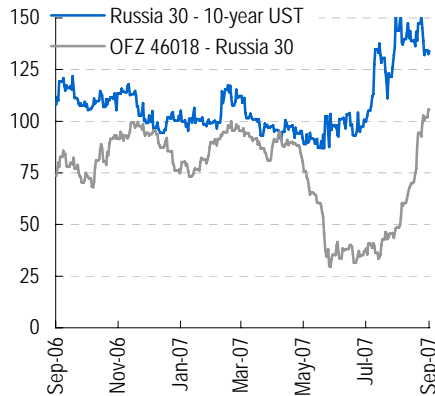
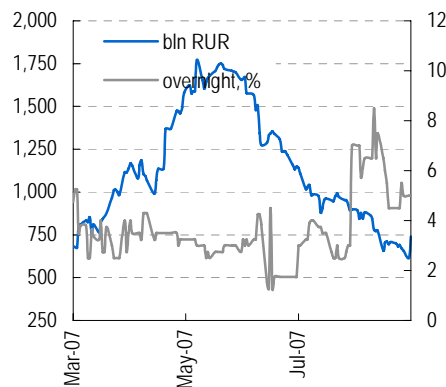


Tuesday, September 18, 2007

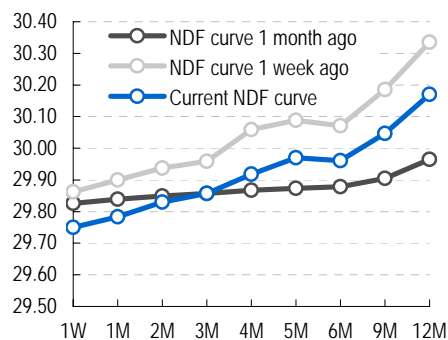
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

18-Sep	FOMC rate decision
18-Sep	Producer Price Index (AUG)
19-Sep	Consumer Price Index (AUG)
20-Sep	VAT payments in Russia
20-Sep	New RUB bond issue: Ladya-River-1
25-Sep	Excise duty, MET payments in Russia
28-Sep	Income tax payments in Russia
15-Oct	Social taxes payments in Russia

NEWS, IDEAS AND COMMENTS

- **Brief: Commerzbank (Aa3/NR/A)** said it agreed to acquire a controlling stake in Ukraine-based Bank Forum (B1/NR/A), according to Bloomberg. Bearing in mind execution risk, we still believe the FORUMZ 09 issue is attractive at current levels (10.3%; ASW+540bp).
- **Brief: Moody's released a report on Russian banks**, which is written in "cautiously-positive" tone. The report is very similar to the one published by S&P recently. Moody's recognizes that Russian banks have strengthened their financial profile and management, but at the same time notes that there is room for further improvements. Importantly, Moody's is yet another institution that doesn't see significant refinancing risks for Russian banks, when discussing their exposure to wholesale capital markets.
- **Brief: X5 Retail Group (B1/BB-)** released preliminary 1H07 results, which look solid in both top line (+49% y-o-y) and profitability (EBITDA margin +1.3pp). The group's debt position will be clarified when full financial report is published on Sept. 24. We estimate that the company was around 3.0-3.3x in terms of Net debt/EBITDA by the end of the reporting period. X5 ruble bond (8.6%) doesn't look attractive on a relative basis vs some other food retail bonds (e.g. DIXY, Karousel with YTW > 11%).
- **Brief: Bank Credit Europe (Ba1)** received another equity injection from its parent. Equity/Assets ratio is around comfortable 20% level. We think that the banks' bonds have always been trading too tight vs peers like HCFB or RCCF.

SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Ruble bonds:** Despite certain improvements in ruble liquidity (CBR redeemed its bonds, injecting some RUB130bn into the system), we have seen a quite dramatic selling yesterday in ruble bonds. Price moves varied from 50bp to 250bp, depending on liquidity and credit quality of respective papers. We believe that this was due to reported reduction of Russia's state banks' inter-bank lending and repo limits. **Vedomosti daily** wrote yesterday that VTB has significantly reduced its lines. We think that this could be true based on 1) market talk; 2) the banks' own refinancing needs, e.g. USD1bn FRN redemption is due from VTB later this week; and 3) competition logic, where state banks use their strength to capture the market share while smaller banks experience difficulties with liquidity. In any case, lower access to repo may translate into further unwinding of leveraged positions. Also, following an increase in NDF and cross-currency interest rate swap rates, may ruble bonds still look quite expensive vs Eurobonds of the same issuers. Btw yesterday we saw a major adjustment in **URSA-5** ruble issue, which now looks more fair on a swap-spread basis.
- **Eurobonds:** Quiet trading as everyone is expecting FOMC decision on the RATE. **RUSSIA 30** is still around 133bp over UST. Light volumes in the corporate segment.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.47	+0.01	-0.22	-0.23
EMBI+ Spread, bp	222	-1	-13	+53
EMBI+ Russia Spread, bp	135	-1	-8	+39
Russia 30 Yield, %	5.79	-0.01	-0.34	+0.14
OFZ 46018 Yield, %	6.85	+0.03	+0.24	+0.33
Cash accounts at CBR, bln RUR	495.9	+57.3	+45.1	-170.2
Deposits at CBR, bln RUR	243.9	+67.8	-204.6	+129.2
Due from (to) CBR, bln RUR	97.1	-	-	-
MOSPRIME O/N RUR, %	5.15	-0.10	-	-
RUR/Bi-currency basket	29.74	-0.02	+0.04	+0.06
Crude oil (Brent), USD/barrel	77.0	+0.8	+6.6	+16.3
RTSI	1916	-27	+55	+6



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