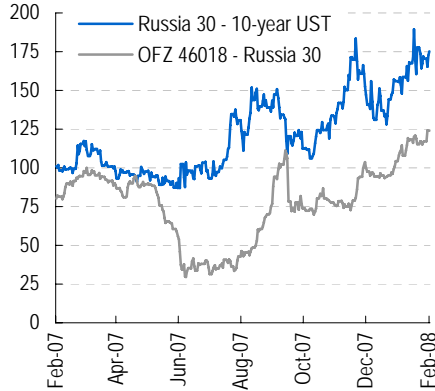
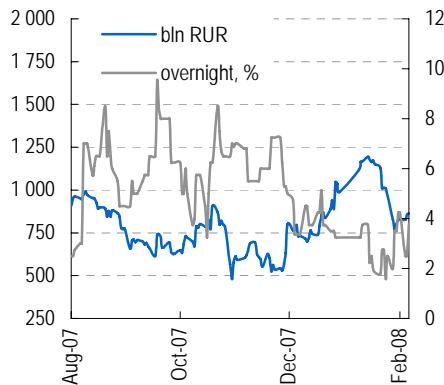


Wednesday, February 06, 2008

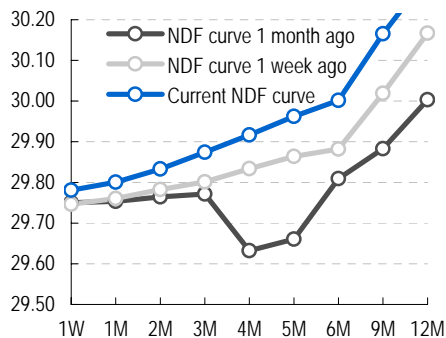
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

6-Feb	OFZ-46021 auction (RUB10 bln.)
6-Feb	OFZ-25062 auction (RUB10 bln.)
6-Feb	New issue: Moscow-49
7-Feb	Consumer Credit (DEC)
8-Feb	New issue: VTB24-2
12-Feb	New issue: BankofMoscow-2
12-Feb	New issue: Dalur-1
14-Feb	US Trade Balance

NEWS, IDEAS AND COMMENTS

- **Brief: RBC (S&P B+)** raised a USD45m loan as part of a larger USD200m facility provided by Barclays (Source: *Vedomost*). We believe that following a successful SPO in December 2007, when RBC raised USD187m of additional equity, there should be no concerns regarding its short-term credit quality. Equity injections allow the company to maintain very solid credit metrics, despite its aggressive investments into internet projects. We estimate that as of 2007FYE RBC's net debt was negative or around zero, equity capital exceeded USD350m, and gross debt was around USD130m. Sales in 2007 reached USD170-180m. EBITDA is uncertain given the lack of clarity with regard to accounting for internet investments. We like the RBC USD 09_08 CLN issue, which is a good defensive asset (YTW ≈ 11-12%).
- **Brief: S&P raised ALROSA by one notch to BB/Stable on progress in «federalization» and an increased likelihood of state support.** We don't see any upside in ALROSA 14 (7.1%) issue, since we expect ALROSA's leverage ratios to gradually deteriorate due to aggressive capex plans. The risk of acquisitions and new debt supply is also lurking.
- **Brief: Russian inflation in January 2008 reached 2.3%, up from 1.7% in January last year** (Source: Rosstat). We believe that the January numbers are already factored in to the recent tightening measures announced by the Central Bank. The regulator's policy going forward will depend on inflation figures in the upcoming months, as well as the economic performance related statistics. We believe that the CBR will no longer use ruble appreciation as a tool to fight inflation, but rather will again act on rates.

SECONDARY MARKET COLOR AND PRIMARY DEALS

- **Eurobonds:** Russia 30 is trading at 176bp over UST; corporates look weaker after yesterday's risk aversion triggered by ISM. **Bank of Moscow** (A3/BBB) is coming with a new deal. It is going to be a 3-year CHF 150m issue, marketed at MS+370bp. We estimate the "new issuance" premium at around 25-30bp. **Southern Telecom** (B1/B), a subsidiary of state-controlled Svyazinvest group, is apparently coming with a 9% 5-year USD CLN deal. We will comment on that transaction as we learn more details.
- **Ruble bonds:** We see negative sentiment, which is related to a large new issuance overhang, apparently continued capital outflow (as witnessed by ruble rate against the USD/EUR basket) and the Feb 1 tightening by the Central Bank. Today **MinFin** and **City of Moscow** will offer an aggregate of RUB25bn of bonds. We don't see value in participating there, the OFZ and Moscow curves look too tight vs. the CBR repo rate. TKG-10 price talk on a 1-year paper at 9.5-10% should put a lot of pressure on other genco bonds that are trading well below 9%.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	3.57	-0.08	-0.30	-0.46
EMBI+ Spread, bp	280	+10	+24	+41
EMBI+ Russia Spread, bp	176	+7	+13	+29
Russia 30 Yield, %	5.30	0	-0.13	-0.21
OFZ 46018 Yield, %	6.54	0	+0.07	+0.07
Cash accounts at CBR, bln RUR	500.3	-1.2	-340.0	-388.2
Deposits at CBR, bln RUR	362.2	+7.2	+213.2	+247.5
Due from (to) CBR, bln RUR	66.1	-	-	-
MOSPRIME O/N RUR, %	3.36	+0.11	-	-
RUR/Bi-currency basket	29.83	+0.06	+0.16	+0.19
Crude oil (Brent), USD/barrel	88.8	-1.7	-8.0	-5.1
RTSI	1967	-46	-324	-324

Sources: DataStream, Bloomberg, MDM, company data



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