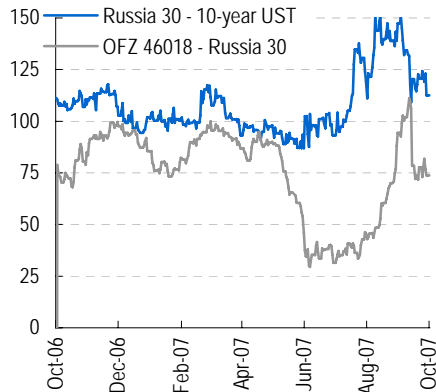
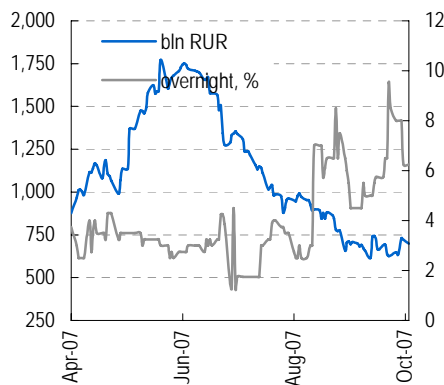


Monday, October 08, 2007

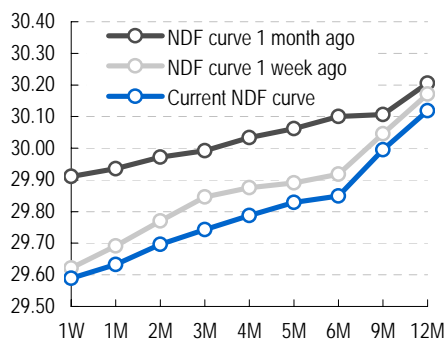
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

9-Oct	New RUB bond issue: TKS Bank-1
10-Oct	New RUB bond issue: RusAgroBank-4
10-Oct	New RUB bond issue: VTB24-1
11-Oct	Import Price Index (SEP)
11-Oct	New RUB bond issue: MIA-4
11-Oct	New RUB bond issue: Elis-1
12-Oct	Producer Price Index (SEP)
12-Oct	New RUB bond issue: Bank Electronica-2

NEWS, IDEAS AND COMMENTS

- **Brief: Evraz (Ba3/BB-/BB) will refinance debt it took to finance the takeover of Oregon Steel with new bank loans** (Source: Interfax). We believe that this should help Evraz bonds to recover after they widened by some 10-15bp on Friday on the back of slightly misleading media reports that Evraz may refinance debt with Eurobonds. One should also keep in mind that the company released very strong financial results (Net debt/EBITDA annualized \approx 1.2x as of June 30 after USD3bn worth of acquisitions in 1H07).
- **Brief: National Bank of Kazakhstan has again officially confirmed its willingness and ability to support local banks.** NBK has also explained the recent volatility in Eurobonds of local banks by speculative attacks of the hedge funds (Source: Reuters). The statements may help the bond prices to bounce back. In our opinion, the Kazakh gov't and NBK have sufficient muscles to bail out the banks if necessary. Today's news about ENI expecting to reach an agreement with the Kazakh government on the Kashagan dispute should also be supportive for the bonds of local banks as it signals of improving macro/FX picture.
- **Brief: September inflation in Russia came out unexpectedly high – at 0.8%, vs 0.1% a year ago.** The cumulative 9m07 CPI has reached 7.5%, which makes the full year 8.0% target look unrealistic. Inflation data has pushed NDF rates lower (by some 50bp or more at the short end of the curve), reflecting a more bullish view on ruble. CBR has also bought almost 3bn USD on Friday (according to our FX dealers). All that should be supportive for ruble liquidity and bonds. Not surprisingly, the local bond market has moved higher this morning.
- **Brief: X5 Retail Group is reportedly seeking a USD1.5bn loan for refinancing and corporate purposes** (Source: Interfax). The news sounds quite logical. Few days ago the company said it decided to move the SPO onto 2008. Hence it needs to somehow refinance the USD1bn bridge facility it received in June. We expect the company's Debt/EBITDA ratio to increase to at least 4x by the end of 2007 (3.5x at mid-2007). Failure to execute SPO in 2008 combined with strong M&A appetite may result in rating downgrades, although we don't view this as a likely scenario.
- **Brief: Mechel Steel Company (NR) has won the privatization auction for large coal assets located in the Far East of Russia, having offered USD2.3bn.** As of mid-2007 the company's net debt was around zero, and its 1H07 EBITDA exceeded USD800m. This effectively means that post-acquisition Net debt/EBITDA should be maintained within 2x. Mechel's only ruble issue is quite illiquid (8.0%), and pricing is affected by its presence in A1-list (eligible for pension AMS), hence any spread widening is unlikely.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.64	+0.13	+0.17	-0.06
EMBI+ Spread, bp	194	-7	-39	+25
EMBI+ Russia Spread, bp	119	-7	-24	+23
Russia 30 Yield, %	5.76	+0.02	-0.14	+0.11
OFZ 46018 Yield, %	6.50	-0.01	-0.17	-0.02
Cash accounts at CBR, bln RUR	526.8	+1.0	+99.4	-139.3
Deposits at CBR, bln RUR	171.9	-22.9	-108.3	+57.2
Due from (to) CBR, bln RUR	-57.2	-	-	-
MOSPRIME O/N RUR, %	6.5	-0.46	-	-
RUR/Bi-currency basket	29.62	0	-0.25	-0.48
Crude oil (Brent), USD/barrel	78.9	-0.1	+3.8	+18.2
RTSI	2115	+25	+217	+205

Sources: DataStream, Bloomberg, MDM, company data



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