Credit Europe Bank

Russian & Global Capital Markets Weekly

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Last Week in Brief

According to the Deputy Economy Minister Andrey Belousov, Russia's inflation for the first two weeks of October stood at 0.9%. The inflation rate accelerated to 0.4% during the second week of the current month. Driven by higher food and oil prices, inflation is estimated to grow by 1.1-1.6% in October. We assume that inflation will, most probably, stand closer to 11% till the end of this year.

It is rumored that the CBR is going to start accepting EUROBONDS for collateral REPO from mid-November this year. The CBR plans to increase the refinance rate by the year-end as inflation is much higher than the target level.

Optimistic mood headed Russian money market last week. MosPrime o/n rate was below 5% during almost the whole last week. REPO volume stood for RUB3bio in the average last week. Overnight rate closed the week at 4.35% and fell considerably last week compared to the previous week. On Friday deposits with the CBR and C/A showed RUB907.5bio in total which is enough to live out the October's tax period. Liquidity continued to improve.

RTS fell by 0.96% and closed the week at 2,142. MICEX and MICEX COMP indices closed the week at 3,287 (-1.12%) and 1,801 (-1.84%) respectively. Russian indices have already reached levels, which were predicted for the end of the year, which could generate a sharp downward correction.

Activity on the Russian Eurobond market was not high. The demand was observed in banking sector. Last week Gazprom placed EUR1.2bio Eurobonds.

Price of UST10 grew from 100.48 to 102.78 last week. "Running to quality" resumed. Investors continued to buy US Treasuries more intensively ahead of FED's coming meeting and growing uncertainty about the real impact of the US housing problem on the US economy.

Positive mood was on the Russian ruble bond market last week. Buying was as from Russian as from foreign participants. By the end of the week the demand shifted from first-tier ruble bonds to the second-tier and sub-federal issued. The demand was observed for bonds which were recently included in the extended CBR's Lombard/REPO list. Ruble bond indices showed that the upward rebound started.

USD/RUB fell by 0.31% last week. Investors continued to sell USD. Russia's gold and foreign currency reserves stood at $434bio as of October 12, which is $9.3bio or 2.17% higher than at previous showing.

US Housing sector again showed an awful decline last week. EUR/USD grew by 0.89% and closed the week at 1.4304. Last week the Bank of Canada and the Bank of England left their key interest rates unchanged.
Last week our CEB composite OIL Index grew from 81 to 85, which is a very sounding. **Brent, Urals, WTI, Rebco** grew by 3.58%, 3.73%, 5.75%, and 4.01%, respectively last week. During the last week oil prices shot up and crossed a new psychological level of $90/bbl, which was partially caused by developing Turkey/Iraq conflict and OPECs increasing world oil demand forecast.

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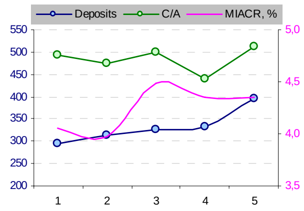
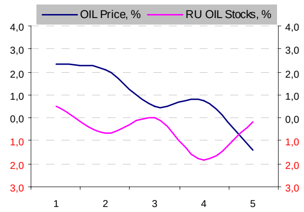
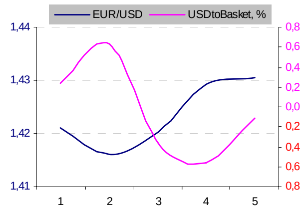
Snapshot of Global Markets

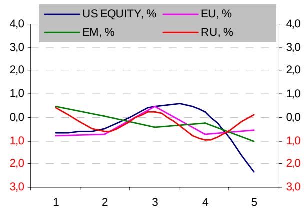
Data taken at 12:08 MSK 20.10.2007

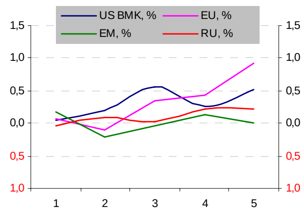
1-5 stand for the last 5 days,
5 is the latest trading day

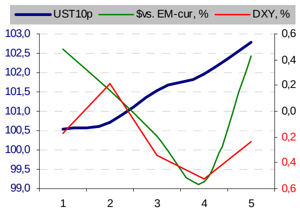












RUS EQUITY	Close	%Ch
RTSI	**2 142,42**	**0,28**
RTS Second-tier	**2 300,83**	**0,10**
Oil and Gas	263,97	0,03
Retail	344,34	0,13
Metals and Mining	348,76	0,12
Industry	351,75	0,26
Telecom	294,99	-0,03
RTSI Futures		
SEP7	193 100,00	-0,52
DEC7	214 820,00	0,10
MICEX-10	**3 287,95**	**0,07**
MICEX Comp	**1 801,42**	**0,08**
MCX Start Cap	4 781,38	0,25
MCX Mid Cap	2 852,79	0,14
MCX Large Cap	2 970,95	0,03
MCX Oil&Gas	2 483,00	-0,17
MCX Power	3 433,49	0,54
MCX Telecom	2 518,34	-0,34

Credit Europe Bank Equity and Debt Indices		
Russia		
Equity	**2 383**	**0,13**
Bonds	**132,40**	**0,22**
Europe		
Equity	**9 759**	**-0,27**
Bonds	**98,89**	**0,93**
Emerging		
Equity	**14 713**	**-1,73**
Bonds	**114,02**	**0,00**

RATES	%
RU	**10,00**
US	**4,75**
UK	**5,75**
EU	**4,00**
AU	**6,50**
NZ	**8,25**

RUS MONEY MARKET	Close	Ch-Prev
Deposits in CBR	**394,10**	**331,50**
C/A Russia	**513,40**	**440,50**
C/A Moscow Regions	363,00	296,80
CBR's balance	55,60	67,50
Libor 1Y USD	4,82	-0,08
Libor 1Y EUR	4,63	-0,02
Libor 1Y GBP	6,17	-0,01
MIBID	3,91	-0,55
MIBOR	5,15	-0,65
MosPrime O/N	4,54	-0,64
CBR FIXINGS	**Close**	**%Ch**
USDRUB	24,8749	-0,21
EURRUB	35,4194	0,23
GBPRUB	50,7796	0,26
COMMODITIES	**Close**	**%Ch**
Gold	764,80	-0,18
Silver	13,49	-2,03
OILPRICES (USD/barrel)		
Urals	81,09	-1,63
Brent	84,44	-1,62
WTI	88,55	-1,04

DEBT MARKET	Yield	bps ch	Price	bps ch
RUSSIA				
Russia 30Y	5,64	-0,06	113,13	0,44
Russia 28Y	5,97	-0,02	179,94	0,38
Russia 10Y	5,19	-0,05	104,13	0,06
USA				
UST 10Y	4,40	-0,10	102,78	0,83
UST 5Y	4,04	-0,12	100,95	0,52
UST 2Y	3,79	-0,13	100,38	0,23
EUROPE				
EU 10Y	4,20	-0,13	100,34	0,95
DE 10Y	4,20	-0,13	100,34	0,95
France 10Y	4,31	-0,13	99,53	1,01
Italy 10Y	4,48	-0,09	96,78	0,71
Belgium 10Y	4,33	-0,13	97,47	0,92
Other				
Japan 10Y	1,61	-0,03	100,86	0,30
Canada 10Y	4,30	-0,08	97,64	0,59
Australia 10Y	6,14	-0,06	99,06	0,45
New Zealand 10Y	6,39	-0,18	97,26	0,55
EMERGING MARKETS				
Brazil 40Y	5,53	0,01	134,31	-0,06
Turkey 34Y	7,15	0,02	110,06	-0,25
Mexico 30Y	7,94	0,00	122,91	0,00
Argentina 30Y	8,26	0,00	137,00	0,00
Venezuella 34Y	8,62	0,07	107,75	-0,75
Malaysian 20Y	4,28	0,03	89,75	-0,40
Chili 13Y	4,96	-0,16	102,44	0,75
Taiwan 30Y	3,10	0,00	113,89	-0,00
India 30Y	8,42	0,00	99,02	0,00
Peru 29Y	6,25	0,00	132,00	0,00
Singapure 20Y	3,15	-0,05	105,05	0,75

BOND INDICES	Value	bps ch
MXC RCBI	99,71	-0,07
EMBI Plus	427,06	0,27
EMBI Global	402,16	0,18

FX MARKET	Close	%Ch
RUSSIA		
USD/RUB TOM	24,8300	0,00
EUR/RUB TOM	35,4900	-0,04
MAJORS		
EUR/USD	1,4304	0,08
GBP/USD	2,0521	0,37
USD/CHF	1,1661	-0,29
USD/JPY	114,5	-0,81
EUR/GBP	0,6969	-0,31

