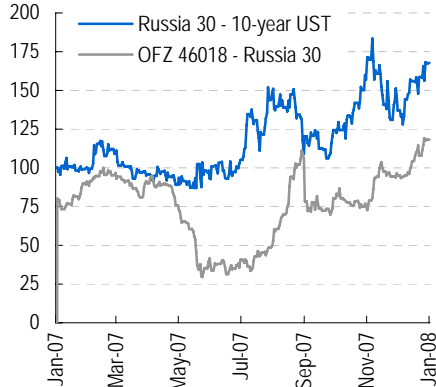
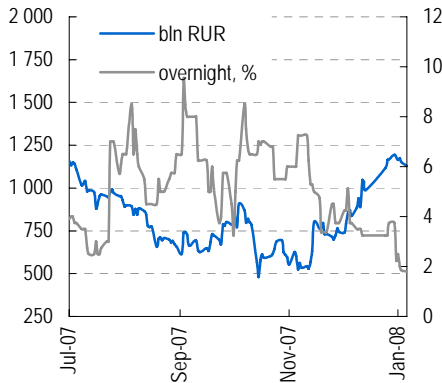


Monday, January 21, 2008

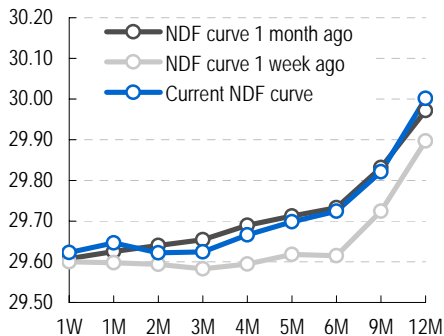
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

21-Jan	VAT payments in Russia
22-Jan	Richmond Fed Index
24-Jan	Existing Home Sales
25-Jan	Excise duty, MET payments in Russia
28-Jan	New Home Sales
28-Jan	Income tax payments in Russia
29-Jan	Durable Goods Orders
30-Jan	FOMC Rate Action

NEWS, IDEAS AND COMMENTS

- **Brief: Home Credit and Finance Bank (Ba3/B+)** reported a net profit of RUB 3.3 billion in 2007 according to the Russian Accounting Standards. This is 2.3 times more than the bank earned in 2006 and a 40% increase compared to the 3Q07 result. The bank has also increased its assets by approximately 24% in 4Q to RUB 74 billion. (Source: AK&M). We couldn't obtain the detailed version of HCFB's full year results, but even the mentioned bottom line numbers signal of positive trends in the bank's financial profile. It is good to see the bank successfully growing despite challenging liquidity conditions and increased regulatory pressure in Russia's consumer finance sector. The success of the bank is largely a function of strong shareholder support. We believe that the news should have a positive impact on the pricing of HCFB bonds. We particularly like the ruble issues of the bank (yielding around 12%) that are eligible for a 6% overnight repo at the Central Bank.
- **Brief: Transneft, Russia's state oil pipeline, said it wants to pull all its money out of Alfa Bank (Ba1/BB).** Transneft holds some RUB 16 billion of cash in this bank (Source: Interfax). We believe that this event is a result of the recent management change at the state-controlled company. For Alfa Bank the RUB 16 billion is a material amount, which equals to approximately 4% of its balance sheet. Of course, this cash outflow will put certain pressure on the bank's liquidity position. However, we don't question Alfa Bank's credit quality – we are confident that the bank will either increase funding from other sources (including shareholders) or will find the way to reduce the asset base. We are neutral on ALFARU bond issues.

SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Eurobonds:** RUSSIA 30 was trading close to its historical highs on Friday, at 115 3/8. Spread over UST is relatively wide – at around 165bp. In the corporate sector we saw sellers in longer-dated bonds and some bids in 2-3 year duration issues. In the primary market **Renova Holding** (Ba2/BB) has been doing a road-show last week. The company has been testing the markets for a potential debut now or later this year.
- **Ruble bonds:** Budget injections as well as CBR's FX interventions have flooded the banking system with plenty of liquidity during the last 2 weeks of 2007, so that overnight rates have fallen to 1-3%. This is enough to keep ruble bonds from falling. However, buying appetite is yet weak, since locals don't believe in long-term sustainability of the currently favorable liquidity conditions. Yet no corporate names appeared in the new issuance calendar. **MinFin** is placing some **OFZs**. **AIZhK**, the federal mortgage agency, may sell its new ruble issue beginning of February.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	3.63	+0.01	-0.40	-0.40
EMBI+ Spread, bp	272	0	+37	+33
EMBI+ Russia Spread, bp	170	-2	+22	+23
Russia 30 Yield, %	5.31	0	-0.23	-0.20
OFZ 46018 Yield, %	6.49	+0.01	+0.01	+0.02
Cash accounts at CBR, bln RUR	569.3	-39.2	-132.5	-319.2
Deposits at CBR, bln RUR	559.5	+17.3	+424.6	+444.8
Due from (to) CBR, bln RUR	109.8	-	-	-
MOSPRIME O/N RUR, %	2.25	+0.08	-	-
RUR/Bi-currency basket	29.62	+0.01	+0.01	-0.02
Crude oil (Brent), USD/barrel	89.2	+0.4	-3.3	-4.7
RTSI	2159	-16	-137	-132

Sources: DataStream, Bloomberg, MDM, company data



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