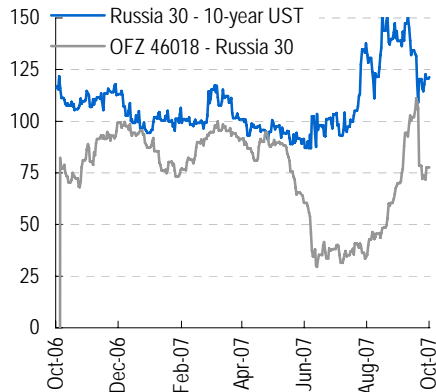
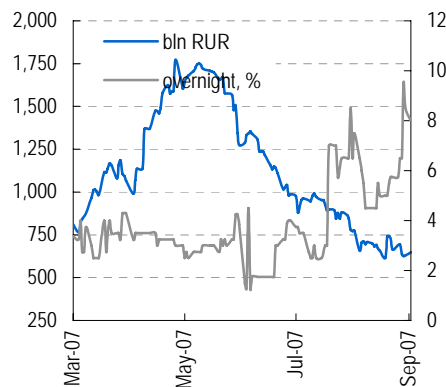


Monday, October 01, 2007

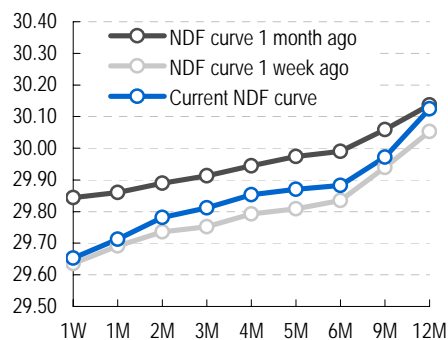
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

1-Oct	ISM Manufacturing (SEP)
2-Oct	New RUB bond issue: NationalCapital-1
2-Oct	Pending Home Sales (SEP)
10-Oct	New RUB bond issue: RusAgroBank-4
15-Oct	Social taxes payments in Russia
17-Oct	OFZ 26199 auction (RUB 3 bln.)
22-Oct	VAT payments in Russia
25-Oct	Excise duty, MET payments in Russia

NEWS, IDEAS AND COMMENTS

- **Brief: MegaFon (Ba3/BB/BB+)** released very strong 1H 07 US GAAP results. The company showed a 62% rise in top line, while its EBITDA margin has exceeded 50%. The company maintains a very conservative leverage, with Net debt/EBITDA at 0.4x. We don't expect any material price reaction in MEGAFO bond issues.
- **Brief: Rolf (Ba3/BB-)** released its 1H 07 IFRS results. The company's leverage as of mid-2007 has significantly increased vs the beginning of the year ("Debt including trade finance/EBITDA" has exceeded 3x). However, we attribute part of that to seasonality factor (sales are much higher in the 2H, which brings inventories and trade finance down by the year-end). We are neutral on the ROLFGP 10 (9.7%) Eurobond issue.
- **Brief: Cherkizovo (NR)**, one of Russia's meat producers, has released neutral 1H 07 US GAAP results. The company showed a modest increase in sales, but managed to improve margins on the back of higher poultry sales. Aggressive capex (USD150m in 2007 and at least USD150m in 2008) and acquisition appetite (Chicken Kingdom acquired in August for USD143m) vs annual EBITDA of around USD100m will likely result in growing leverage (Net debt/EBITDA may rise above 4x). Bonds are trading around 10%, which is not too attractive in this environment.
- **Brief: Gazprom (A3/BBB+)** has bought enough shares during OGGK-2 IPO to gain control over the company. IPO itself is reportedly not going very well. OGGK-2 ruble bond is trading at 9.0%, i.e. 200bp over Gazprom, which is not too bad. However, Salavatnefteorgsintez, another subsidiary of Gazprom, is trading at 270bp over.
- **Brief: Seventh Continent (NR)** reported decent 1H 07 numbers. Debt volume has significantly increased following the recent bond issue. However, on a net debt basis the company is still unleveraged. The company's bond looks fairly attractive (9.25%) on acquisition by TPG.

SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Ruble bonds:** The banking system has eventually passed through the end-of-quarter tax payments, which together with some budget injections brought certain relief into the money market. However, we yet don't see any active buyers. In fact, some first tier papers are quite well-offered. Good news is that ruble has gained a little against the bi-currency basket this morning, and we are seeing **Central Bank** intervening in the FX market. CBR purchases of USD should generate additional ruble liquidity and help the bond market to recover. Interestingly, the "big and powerful" buyer in OFZs has taken its bids off the screens for now.
- **Eurobonds:** **RUSSIA 30** trading at 120bp over **UST**. Liquidity outside of the sovereign and quasi-sovereign papers is extremely low.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.59	+0.02	+0.03	-0.11
EMBI+ Spread, bp	201	0	-33	+32
EMBI+ Russia Spread, bp	124	-1	-20	+28
Russia 30 Yield, %	5.79	0	-0.17	+0.14
OFZ 46018 Yield, %	6.57	+0.06	-0.07	+0.05
Cash accounts at CBR, bln RUR	576.1	+71.6	+150.1	-90.0
Deposits at CBR, bln RUR	72.2	-52.1	-277.9	-42.5
Due from (to) CBR, bln RUR	-92.0	-	-	-
MOSPRIME O/N RUR, %	9.55	+0.97	-	-
RUR/Bi-currency basket	29.63	0	-0.23	-0.47
Crude oil (Brent), USD/barrel	79.2	-0.8	+6.5	+18.5
RTSI	2072	+8	+152	+162



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