RUB,% vs $/Euro basket
0,02

GLB COMP IDXs	Close	%Ch
GLB EQ GR IDX	10 789	-1,14
GLB BND GR IDX	107,24	0,35

WORLD INDICES	Close	%Ch
UNITED STATES		
DOW	13 522,02	-2,64
S&P500	1 500,63	-2,56
Nasdaq Composite	2 725,16	-2,65
AMEX	2 440,28	-1,47
EUROPE		
EuroNext100	1 030,75	-0,35
DAX	7 884,12	-0,47
CAC40	5 740,48	-0,46
Swiss Market Index	8 937,20	-1,00
FTSE 100	6 527,90	-1,23
IBEX 35	15 529,70	0,15
OMX Stockholm 30	1 169,03	-1,44
MILAN MIB 30	40 460,00	-0,01
Amsterdam Exchanges	551,05	-0,09
JAPAN		
Nikkei225	16 814,37	-1,71
TOPIX	1 591,28	-1,64
EMERGING		
S&P/TSX	14 001,66	-2,31
HANG SENG INDEX	29 465,05	0,57
Shanghai SE Comp	5 818,05	-0,12
Thailand SET	875,83	-0,10
Bombay SE 500 IDX	6 807,66	-2,84
Straits Time Index	3 747,98	-1,62
Taiwan SE Weighted	9 611,72	-0,26
S&P/ASX	6 706,30	-0,91
NZX ALL INDEX	1 166,22	0,06
Jakarta Comp Index	2 563,75	-2,02
KOSPI INDEX	1 970,10	-1,75
Brasil Stock IDX	60 894,29	-3,74
Kuala Lumpur Comp	1 370,17	-0,45
Venesuella IBC	37 473,31	**-1,47**
Karachi 100 Index	14 787,55	0,22

FX MARKET	Close	%Ch
OTHER		
AUD/USD	0,8905	-0,67
USD/CAD	0,9661	-0,80
NZD/USD	0,7474	-0,89
GBP/JPY	234,96	-0,52
CARRY		
AUD/JPY	102,10	-0,01
NZD/JPY	85,56	-1,61
GBP/CHF	2,39	0,03

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Economic Overview

Inflation

According to the Deputy Economy Minister Andrey Belousov, inflation for the first two weeks of October stood at 0.9%. The inflation rate accelerated to 0.4% during the second week of the current month. Driven by higher food and oil prices, inflation is estimated to grow by 1.1-1.6% in October.

According to the Deputy Economy Minister Andrey Belousov, Russia's inflation may exceed 10% in 2007. A rapid increase in inflation rate was triggered by higher consumer product prices. All "immediate" measures taken by the government, seems, will have an effect later than expected and will not help curb inflation by the end of 2007, which was evident by the way. To ease negative inflationary expectations, Belousov said that the government is not going to revise its inflation rate forecast of 7% for 2008.

Important was the thing that Belousov stressed hopes that the government would make their best to prevent inflation from rising above 10% in 2007. According to the First Deputy Chairman of the CBR Alexei Ulyukayev, Russia's inflation is expected to reach between 9.5% and 10% in 2007.

According to Russia's Agriculture Minister Alexei Gordeyev, the Russian government is planning to make grain interventions in late October - early November 2007. According to Gordeyev, some 1.5mio tonnes of grain were reserved for interventions.

The government is trying to reach agreements with retail chains and producers which should have a positive impact on inflation. According to Belousov, it is easier to agree with those sectors where only few large companies control the major part of sector's share. Thus, for example, two thirds of the dairy product market is controlled by Wimm-Bill-Dann, Unimikl and Danon, and two thirds of the plant oil market is controlled by seven producers.

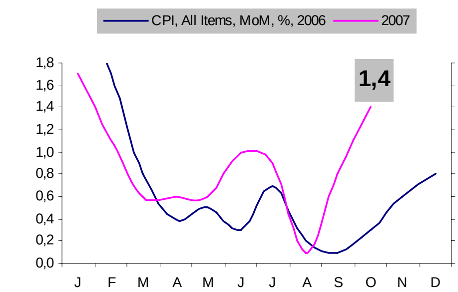
According to the Deputy Chairman of the CBR Alexei Ulyukayev, it is expected that prices for bread and milk will continue to rise considerably this year.

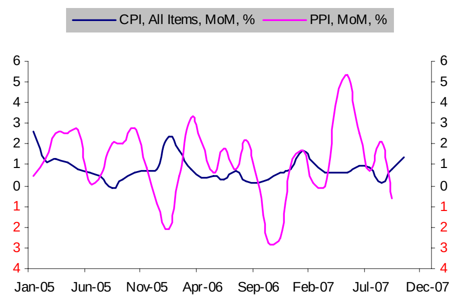
Last week the government set import duties on milk and dairy products at 5% of their customs value, the duty on cheese cottage cheese at EUR0.3 per kilogram, and the duty on processed, powdered, blue and other cheeses at 5% of customs value. The duties will be effective for 6 months.

Our forecast:

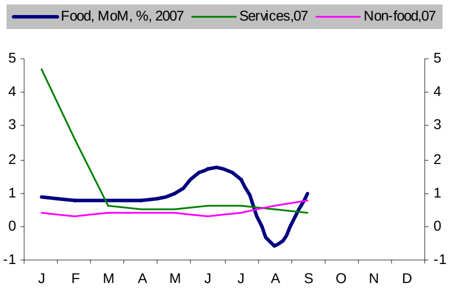
There is an opinion on the market that diary products could add another 30% in prices till the end of this year. Last week Rosstat published statistics on crops. According to it grain crops were 5.7% higher as of October 1 compared to the same period a year earlier, which will decelerate growing prices on bread and bread product.

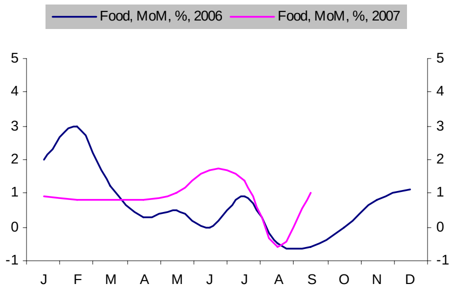
But in other products we didn't see optimism. Crops of potatoes fell by 9%, crops of vegetables fell by 4.6%. Moreover it is expected that sugar-beet crops will fall by 5.5%, and sunflower crops will fall by 17% which adds to worries that sunflower oil prices could grow by the end of this year. We would wish to believe that prices will decelerate rising but there is not much time till the year-end and, seems, the State will not be able to keep inflation from rising above 10%. If we take the average from the State's forecast at 1.4% for October than Year-to-Date inflation will amount to 8.8% and hardly could the data post less than 1.2% for the remaining two months. Thus we could conclude that the inflation will, most probably, stand closer to 11% till the end of the year. We think that measures done by the government aimed to curb inflation will have an effect on prices but, most probably, in mid-term (not short-term!) perspective.

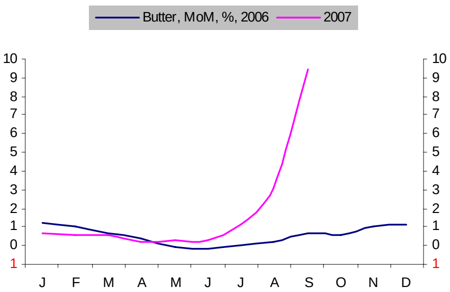


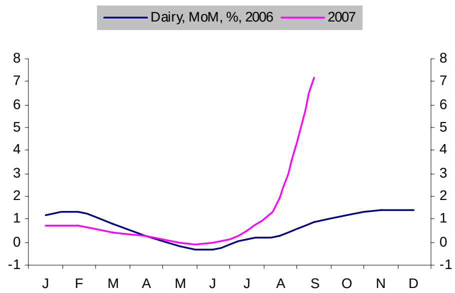


* In October CPI level is taken as an average between the State's forecast of 1.1-1.6%.









Eurobonds in REPO and The Refinanciang Rate

It is rumored that the CBR is going to start accepting EUROBONDS for collateral REPO from mid-November this year. Interest rates would be similar to REPO rates used for Ruble denominated bonds with same rating. Also, the CBR is going to increase the refinance rate by the year-end as inflation is much higher than the target level.

