

CIS

CIS Fixed Income Daily

11 October 2007

Today's news

Central Bank is taking measures to ensure banking sector liquidity
 The CBR has lowered minimum reserve requirements by one percentage point for three months. Additionally the CBR for the first time provided liquidity on the terms of pledging a commercial bank's loans portfolio.

IMF believes high oil prices should prop up the tenge
 The fund also expects economic growth to slow down and advises a rate hike.

No drama in the bank deposit data for August-September
 Retail deposits decreased 3% MoM in September, following a small drop in August. We believe that the data should contribute to an improvement in general market sentiment towards Kazakhstan's banking sector.

Companies in this issue

Company	Currency	YTW (%)	Rec	Previously	Since
none					
Source: ING					

Trade ideas in brief

External debt	Open date

Domestic debt	Open date
Along with globally abating fears regarding credit risks, we view RSB's rouble bonds as among the top performers, allowing us to assign them a Buy recommendation.	14/09/2007

Our Trade Ideas highlight short-term trade opportunities for Emerging European corporate credits. See the Trade Ideas section inside for more details.

Benchmark yields

	Last	%ch (DoD)
UST 10Y (US\$)	4.651	-0.004
Russia 10Y (RUB)	6.350	0.000
Russia 10Y (US\$)	5.821	-0.013
Russia '30 (US\$)	5.770	-0.001
Ukraine '16 (US\$)	6.527	0.029

Currencies

	Last	%ch (DoD)
RUB/US\$	24.96	0.00
KZT/US\$	120.97	0.02
UAH/US\$	5.03	0.00

Money market rates

	Last	%ch (DoD)
3 months RUB	7.33	-0.11
3 months KZT	6.70	0.00
3 months UAH	4.44	0.44

Russia

Domestic markets update

Yesterday the rouble continued to rise, reaching RBL24.94/USD as the euro strengthened against the dollar. Today's Eurozone GDP and US labour market figures are likely to introduce volatility to the market. Today we see the rouble within the range RBL24.91-25.00/USD.

On the money market interbank overnight rates remain at around 5-6%, unchanged since yesterday. Nostro balances and the CBR's deposit accounts reached RBL779.9bn, while the total volume of funds offered through the central bank's repo auctions totalled RBL34.3bn.

On the back of increased rouble liquidity, on Wednesday market sentiment in the rouble bond market improved somewhat although investment activity was still reserved. Price changes in the government segment were rather small on low trading volumes, while first-tier papers met demand. The main activity was seen in the primary market, where given some premium to the secondary market RBL16bn of RSHB-4 (RBL10bn) and VTB24-1 (RBL6bn) were both fully placed with a coupon rate of 8.2% for a one-year period. Today we do not expect any major changes in the market and maintain a neutral view.

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Central Bank is taking measures to ensure banking sector liquidity

The CBR has lowered minimum reserve requirements by one percentage point for three months. Additionally the CBR for the first time provided liquidity on the terms of pledging a commercial bank's loans portfolio.

Minimum reserve requirements with respect to rouble-denominated liabilities to individuals have been cut from 4 to 3 per cent, and those with respect to both rouble- and FX-denominated liabilities to non-resident banks, from 4.5 to 3.5 per cent. In total the move is expected to provide the banking sector with RBL70bn of extra liquidity, which is supposed to be available to the banks since October 11th. At the same time the measure is temporary and will take effect till January 15th, 2008. Earlier this year, the Central Bank raised the minimum reserve requirements in order to curb excessive foreign borrowing, which, in its turn, was fuelling inflation.

On Wednesday, the CBR has also provided RBL6.9bn of six-month loan to VTB on the terms of pledging the VTB's claims to Rosneft, totalling US\$550m. Such refinancing tool has been available to the banks since 2005, however it has not been exploited. The 3-month rate on such loans is currently set at 6% and at 7.5% for 6-month period.

