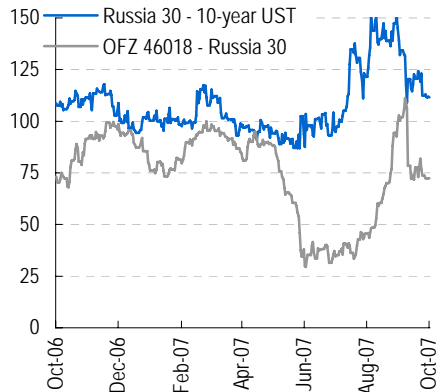
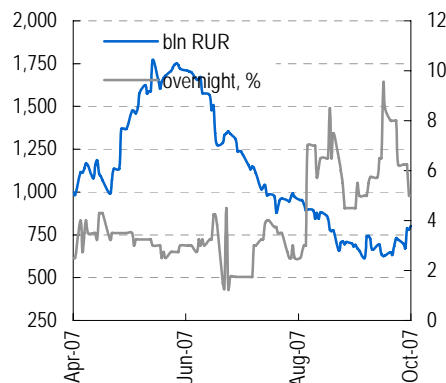


Friday, October 12, 2007

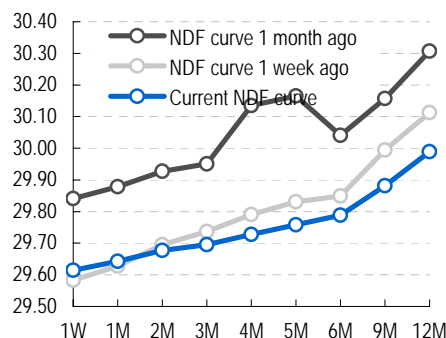
### Russia 30-UST and OFZ-Russia 30 spreads, bp



### Rouble liquidity available at banks, overnight



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



### EVENT CALENDAR

12-Oct	Producer Price Index (SEP)
15-Oct	Social taxes payments in Russia
16-Oct	Industrial Production (SEP)
17-Oct	OFZ 26199 auction (RUB 3 bln.)
17-Oct	Consumer Price Index (SEP)
17-Oct	Fed's "Beige Book"
17-Oct	New eurobond issue: Gazprom
17-Oct	New RUB bond issue: HM StroyResurs-1

### NEWS, IDEAS AND COMMENTS

- Inflation spirals out of control.** Central Bank's Chief S.Ignatiev said that inflation in the first 10 days of October reached as much as 0.5%. We view the news as positive for the local bond market. In this difficult environment CBR will refrain from tightening monetary policy (in fact the policy is being loosened to support the banking system) and therefore will confine itself to ruble strengthening. We are already seeing NDF rates going down, which is increasing relative value of local bonds vs Eurobonds. On a related matter, Mr.Ignatiev noted that CBR bought around USD8bn during the first decade of October, which corresponds with what our FX dealers have been saying and confirms that capital outflow has temporarily stopped.
- Kazanorgsintez (KZOSRU; NR/B-/B) has reported strong 1H 07 IFRS financials,** with sales, EBITDA and net income strongly up y-o-y. We attribute the improvements primarily to better polyethylene pricing environment and note that the effect of March-May dispute with core supplier (Gazprom) has been limited. Net debt/EBITDA ratio of the company has declined to 2.8x from around 3x at 2006FYE. We think that KZOSRU 11 (9.3%) issue is less sensitive to financial reporting vs the news and rumours about its closer integration with Gazprom.
- President of Kazakhstan said that he views the recent downgrade of the country's sovereign rating as unjustified** and required that the government more efficiently communicates with the rating agencies. He also said that some USD4bn fund should be established to support the banks, particularly those with exposure to construction sector (Source: Interfax). We think that the news could provide some additional comfort to investors into Kazakh banking bonds.
- S&P downgraded one of Russia's largest food retailers - Kopeyka - to CC/Negative from B-** on significantly increased financial risks. Kopeyka is not disclosing its results, but we are hearing about very low margins and gigantic leverage. Still we view the rating action as unjustified as it doesn't factor in shareholder support and strong M&A appetite in the sector. Kopeyka is controlled by Uralsib Financial Corporation, which owns nation's 6<sup>th</sup> largest bank. Uralsib has reportedly paid hundreds of millions of dollars for its stake in Kopeyka. S&P apparently failed to meet Uralsib and assess its commitment and ability to support. Kopeyka's bonds have sold off yesterday to 20% and above yield levels. We think the bonds are attractive for bottom-fishers.

### SECONDARY MARKET COLOR AND PRIMARY DEALS

- Moderately positive mood in both local and external debt segments.** However, activity is relatively low.

### KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.64	-0.01	+0.27	-0.06
EMBI+ Spread, bp	183	-4	-56	+14
EMBI+ Russia Spread, bp	111	-4	-37	+15
Russia 30 Yield, %	5.76	-0.01	-0.06	+0.11
OFZ 46018 Yield, %	6.48	-0.01	-0.33	-0.04
Cash accounts at CBR, bln RUR	574.2	-28.8	+57.5	-91.9
Deposits at CBR, bln RUR	227.2	+50.3	+52.9	+112.5
Due from (to) CBR, bln RUR	31.8	-	-	-
MOSPRIME O/N RUR, %	6.46	+0.75	-	-
RUR/Bi-currency basket	29.61	0	-0.26	-0.49
Crude oil (Brent), USD/barrel	80.2	+1.6	+2.5	+19.5
RTSI	2173	+29	+273	+263

Sources: DataStream, Bloomberg, MDM, company data



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