Industrial Production

According to Rosstat, Russia's industrial production (IP) grew by 3% in September 2007, down from 4.1% for the same month a year earlier. However, the industrial production fell by 0.2% in September, compared to August. In January-September IP grew by 6.6% against 4.2% for the same period in 2006. IP grew by 4.9% in Q3 2007, up from 3.8% for Q3 2006. For sure, September's data disappointed. The slowdown was due to the combination of factors. Very impressive performance in Q1 2007 posted a record growth of 8.4% partially due to unusually warm winter. Investment from state-owned companies also added to the industrial growth in the first half of the year. Things changed in August and September. We saw results of a warm winter in autumn. From one hand warm winter boosted IP growth in the beginning of the year, from the other hand it led to reducing of gas production because the demand for gas declined, which, intern, led to excess reserves in underground storage facilities. Thus gas production fell by 4.3% in September compared with a year earlier.

Net Capital Inflow Expectations

According to the CBR, it is expected that the net capital inflow into Russia will reach $60-65bio in 2007. An inflow would be lower than originally planned $70bio but much higher compared to the inflow in 2006. Remember that the CBR posted the net capital outflow from Russia's private sector in the amount of $9.4bio in Q3 2007. The banking sector saw a $700mio inflow, while other sectors reported about an outflow of $10.1bio worth. However, according to the Deputy Prime Minister Alexander Zhukov, Russia's government will not consider revising the $70bio net capital inflow forecast for 2007.

Fixed Investments

According to Rosstat, Russia's investment in fixed capital grew by 21.2% in January-September 2007 compared to the same period a year earlier.

Foreign Trade

According to Rosstat, Russia's foreign trade stood at $351.8bio in January-August 2007, which is 18.8% higher than in the same period a year earlier. Exports grew by 9.6% to $217bio, imports grew by 37.4% to $134.7bio. Trade surplus amounted to $82.3bio, down from $100bio in January-August 2006. Trade with non-CIS countries went up by 20.1% to $284.6bio (including $173.2bio trade with EU countries), while trade with CIS surged by 26.6% to $51.35bio.

Coming construction boom

It becomes evident that the Russia's construction sector is growing at a fast pace. The situation is more likely to be soon called "a construction boom". The annual construction growth rate is estimated to be 15% in the average. But by the end of this year it could exceed 25%. The growth is observed partially because federal-level participants entered the market and are going to stay for long. However buying capacity in housing segment is still extremely low.

Sun could shine for exporters

The Russia's Finance Ministry is going to initiate some measures which should speed up returning of VAT to exporters. The corresponding offering was sent to the Federal Tax Service. If new measures are adopted, it will influence the liquidity on the Russian market. Thus till the end of this year companies could get additional RUB100-150bio which will increase the liquidity. The life of exporters, seems, could become better because they will be able to keep higher operating capital.

Reshuffling of foreigners' access to Russia's strategic industries

In November 2007 the State is going to reconsider the access of foreigners to strategic sectors in Russia. Thus the list of companies, shares of which foreign investors may buy only after approval from the Russia's government, could be reshuffled. It was offered to exclude small telecom companies with low coverage and low strategic importance (~300 companies) and small regional energy companies from the list. At the same time it is supposed that about 20 telecom companies with 25% number-capacity and 25% traffic-capacity will be included into the list. These are inter-regional companies which belong to Svyazinvest, Rostelekom and MGTS. Thus the State intends to speed up the development of small local telecom and energy companies by attracting foreign investments into their development.

Related Economic Updates

- Liberalization of taxation to financiers
  Last week at the meeting of the advisory board on foreign investment (Finance Ministry) the issue about liberalization of taxation to financiers was discussed. Results are not known but the issue was raised.

- Net foreign assets of the CBR stood at $426bio, down 0.4% from the previous figure as of September 1, 2007.

- Coming Boom in Russia's Nuclear Industry
  Last week the First Deputy Prime Minister Sergei Ivanov said that there will be soon a boom in Russian nuclear industry and investment which will boost such growth will soar by a factor of 7-8 within the next two years. He also mentioned that the federal target program for nuclear industry will secure $2.046bio in 2008, while investment is expected to reach $3.61bio in 2009. He stressed that Russia's nuclear industry will have enough funds to construct two or more power units per year.

- New Chairman of Sberbank
  The former President of Sberbank, Andrey Kazmin, was appointed to the position of the Head of the Russian Post. Former Economy Minister German Gref was also rumored to be appointed to the position of Sberbank's Chairman of the Executive Board.

- Cable Pay Television Market and Broadband Internet
  According to Yury Pripachkin, President of Russia's Cable TV Association and Chairman of Renova Media's Board of Directors, the broadband Internet access market will reach $1.2-1.3bio in 2007, with the growth rate of 40%. The cable pay television market is expected to grow by 40% to $650mio in 2007. The consolidated figure for these two markets is estimated to reach $4bio by the end of 2010.

- Increasing oil output
  According to Rosstat, oil and gas condensate production in Russia grew by 2.5% to 367mio tonnes in January-September 2007 compared to the same period a year earlier. In September 2007, oil output grew by 1.5% compared to the same month of 2006, but declined by 3.7% compared to August 2007.

- International Cooperation

  Russia and Japan
  Russia and Japan extend cooperation. Japan is going to take part in the creation of the Eastern Siberia-Pacific Ocean oil pipeline.
  Caspian Declaration
  Presidents of five Caspian states signed a final declaration according to which the Caspian states have sovereign rights to use the resources of the Caspian Sea, will cooperate in solving environmental problems and develop the Caspian region together. According to the declaration, no country can use the sea for any kind of act of aggression against another nation.
  Extending Cooperation with Germany
  Russia increases the cooperation with Germany. According to Putin, trade between Russia and Germany grew by 13.5% to $23bio in H1 2007, compared to the same period a year earlier. The Russian President stressed the importance of German investment in Russia's energy sector. An agreement was recently signed between the Russian energy company RAO UES and the German corporation E.On which worth over $5bio.

- Pharmasuiticals like gambling
  Investors try to step aside from stocks of biotechnological companies in Russia. Their IPOs are not successful and even after funds were raised through IPO, investors trend to get rid of stocks of such companies. Despite this, biotechnology sector's companies willingly make IPOs. The strategy of investment into pharmasuitical company could be characterized by "All-or-Nothing" for those who want to buy in the company. In general pharmasuitical companyThey raise funds through borrowing from banks and use these funds to finance development and testing of medicines. But if testing is collapced or if the medicine is not approved by the state's healthcare commission then stocks of such company could fall by hundreds percent, which makes investing in pharmasuiticals often similar to gambling. That's why investors trend to buy in companies which are at the final stage of the production or development cycle of a new product when it is almost for sure that its product will soon appear on store shelves. This year 19 pharmasuiticals made IPOs. Last year – 22. This year 12% of total volume of IPOs corresponded to pharmaceuticals.

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MIACR: Last week overnight rate lay in the band of 3.97–4.49%, for one week rubles could be found at 4.39-6.13%, and for one month at 6.00-7.43%. Overnight rate closed the week at 4.35% and fell considerably last week compared to the previous week.

Balances on C/A opened the week at RUB492bio and closed it at RUB513bio. Bank deposits with the CBR opened the week at RUB295bio and closed it at RUB394bio.

Optimistic mood headed the Russian money market last week. The liquidity chart shows starting upside rebound. MosPrime o/n rate was below 5% during almost the whole last week. REPO volume stood for RUB3bio in the average last week which is a clear signal of easing in recent liquidity problems. In general the situation with liquidity becomes better.

On Monday tax payment day passed quiet (unified social tax). Rates opened a day at 5.5% but fell to 3.5-4% fast enough. REPO volume stood for RUB4.6bio. An outflow of liquidity due to tax payments was compensated by an inflow of receipts from Friday's USD selling. Tuesday was also quite with 3.0-4.5% o/n rate and RUB3.3bio of REPO. Situation with liquidity on the Russian money market became better. Swaps also became cheaper which decreased the amount of direct REPO with the CBR. On Tuesday liquidity stayed flat on the market and on Wednesday increased by RUB38bio totally for deposits and C/A.

On Wednesday the o/n rate opened at 4% but closed the day slightly above this level. In the overall the dynamics of total liquidity is positive.

On Thursday o/n rates opened at 4.5-5.0% and fell to 2.5% by the end of the day. On Friday deposits with the CBR and C/A showed RUB907.5bio in total which is enough to live out October's tax period. Seems that such increase in liquidity is the result of recent USD-selling.

Market participants again were selling USD and were buying Ruble-denominated assets followed by negative expectations about Russia's inflation for 2007.