Investment implication: the effect from the cut in minimum reserve requirements, itself, does not look significant to change the liquidity situation. At the same time we welcome the activity of the central bank to support its refinancing capabilities, especially thought the short-term loans collateralized by commercial banks' loan portfolios. The latter, in our, view should be sufficient to secure the banking sector liquidity even if the access to debt capital markets will stay constrained.

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Kazakhstan

IMF believes high oil prices should prop up the tenge

The fund also expects economic growth to slow down and advises a rate hike.

Head of the IMF's mission to Kazakhstan, Asim Hussein, believes that KZT should not weaken while world oil prices are high. According to him, GDP growth should slow down to about 7-8% YoY in 4Q07, following the stellar performance in 1H07 when it expanded by a breathtaking 10.2% YoY. The IMF advised the National Bank to hike its key refinancing rate (which is currently 9%) above CPI inflation (11.3% in September) once the liquidity crunch in the domestic money market is over, to make the banks pay a "fair" price for the risks they have accumulated while borrowing profusely in recent years. We do not foresee a rate hike in the coming weeks, with some difficulties still evident in the money market. According to the National Bank's October press release, the NB injected about US\$8bn of liquidity in the money market in September through swap operations alone (it also used other tools to improve liquidity).

Meanwhile, the recent real sector data support the IMF view that the economy likely slowed down in 2H07. Industrial production fell 1.8% MoM in September, following a 4% rise in August, according to the Statistics Office. Reuters reports, citing local sources, that many construction projects have been halted and real estate prices have begun to fall.

Investment implications: We suggest investors remember that the annual growth of 7-8% expected by the IMF would make most countries jealous. Our current forecast of 9.7%, which takes into account some investment slowdown in 1H07, is beginning to look too optimistic.

No drama in the bank deposit data for August-September

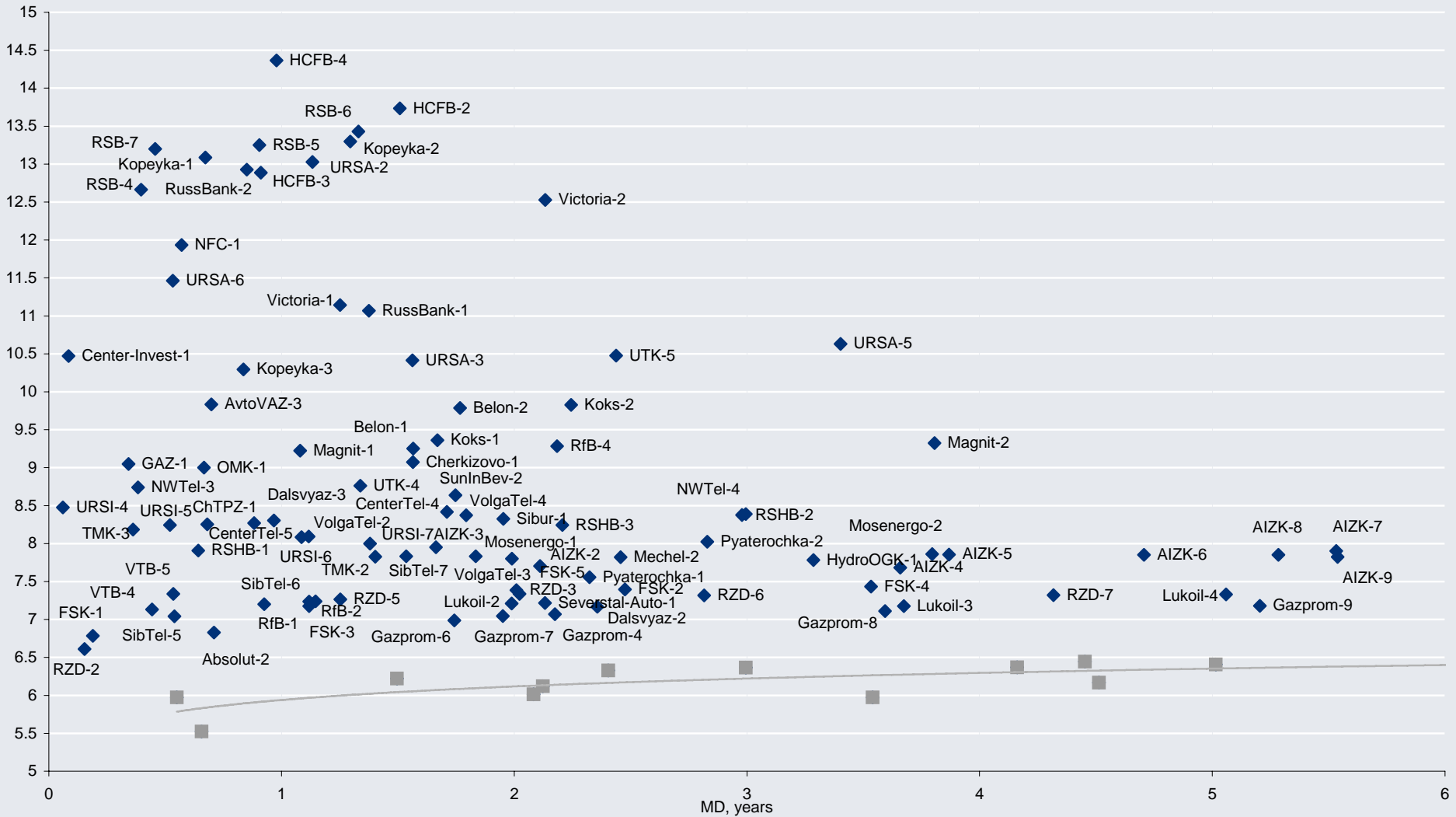
Retail deposits decreased 3% MoM in September, following a small drop in August.

