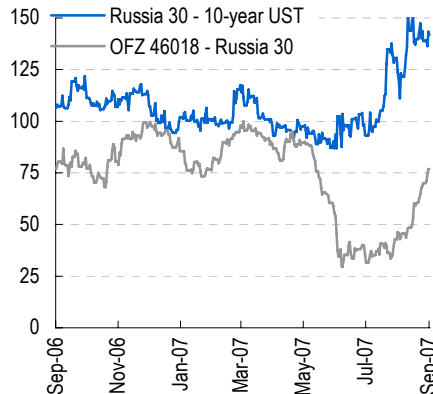
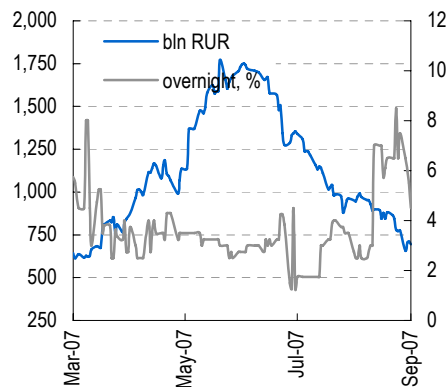


Thursday, September 06, 2007

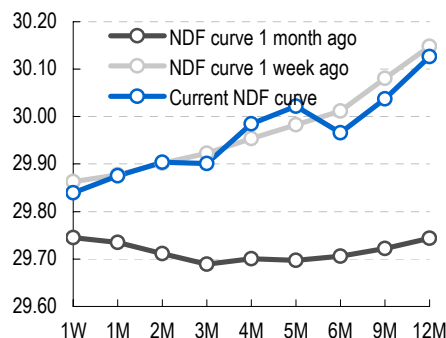
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

6-Sep	ECB rate decision
7-Sep	Nonfarm Payrolls (AUG)
12-Sep	OFZ 46018 auction (RUB 17 bln.)
12-Sep	OFZ 46020 auction (RUB 22 bln.)
17-Sep	New RUB bond issue: OBR-3
17-Sep	Social taxes payments in Russia
18-Sep	FOMC rate decision
20-Sep	VAT payments in Russia

SECONDARY MARKET COLOR AND PRIMARY DEALS

- Ruble bonds:** Selling in ruble bonds continues. Both foreigners and locals are reducing their positions. In the FX market we see demand for dollars, and ruble is weakening against the bi-currency basket. This morning price moves in ruble bonds were particularly dramatic (-1pp) as apparently some investors received margin calls or simply lost patience. **RUSB** was seen selling its bonds (it purchased those as part of the put option few days ago) at 12% and above levels. **RUSB** is funding itself this way in absence of other capital markets opportunities and on the eve of high season in consumer lending. Not a good sign for bondholders anyway.
- Eurobonds:** **RUSSIA 30** widened to 140bp over UST. **VTB** said it is planning to raise USD5bn in the capital markets before the end of the year.

NEWS, IDEAS AND COMMENTS

- Brief: Bank Petrocommerce (Ba3/B+) may cancel its plans to attract a strategic investor.** According to Leonid Fedun, one of the bank's beneficiaries and LUKOIL executive, there are now no sale negotiations underway, though several parties are still interested in Petrocommerce (Source: Interfax). As a reminder, few days ago another major beneficiary of Petrocommerce said negotiations were underway (see our comments dated August 31). The latest news reduces the chances of the soon takeover of the bank by a major foreign financial institution and undermines the M&A related upside in PETRRU bond issues.
- Brief: Pharmacy Chain 36.6 (NR) posted 1H07 results.** This retail chain continues to grow very aggressively (sales +72% y-o-y), maintaining extremely stretched financial profile (Debt/EBITDA above 9x). Key supportive factor in APTKRU has always been the "equity story" – the company is listed and controls a listed pharmaceutical producer Veropharm (both segments are viewed as relatively "hot"). However, given the deteriorated conditions in the capital markets and increased systemic refinancing risks, we think that APTKRU becomes a vulnerable credit. The company is currently marketing a CP program (2 months, 11-12% yield). Against this backdrop, 12.5% on a 5-month bond looks a bit expensive, in our view.
- Brief: Standard & Poor's upgraded Rusfinance Bank and Rosbank by 1 notch to BB+ and BB-, respectively.** Its outlook for both banks remains «Positive». S&P named shareholder support as the main rationale behind the upgrades. To remind, French **SocGen** (Aa1/AA) controls Rusfinance Bank and is expected to shortly take over Rosbank. Rusfinance's ruble issues are trading approximately 200bp over the sovereign ruble curve. For certain technical reasons these issues are not yet included in the list of bonds eligible for direct repo with the Central Bank (bonds of issuers rated Ba2/BB and above should be there). Rosbank does not have any liquid bonds.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.47	-0.08	-0.27	-0.23
EMBI+ Spread, bp	233	+10	+14	+64
EMBI+ Russia Spread, bp	143	+7	+14	+47
Russia 30 Yield, %	5.90	-0.01	-0.08	+0.25
OFZ 46018 Yield, %	6.67	+0.01	+0.23	+0.15
Cash accounts at CBR, bln RUR	420.2	+18.7	-43.7	-245.9
Deposits at CBR, bln RUR	275.7	-33.7	-206.5	+161.0
Due from (to) CBR, bln RUR	71.6	-	-	-
MOSPRIME O/N RUR, %	5.4	+0.19	-	-
RUR/Bi-currency basket	29.84	+0.07	0	+0.16
Crude oil (Brent), USD/barrel	74.3	+0.4	+3.1	+13.6
RTSI	1905	0	-40	-5

Sources: DataStream, Bloomberg, MDM, company data



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