We continue to think that the key factor which will determine the liquidity this autumn will be growing budget spending. However, remember that Alexey Kudrin said last week that The Ministry of Finance will be able to allocate funds from the Federal Budget to Development Institutions only in November. But the inflow of funds from the Budget could be compensated by an outflow because, remember, the State didn't received money from sold Yukos assets. These two factors, we assume, could compensate each other and show zero balance in terms of influencing on the liquidity in November-December this year.

Remember that the State wanted to allocate RUB640bio to national projects by the end of this year. However, the execution of the expenditures of the Federal Budget remains a concern. The Ministry of Finance posted RUB158.3bio budget surplus, which added to difficulties of MM participants in September. Thus in the beginning of the autumn The Finance Ministry was not able to speed up the budget spending. However we assume that the situation with expenditures will become better and in October Budget surplus will not exceed RUB50bio and will come closer to zero in November and December.

Latest CBR's measures to ease the situation with liquidity helped.

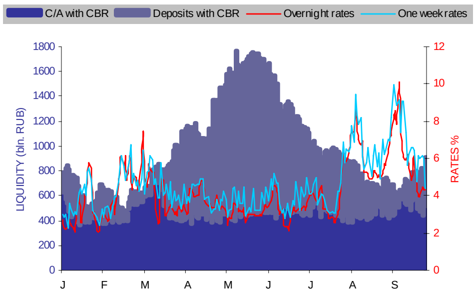
Remember that the CBR:

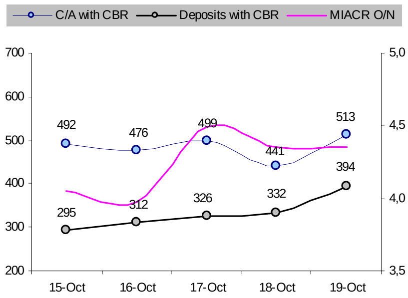
(1) decreased the mandatory reserve requirements for lending institutions,

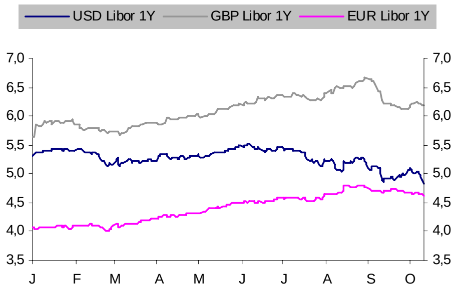
(2) ruble interest rate on currency swap operations with the CBR was decreased from 10% to 8%,

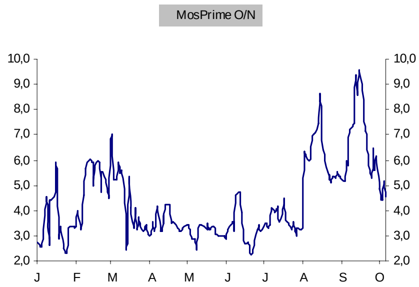
(3) Lombard/REPO list was extended and a lot of new bonds were added to it and, seems, some bonds will be added to the list soon. The "stronghold" was built and we keep a positive outlook on o/n rates in November and December. We are waiting that market participants will continue to sell USD. This week o/n rates could increase to the coming tax payment period but the total liquidity accumulated till the end of the last week says that it will be overcome without considerable difficulties.

Rates and Liquidity Dynamics

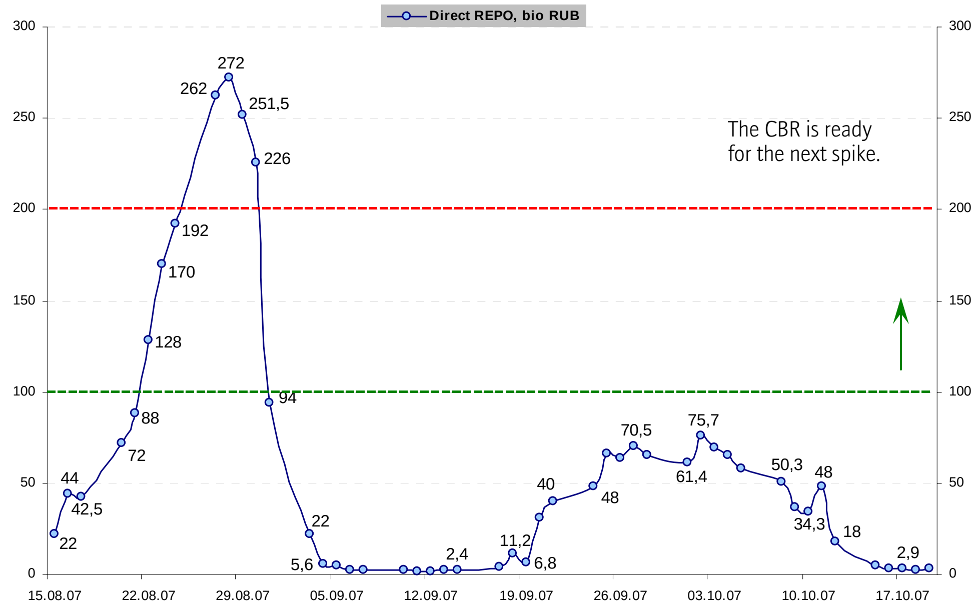




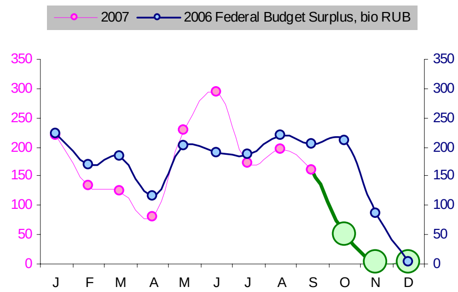




Borrowing from the CBR



The Russian Federal Budget



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Russian Stock Market

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On Friday global equity closed with a strong decline which will, most probably, lead to the gap down on Monday on major Russian stocks. The probability that the correction is coming increased. Increasing risk aversion could push investors to withdraw money again from Emerging Markets ahead of FOMC meeting.

High crude prices still support the market and "Russian oil stocks". Last week we observed a slight decrease of a technical nature in oil securities. Nevertheless, "oil stocks" still have growth potential in the long-run.

Last week's correction was prompted by withdrawal of some investors who decided to lock in profits on a slight fall in crude prices in the first half of the week. Moreover a correction would be a normal response to the future growth.
Oil price fluctuations still have a significant impact on Russian stock prices. Nevertheless, despite growing oil prices immediate further buying into oil stocks does not appear to be the best idea. A sharp correction could follow.

Another important thing is that Russian indices have already reached levels, which were predicted for the end of the year. This could generate locking profits despite support from commodity markets and crude prices in particular.

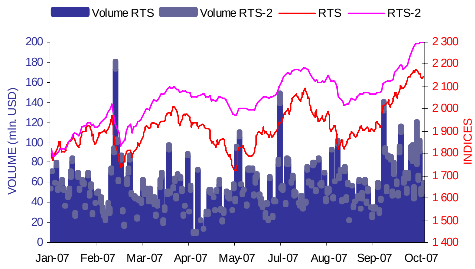
RTS fell by 0.96% and closed the week at 2,142. MICEX and MICEX COMP indices closed the week at 3,287 (-1.12%) and 1,801 (-1.84%) respectively.

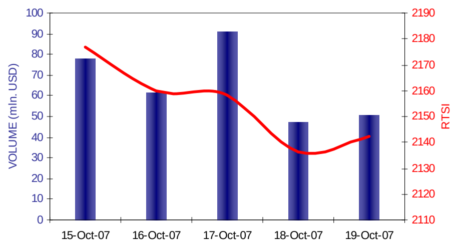
All of RTS sector indices closed negative last week except for Retail which showed a 1.75% rise. Most loser was Metal&Mining sector with 2.21% decline.

Interesting correlation was observed between RTS and RTS-2 indices. The first fell by 0.96% and the latter grew by 0.73%. We assume, this shows the shift of trading activity to smaller companies.
Stock prices of Russian oil companies fell by 1.03% in the agerage last week.

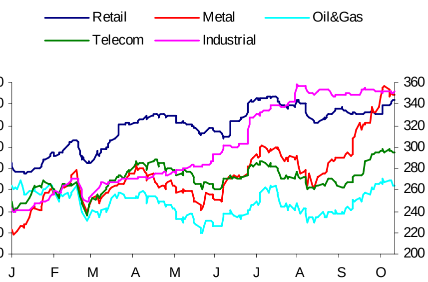
We believe that the Russian stock market will advance in the long-run above 2,200 despite the correction in the short-run, which will, most probably, happen soon.