According to the National Bank of Kazakhstan, a small run on deposits in commercial banks, which occurred in August, did not result in a dramatic fall in bank deposits. Bank deposits fell only 1% in August and 3% in September. At a monthly news conference, NB Chairman Saidenov pointed out that deposits stopped falling by end-September, as a result of various measures taken by the regulatory authorities to restore confidence. Our local contacts noted that some individual depositors simply transferred their funds from the banks they perceived as unsafe to "safer" ones. Therefore, the total drop in deposits was less than dramatic.

Investment implications: We believe that the data should contribute to an improvement in general market sentiment towards Kazakhstan's banking sector.

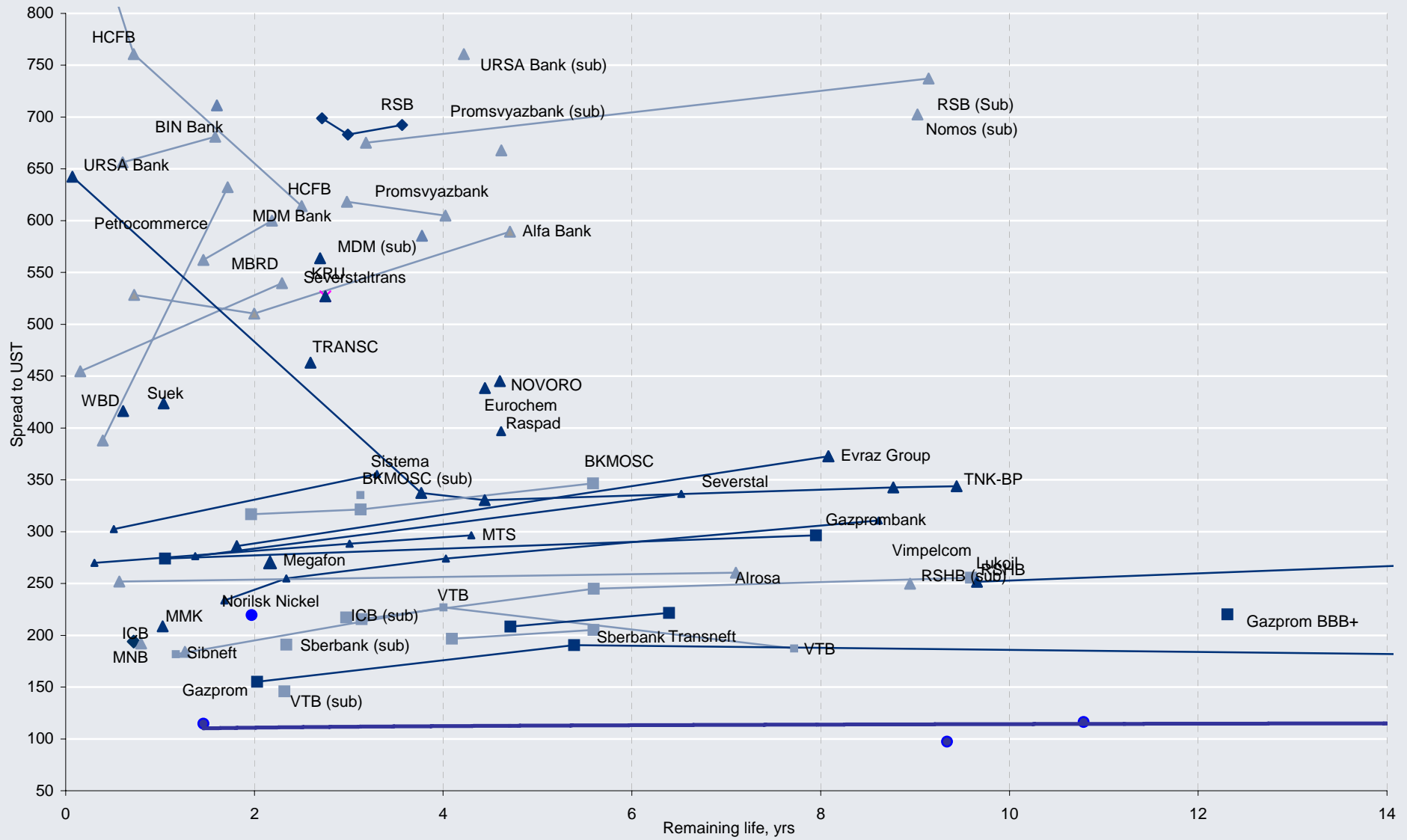
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Russia's rouble corporate debt universe



