** On Tuesday we saw a major wave of capital outflow, as investors were buying USD. Ruble weakened against the bi-currency basket, while the Central Bank had to intervene by selling c.3bn USD and in that way taking out some ruble liquidity and adding pressure on the ruble money market. Overnight rates stay above 6%, repo borrowings from the Central bank hit record highs. However, given the very solid macro growth numbers and high inflation rates, we think that investors will relatively quickly return into the ruble play. For the time being sentiment in local bonds remains weak, selling pressure is still there. OFZs and high grade papers outperform 2-3 issues.

### KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.65	+0.06	-0.30	-0.05
EMBI+ Spread, bp	234	-10	+54	+65
EMBI+ Russia Spread, bp	139	-10	+35	+43
Russia 30 Yield, %	6.03	-0.07	+0.01	+0.38
OFZ 46018 Yield, %	6.63	0	+0.21	+0.11
Cash accounts at CBR, bln RUR	389.1	-23.1	-119.1	-277.0
Deposits at CBR, bln RUR	455.6	-10.2	-63.1	+340.9
Due from (to) CBR, bln RUR	-114.3	-	-	-
MOSPRIME O/N RUR, %	6.92	+0.76	-	-
RUR/Bi-currency basket	29.89	0	+0.13	+0.21
Crude oil (Brent), USD/barrel	68.7	0	-8.2	+8.0
RTSI	1854	+33	-237	-56

Sources: DataStream, Bloomberg, MDM, company data



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