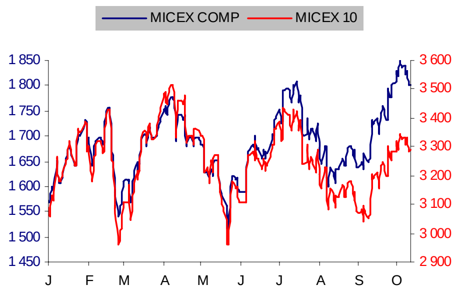
Russian Stock Market Dymanics





Type	Year To Day Index R-Ch	Year To Day Index %Ch	Last Week Index R-Ch	Last Week Index %Ch
Oil&Gas	0,52	0,20	-2,91	-1,09
Telecom	45,56	18,27	-0,20	-0,07
Metal&mining	126,55	56,95	-7,89	-2,21
Industrial	109,57	45,24	-0,60	-0,17
Retail	59,30	20,80	5,95	1,76
RTS	343,79	19,11	-20,7	-0,96
RTS-2	480,64	26,41	16,63	0,73





Russian Stock Market Performance

Company Name		Last Price, $	CHANGES, % 1 Day	1 Week	1 Month	1 Year
ENERGY						
Bashneft		**15.6**	2.6	5.8	11.4	7.6
Gazpromneft OAO		**4.65**	0.0	2.0	17.7	12.0
Gazprom OAO		**11.62**	-0.5	-1.1	6.1	5.6
LUKOIL		**86.4**	0.1	-2.2	8.0	6.3
NovaTek OAO		**5.4**	0.0	-5.3	3.4	-1.9
Rosneft Oil Co		**8.73**	0.6	2.3	1.2	4.2
Surgutneftegaz		**1.29**	0.3	-1.4	1.0	-2.3
Surgutneftegaz	P	**0.675**	0.0	-1.3	11.4	-27.4
Tatneft		**5.69**	0.0	0.4	11.6	23.7
Transneft	P	**1770**	0.0	-3.8	6.6	-19.5
Ufaneftekhim		**3.21**	0.0	0.3	4.6	-4.5
BASIC MATERIALS						
Magnitogorsk Iron & Steel Works		**1.21**	2.1	-5.5	8.5	55.6
Mechel		**21.25**	0.0	3.7	38.4	197.2
MMC Norilsk Nickel		**268**	0.5	-3.7	9.9	88.7
Novolipetsk Steel		**3.97**	0.0	-2.7	20.3	96.5
Polyus Gold Co		**44.755**	0.0	2.9	2.9	-3.8
Severstal		**21.85**	0.0	-3.7	15.0	78.5
Uralkali		**4.25**	-0.5	0.0	28.8	120.2
FINANCIAL						
Open Investments		**288**	0.0	-0.7	-3.7	37.1
Sberbank		**4.34**	0.9	-0.6	6.6	90.4
Sberbank	P	**2.82**	0.0	0.7	1.8	58.4
VTB Bank OJSC		**0.0047**	2.4	-0.6	0.4	#N/A N/A
COMMUNICATIONS						
Central Telecommunication Co		**0.957**	0.0	2.9	4.0	58.2
Mobile Telesystems OJSC		**12.25**	0.4	-0.4	7.2	63.8
North-West Telecom		**1.78**	0.0	1.7	24.0	52.8
RBC Information Systems		**9.15**	0.0	-1.6	15.8	-11.6
Rostelecom		**10.03**	-2.1	-4.0	-2.4	102.6
Rostelecom	P	**2.55**	0.0	0.0	4.9	25.6
Sibirtelecom		**0.112**	0.4	0.0	17.9	32.2
Sistema JSFC		**1355**	-0.4	-4.6	3.8	5.9
Uralsvyazinform		**0.064**	0.3	0.0	10.7	62.9
VolgaTelecom		**5.72**	0.0	3.6	22.5	44.1
UTILITIES						
Irkutskenergo OJSC		**1**	0.0	2.6	9.9	90.5
Mosenergo TGK-3 OAO		**0.25**	0.0	0.0	1.6	31.6
OGK-3 OJSC		**0.155**	5.4	10.7	15.7	85.6
OGK-5 OJSC		**0.164**	-4.9	-1.2	4.3	78.8
Unified Energy System		**1.193**	1.1	-0.2	-2.5	61.8
Unified Energy System	P	**1.03**	0.0	-1.8	0.5	56.8
INDUSTRIAL						
JSC Scientific Production Corp IRKUT		**0.91**	0.0	0.6	1.1	-24.2
TMK OAO		**11.35**	0.0	4.1	22.0	#N/A N/A
Vsmpo-Avisma Corp		**300**	0.0	1.7	3.4	24.0
CONSUMER NON-CYCLICAL						
Baltika Brewery		**48**	0.0	0.0	2.1	21.5
Lebedyansky JSC		**87.85**	1.0	-0.2	-1.3	19.4
Wimm-Bill-Dann Foods OJSC		**81.75**	-0.1	6.2	-0.9	107.0
CONSUMER CYCLICAL						
Seventh Continent		**25.85**	0.0	-1.7	3.0	-2.6
Aeroflot - Russian International Airlines		**3.4**	0.0	4.6	14.5	45.9
Magnit OAO		**46.55**	1.2	3.4	10.8	41.9
Severstal-Avto		**47**	0.0	-1.6	1.1	104.3

Financials

- Polyus Gold (net loss under IFRS amounted to $93mio in H1 2007).

- Russian Railways (net profit under IFRS grew by 22.2% to $5.62bio in 2006 compared to a year earlier).

Issues, Acquisitions & Intentions

- Uralkali raised $948mio through IPO on the London Stock Exchange placing 12.75% of its share capital. The company also floated GDR.

- Gazprom Neft raised its stake in Northern Taiga Neftegas from 30% to 75% in September 2007. Taiga Neftegas is a joint venture previously formed by GazpromNeft and Chevron Neftegaz. Two companies have an agreement, according to which, once Gazprom Neft raised its stake to 75%, Chevron will buy part of its shares, thus increasing its interest to 49% within six months.

- In upcoming IPO of M.Video Alexander Tynkovan, M.Video's founder will retain its 61% stake in the company. Board member Alexander Zayonts is going to sell his entire 12% stake. The other 13.5% is held by Mikhail Tynkovan, the brother of Alexander Tynkovan, and by the chain's General Director Pavel Breyev. Mikhail is going to sell half of its stake. Pavel Breev is expected to sell part of its stake as well. It is expected that the road show will start on October 22. Bookrunners of the IPO are Deutsche Bank and Renaissance Capital. Earlier it was expected that two main shareholders are going to sell their entire stakes. We assume that the decision of Alexander Tynkovan not to sell the stake is well taken, because otherwise it would hurt the core attractiveness of the planning IPO in general. It is more probably that he will sell a part of his stake when the market conjuncture is better, but, we assume, he is going to retain the controlling stake in the company.

- There was a success in OGK-2's additional share issue. The next public offerings are scheduled for TGK-8 and TGK-9, while TGK-4 is expected to launch its IPO in December this year.

- Wimm-Bill-Dann Foods is planning to raise $180mio loan from four banks - ZAO Raiffeisenbank Austria, Commerzbank (Eurasia), International Moscow bank (IMB), Calyon Rusbank. According to our sources Raiffeisenbank will provide $50mio loan with cost of funding at 2.5%annual+1Month-LIBOR in case of USD-denominated loan and 1.5%annual+1Month-MosPrime in case of Ruble-denominated loan. Commerzbank will provide a $30mio loan with cost of funding at 1.5%annual+1MonthLIBOR in case of USD-denominated loan, 1.5%annual+1MonthEUROLIBOR in case of Euro-denominated loan, and 1.5%annual+ Commerzbank's internal rate for rubles.

- North-West Telecom sold its 15% interest in Telecominvest holding on October 16. The details of the deal were not disclosed.

- Baltika Breweries is going to buy back 9.9bio common shares (~$52.2 per share) and 1.2bio preferred shares (~$35.3 per share) thus decreasing the company's share capital. The share buyback is scheduled somewhere in November 22 - January 4. Baltika assured that lowering the share capital will result in higher dividends for its shareholders. The company's main shareholder – Beverages Holding AB is going to buy back shares in order to keep its stake unchanged.

- American Airlines, the world's largest air carrier, is planning to launch service between Chicago and Moscow starting from June 3, 2008, with Domodedovo as the gateway airport.