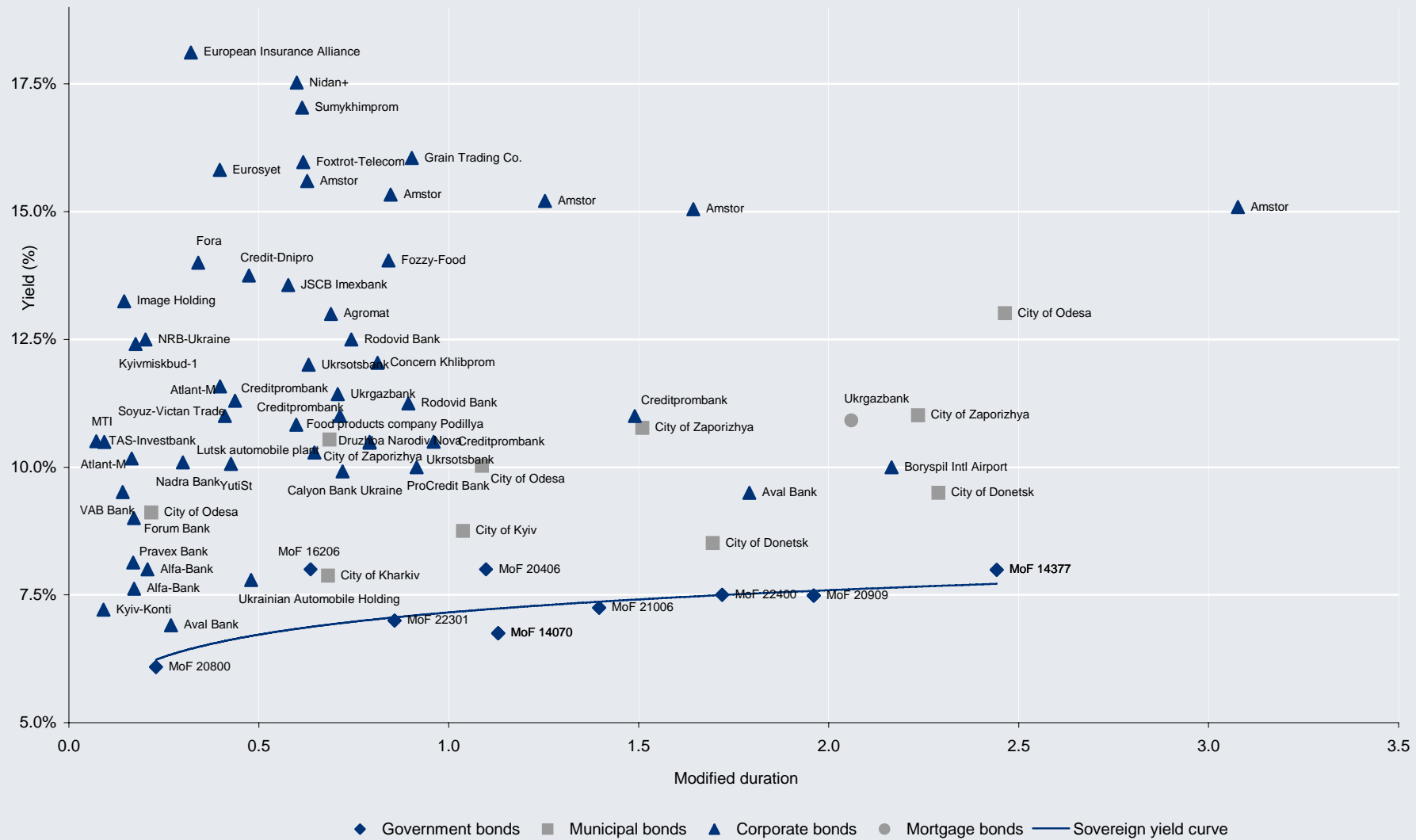
Source: Bloomberg, Micex, ING

Russian corporates - USD Credit Curve



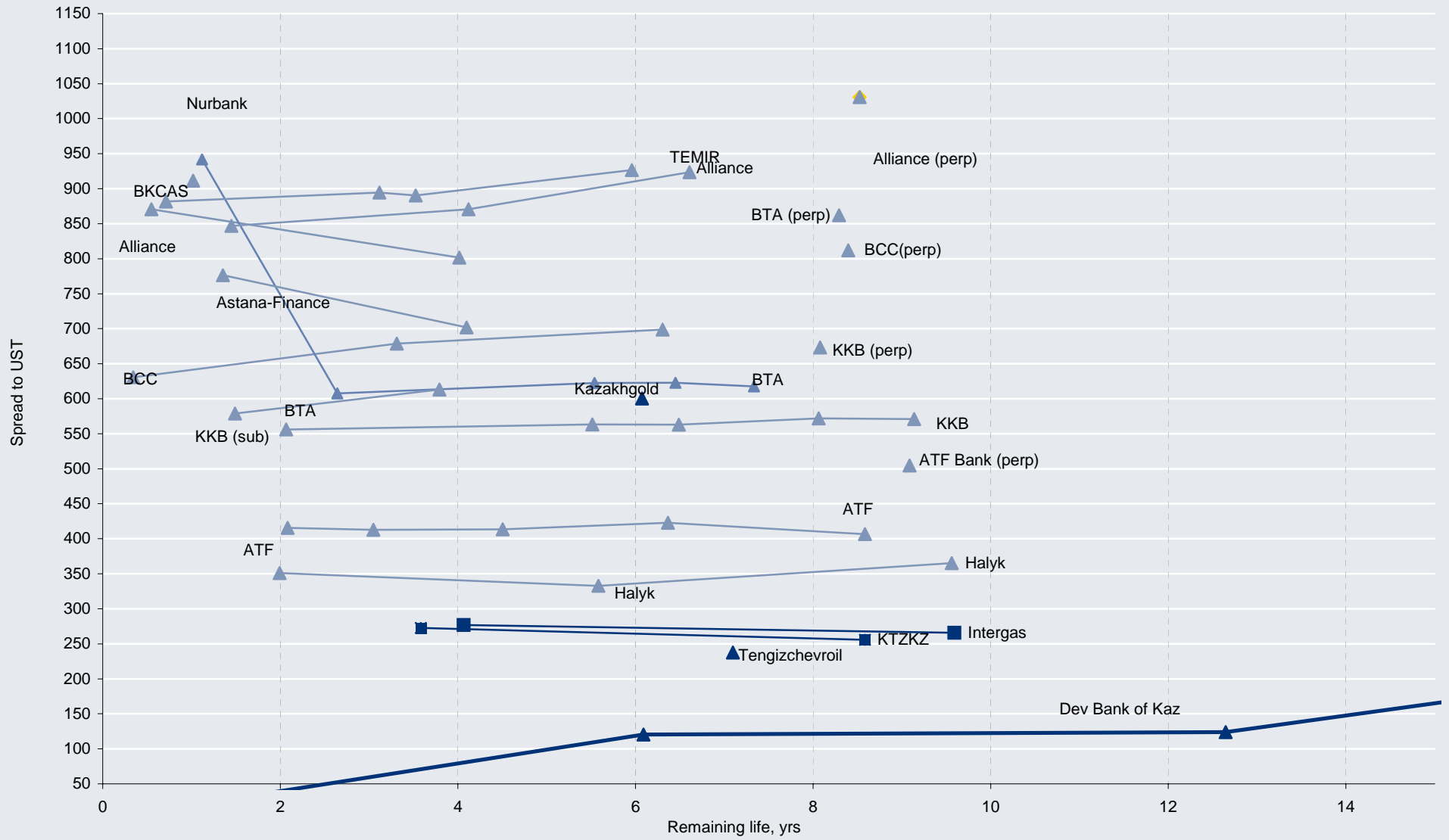
Source: Bloomberg, ING

Ukraine's domestic tradable bond universe



Notes: corporate bond issues are with outstanding UAH50m and more. Source: PFTS, ING

Kazakhstani corporates - USD Credit Curve



Source: Bloomberg, ING

Trade Ideas

We see no significant threat to Russian Standard Bank's^[1] financial stability from the current constrained access to funding from the debt market. The term structure of RSB's balance sheet suggests that its maturing market debt could be comfortably repaid from short-term assets. The bank's still quite strong profitability remains a significant alternative to funding on debt capital markets. In our view, the current yield level for RSB's rouble bonds reflects a higher risk premium than we view as fair, especially when the bonds within a 1.5-year workout yield above 10%. Along with globally abating fears regarding credit risks, we view RSB's bonds as among the top performers, allowing us to assign them a Buy recommendation. In addition, RSB's bonds remain on the Lombard lists of the central bank, allowing for the access to the central bank's liquidity through REPO operations.

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Outperform: expected 1-year total return that modestly exceeds the 1-year expected total return of the relevant market.

Marketperform: expected 1-year total return that will be in line with the 1-year expected total return of the relevant market.

Underperform: expected 1-year total return that is modestly below the 1-year expected total return of the relevant market.

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