- RAO UES is going to double OGK-1's additional issue to 22.5bio shares. This was done to protect the company from investors looking to gain control over the company. However, it is expected that this will have a negative impact on minority holders, as the share price would fall due to an increase in the number of outstanding shares.

- Rosneft is considering the possibility to issue Eurobonds and ruble-denominated bonds to refinance its $11bio debt resulting from $22bio previous loan from international banks.

- RAO UES is now in talks with several potential strategic investors to sell a controlling stake in the power generation company OGK-6. Rumors are circulation on the market that RAO UES could cut the additional issue of OGK-6's shares, with Gazprom gaining control over the generation company.

- Russia's Federal Financial Markets Service registered the United Aircraft Building Corporation (UABC) for an IPO of $3.9bio total worth. The state-owned conglomerate, which specializes in the development, building and maintenance of military and civil aircraft, incorporates such major companies as Irkut, Mikoyan, Sukhoi, Ilyushin, Tupolev, and Yakovlev.

- Alla Alekshina sold its 0.02% stake in Sberbank at high market price gained approx. $19.13bio. Market feels that Alekshina is going to leave Sberbank following Andrey Kazmin, Sberbank's former president, who will head "The Russian Post". For 11 years Alekshina was "the right hand" of Kazmin. But Sberbank's shares according to market perception look good and Alekshina's stock selling doesn't show that Alekshina is waiting for the Bank's share decrease.

- TGK-6 is expected to do an additional share issue in 2008. The volume of SPO could stand for 40% from the company's capital. Funds raised as receipts from SPO will be spent on company's development and investment (building of Nizhegorodskaya TES of RUB20-25bio worth). It is expected that the main buying competitor for the issue will be KES-Holding which is rumored to be under control of Viktor Vekselberg. The purchase of a 40% stake could demand $1bio investment at current prices.

- Nikolai Tokarev, former head of Zarubezhneft, became a new president of Transneft, which could result in a reshuffling of company's board of members. It is expected that Zarubezhneft will keep developing in the same line as it will be headed with the Deputy of Tokarev. Tokarev was a chief director of Zarubezhneft since 2000. However the market reacted to the change of Transneft's head in a negative way – the price of its preferred shares fell by 0.87% after the news.

- On October 16 GAZ Group launched the production of engines under a Renault Trucks license in Yaroslavl. It is planned that by the end of 2007, the plant based in Yaroslavl region will manufacture 500 such engines, 8,500 in 2008, and in 2009 output is expected to amount 20,000 engines.

World capitalization leaders changed

The largest China's oil&gas company PetroChina Ltd. ($430bio) took the second place in the world in terms of capitalization after ExxonMobil Corp. ($518bio). Previously American General Electric Company (GE) took the second place.

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Russian Debt Market

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Eurobonds

Our CEB Global Equity Index fell considerably last week. Growing oil prices pushed Russia30 up from 112.25 to 113.12 for the last week, which was not surprising. Oil price growth is a positive thing for many countries-oil-exporters including Russia.

Activity on the Russian Eurobond market was not high. We saw higher trade activity on TNK-BP on Monday, buying was also observedin Lukhoil-17, and in banking sector on Soyuz-10 and Tatfondbank. After strong NY FED Empire State manufacturing index, the yield of UST10 run up but was stopped by falling global equity. The US industrial production, inflation figures, and the TIC report were headliners of the last week.

Last week Gazprom placed EUR1.2bio Eurobonds .

Price of UST10 grew from 100.48 to 102.78 last week. Running to quality resumed. Yield of UST10 fell below 4.40% after it stabilized close to 4.65% a week before. "Risk aversion" played starting from Wednesday after which the yield of UST10 was falling by the end of the week. Investors' worries were feeded by negative reports from large US banks which reported considerable losses which came mostly from fixed income segment. Investors worry that problems in banking sector are still there.

On Wednesday UST10 grew due to lower than expected US inflation and further worsening US housing statistics which showed 7% decrease in building permits and 10% decrease in housing starts. Market added to the hopes that the FED could decrease the rate at the coming showing which led to a decrease of UST10 yield.

At the same time, growing oil prices increase inflationary pressure and decrease the probability that the FED will decrease the rate in the next showing. This is also supported with not bad data from the US manufacturing segment. According to the data of US Treasury in August 2007, Asia's countries (Japan, China, and Taiwan) narrowed their investment into US Treasuries. The desire of many UST holders to get rid of USD-denominated benchmarks increases investors' worries, because buying Tresures by foreign market players allowed the US to finance considerable part of the deficite of the current account. Active selling of US Treasuries could lead to strong depreciation of USD, growing US money market rates, and falling investments into the country and to the recession. But this case is an extreme and, for sure, should not be seen as a forecast. But it's necessary to know what the background of investors' worries right now is.

Later last week, we observed buying in TNK-18, Alfa Bnk-12, and in new issue Gazprom-18. Refinance and liquidity risks continue to prevent investors from real buying. But on Friday deposits with the CBR and C/A showed RUB907.5bio in total which is enougn to live out October's tax period.

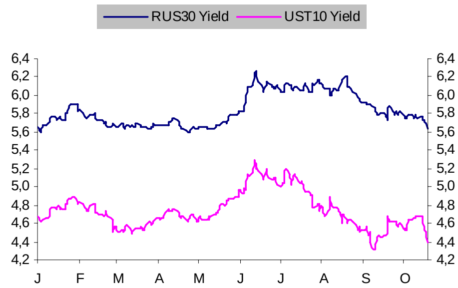
It would be valuable to mention that the spread in yields of short-term and long-term US Treasuries again considerably widened, which shows that investors buy in shorter-term UST more intensively ahead of FED's coming meeting and growing uncertainty about the real impact of the US housing problem on the US economy.

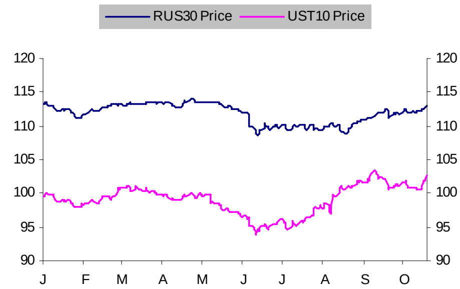
Ruble bonds

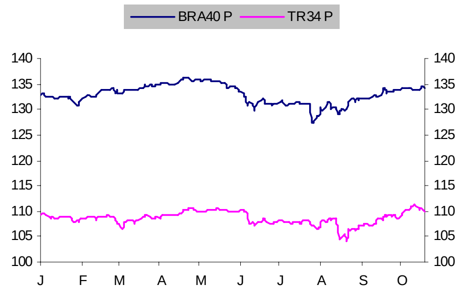
Positive mood was on the Russian ruble bond market last week. Buying was as from Russian as from foreign market participants. There was nothing surprising in that because MM rates far below 5% is a good background for ruble bonds' growing. Cost of funding became lower and demand for ruble bonds became higher. On Monday most liquid issues Lukoil-3,4, Gazprom-4,8, AIZhK-7, MosOblast-7 grew. For the second-tier CenterTelekom-4, VolgaTelekom-3, and X5-1 were popular among buyers. Remember about our buying signal about undervalued bonds of the Russian Standard Bank – so there it was – Russian Standard Bank-4 showed a positive dynamics for several consecutive days, in the result of which its yield fell from 13% to 12.13%. We wonder why it took such long time for the market to get this idea. Bonds of URSA Bank (5) and KhKF Bank (4) look positive as well, especially after they were included in a new extended Lombard/REPO list of the CBR. AIZhK-7,8,9 also look very good since they were damaged strongly after recent ALL-bond selling. These bonds have quasi-sovereign status and should have higher prices.
With growing oil prices some demand was observed in chemical segment, such as NKNH-15 and KazanOS-11. Eurochemical1-2 also looks undervalued.
Starting tax payment period will cause deceleration in ruble bond buying. On Tuesday we observed the demand for sub-federal segment of the Russian ruble bond market: bought were bonds recently included in the extended Lombard/REPO list of the CBR – NovosibirskayaOblast-2, NizhegorodskayaOblast-2, VolgogradskayaOblast-4, LipetskayaOblast-4, IrkutskayaOblast-31-3. From mentioned – "Irkutskaya" and "Lipetskaya" look better. On Tuesday bond holders returned 81.7% and 99.5% of the issues of UTK-3 and MVideo-1, respectively, by activating put options. Thus, despite evident easing in MM rates, investors continue to sell bonds REPO rates for which are high.
On Wednesday buying interest again was in qualitative second-tier bonds of banking sector, telecom, energy and sub-federal issues. It's necessary to mention also that Moscow's presence on the debt market is narrowed. The city posted budget surplus which allowed decreasing borrowings. Ahead of tax payments, the demand steadily left the first-tier segment. Moreover RUXCbonds indices and MCX RCBI grew last week pointing about started rebound on the Russian ruble bond segment.

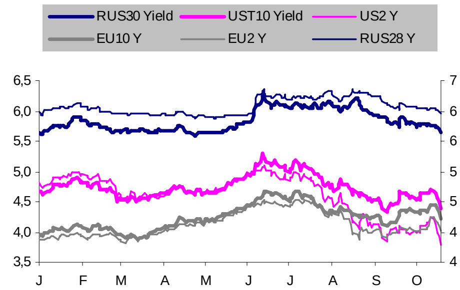
Weekly	Yield bps ch	Price bps ch
Russia30	-0,12	0,88
Russia28	-0,07	1,19
Russia10	-0,04	0,00
Brazil40	-0,07	0,44
Turkey34	0,08	-1,06

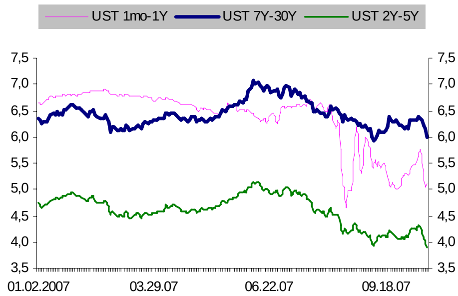
Weekly	Yield bps ch	Price bps ch
UST10	-0,29	2,30
UST5	-0,38	1,68
UST2	-0,44	0,82
EU10	-0,23	1,79
EU2	-0,23	0,42

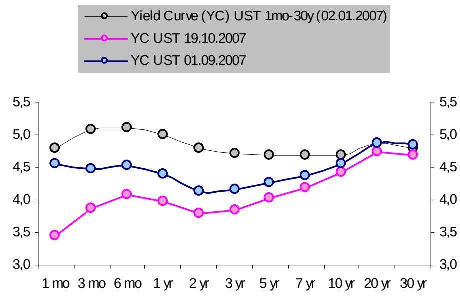

RUS30 Yield
UST10 Yield
6,4 6,2 6,0 5,8 5,6 5,4 5,2 5,0 4,8 4,6 4,4 4,2
J F M A M J J A S O

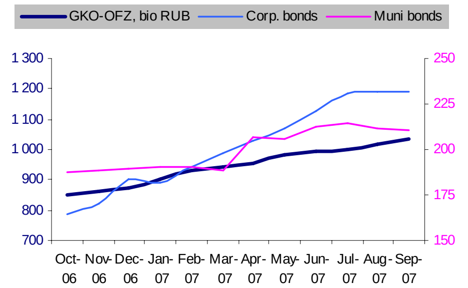

RUS30 Price
UST10 Price
120 115 110 105 100 95 90
J F M A M J J A S O

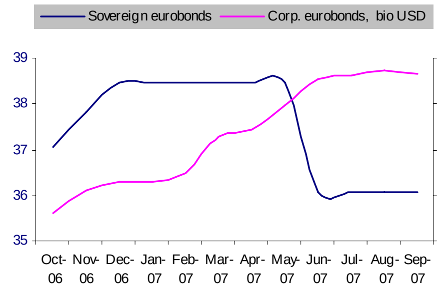

BRA40 P
TR34 P
140 135 130 125 120 115 110 105 100
J F M A M J J A S O


RUS30 Yield
UST10 Yield
US2 Y
EU10 Y
EU2 Y
RUS28 Y
6,5 6,0 5,5 5,0 4,5 4,0 3,5
7 6 6 5 5 4 4
J F M A M J J A S O


UST 1mo-1Y
UST 7Y-30Y
UST 2Y-5Y
7,5 7,0 6,5 6,0 5,5 5,0 4,5 4,0 3,5
01.02.2007 03.29.07 06.22.07 09.18.07


Yield Curve (YC) UST 1mo-30y (02.01.2007)
YC UST 19.10.2007
YC UST 01.09.2007
5,5 5,0 4,5 4,0 3,5 3,0
1 mo 3 mo 6 mo 1 yr 2 yr 3 yr 5 yr 7 yr 10 yr 20 yr 30 yr


GKO-OFZ, bio RUB
Corp. bonds
Muni bonds
1 300 1 200 1 100 1 000 900 800 700
250 225 200 175 150
Oct-06 Nov-06 Dec-06 Jan-07 Feb-07 Mar-07 Apr-07 May-07 Jun-07 Jul-07 Aug-07 Sep-07


Sovereign eurobonds
Corp. eurobonds, bio USD
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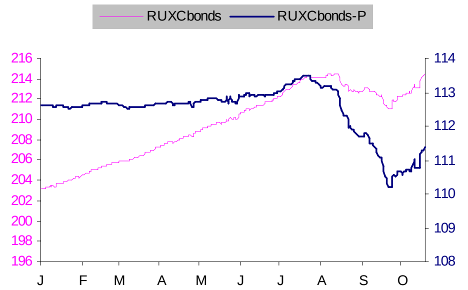
90 80 70 60 50
Oct-06 Nov-06 Dec-06 Jan-07 Feb-07 Mar-07 Apr-07 May-07 Jun-07 Jul-07 Aug-07 Sep-07


RUXCbonds
RUXCbonds-P
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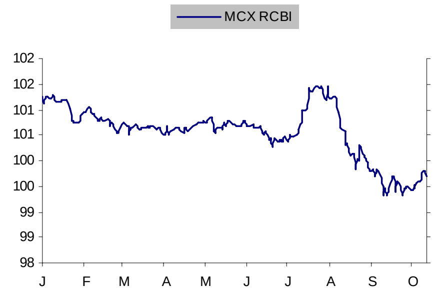
MCX RCBI
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J F M A M J J A S O

Russian FX Market

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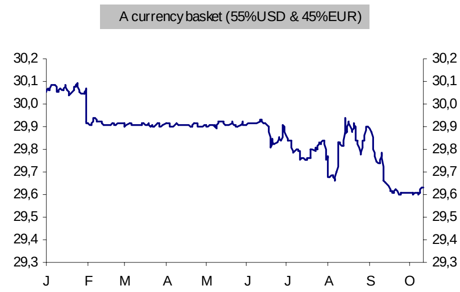
Last week RUB strengthened again against USD. USD/RUB fell by 0.31% last week. The pair was in a range of 24.83-24.93 RUB/USD taking daily close prices into consideration last week.

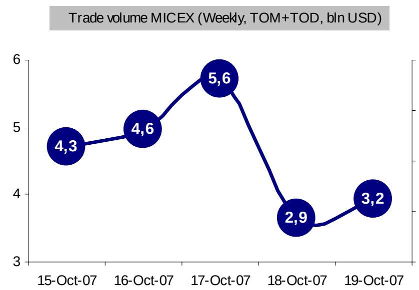
Last week market participants continued to sell USD, which was provoked by skyrocketed for the first two weeks of October inflation, which already amounted to 0.9% (see Russia's Inflation section at the beginning of the report). The CBR could response by strengthening the ruble to curb inflation. However, we assume that the probability that the CBR will not strengthen the ruble is high because as we wrote earlier only radical strengthening of the ruble could have "an immediate impact" on inflation.

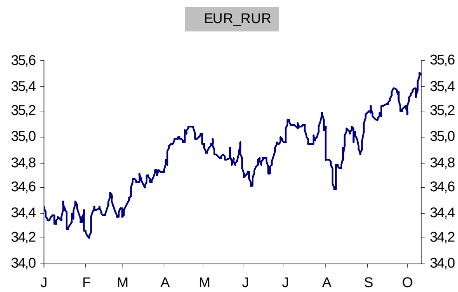
Gold and foreign currency reserves

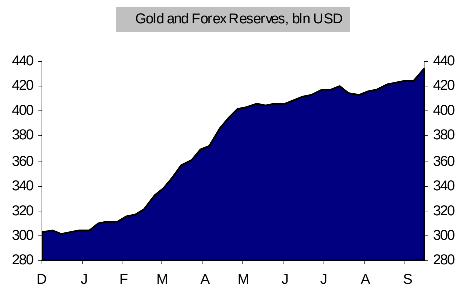
Russia's gold and foreign currency reserves stood at $434bio as of October 12, which is $9.3bio or 2.17% higher that at previous showing.

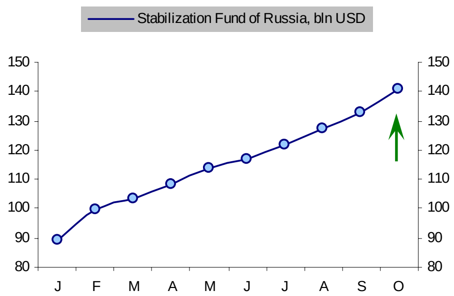
According to our analysis, the nominal appreciation of RUB against USD amounted to 5.66% and real appreciation amounted to 5.40% in January-September 2007. The nominal depreciation of RUB against Euro amounted to 2.49% and the real depreciation amounted to 2.35%. The USD/EUR basket fell from 30.0643 to 29.6277 in January-September 2007. The real appreciation of RUB against USD/EUR basket amounted to 1.91% in January-September 2007.

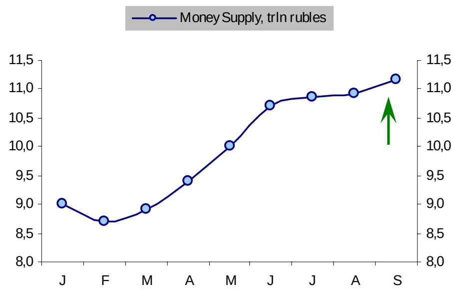












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Global Markets

1. Major Currencies and Trends
2. Interest Rates
3. Economies of Majors
4. Oil Prices
5. Commodities
6. IMM CoT Analysis
7. This Week's Agenda

Major Currencies

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The German government is going to lower its forecast for 2008 German's GDP growth from 2.4% to 2%, due to the impact of the credit crisis and the strong euro.

Last week IMF again said that USD is undervalued , US economy is slowing but recession is unlikely. On Monday market participants changed their tune on the US to the positive side after the US Empire State manufacturing index grew to 28.8 in October against previous 14.7. Noticeable was that market consensus stood far below 14.7. Such surprising figure indicated that the factory sector stayed far from the US credit crunch. The whole report contained nothing but good news: new orders, shipments and employment balances strengthened. However, the report, seems, had some over-optimistic outlook, Nevertheless it supported our expectations of wait and see approach of the FED which will, most probably, leave rates on hold at 4.75% on the coming meeting.

Last week Citigroup, Bank of America Corp, and Wachovia Corp. reported about bad financial results for the Q3 2007. This news led to some decline of USD against EUR.

Fed Chairman Ben S. Bernanke said again last week that the U.S. economy is strong enough to weather the housing slowdown. He said that the credit crunch is easing but many borrowers see current conditions still difficult.

Inflationary pressure in the EU economy is high, which play for another coming rise in EU rate. But at current global financial turmoil caused by the US credit crunch and expectations that the US economy could go into a recession stage, make it less probable that the ECB will increase the rate soon thus hammering USD which is not in the EU's interest at all.

Slowdown in the US economy is evident. Housing sector again showed awful decline last week with September's building permits lower by 80K and housing starts lower by 140K. Seems that problems in the US housing market will take a long time to solve. Uncertainty about future position of EUR/USD increased considerably. Signals of further weakness in the US labour market and housing mean that rates still have further to fall. We think that decrease could happen in December this year. But it's too early to say something confident for sure.

The decline in NAHB index says that a drop of at least 10% in new home sales over the next few months is most probable. Homebuilders will have to cut prices by somewhat up to 30% to try to reduce inventories. Falling home prices will mean that builders are not going to hurry to start building more new homes at that sort of discount. The pending home sales index fell in recent month and strongly suggests that existing home sales will do the same in September.

August TICs showed record selling of US securities, which indicated about falling appetite for USD-denominated assets. The composition of the report showed that foreigners actively sold US papers and US-residents accelerated buying of foreign papers which resulted in such high negative capital outflow. But given the turmoil on financial markets which occurred in mid-month, a $69.3bio decline in net foreign purchases of US securities in August is not surprising. Given the financial markets have since then stabilized we assume that purchases will rebound in September and net figure will improve in the next showing.

US Headline CPI increased by 0.3% MoM in September. September saw gasoline prices up 0.4% MoM, while food prices grew by 0.5%. Important is that prices on fruit-vegetable and diary prices react quickly to any supply shocks, thus the rebound could be the same fast. Core prices increased by a more modest 0.2% MoM, and the annual rate remained unchanged at 2.1% YoY. Inflation looks positive in FED's eyes and will not be a barrier for FED's rate cuts.

Market participants feel that financial markets will, most probably, not stabilize until next year.

Strong Euro harms EU's exporters but makes oil imports cheaper. European policymakers are going to ask again the US to stabilize the dollar and prevent it from further weakening. The European economy is also not doing very well, which is another factor why the dollar is gaining.

Last week US Press Fisher said that economy is fundamentally sound and inflation is low. However, the data point to the slowing economy, and if this continues the FED will have to cut rates sooner or later.

Last week Philly FED index posted a decline from 10.9 in September to 6.8 in October. The report appeared to be radical in contrast with the Empire's rise, and this surprised. Philly's new orders and shipment fell.

Last week BoJ board member MUTO commenting country's development said that Japan economy is on a sustained growth track, exports are expanding, CPI is flat in short-run but is going to rise in long-term.

The US industrial production increased by a modest 0.1% in September after being unchanged the month before.

From one hand, week USD is a good thing for the US because it leads to the shrinking of the US international trade deficit. From the other hand, weak USD brings damages to the US, because USD started to left its status of the reserve currency as from the point of view of the global population, as well as from those countries which keep reserves in USD. The latter is much more dangerous.

Having a huge trade deficit with China (~$232bio in 2006), the US is much more concerned about weak Yuan than expensive Euro. Furthermore, the US government is much more of a concern about slowing economic growth than about inflation.

The FED representatives said last week that some easing felt in the US financial system but mortgage market difficulties continue to affect negatively the US economic performance.

EUR/USD grew by 0.89% and closed the week at 1.4304. New psychological level is taken with a weekly closing price which is a very indicative signal.

US BUDGET

We would like to mention also a truly impressive improvement in the US Budget Deficit. In 2001 Bush inherited $127bio deficit (1.3% of GDP).
In 2004 fiscal year (which runs from October 2003 to September 2004) the US budget deficit amounted to $413bio (3.5% of GDP).

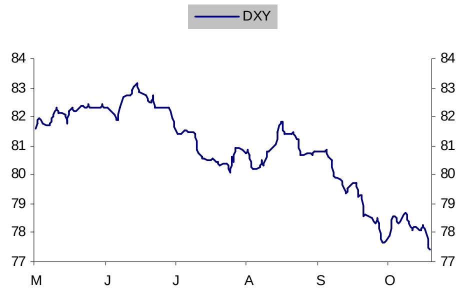
From 2001 to 2004 spending grew by 6.4%/year in the average, and revenues fell by 1.7%/year in the average. The US beared costs of military operations in Iraq and Afghanistan. Than Hurricane Katrina also added to spending. In 2004 it was evident that controlling spending was not a priority for Bush's administration.

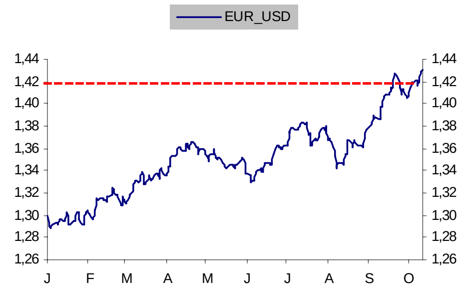
Situation improved in 2005-2007 fiscal years: tax receipts started rapid rising following the accelerating GDP growth. Budget revenues grew by 11%/year in the average, corporate tax receipts grew by 26.2%/year and individual tax receipts grew by 12.9%/year in the average.

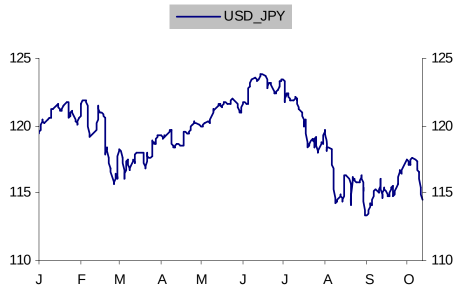
In 2007 fiscal year which ended last month deficit narrowed to $163bio (1.2% of GDP). The US budget deficit is now below the long-run average of 1.8% of GDP. It's necessary to give some credits to Bush.

And at last posting we saw $111bio US budget surplus in September against $117bio deficit in August. Is not this a good signal for the US economy which is hammered by increasing oil prices, credit crisis and financial markets turmoil, and continues to bear high military expenses?!

Currencies







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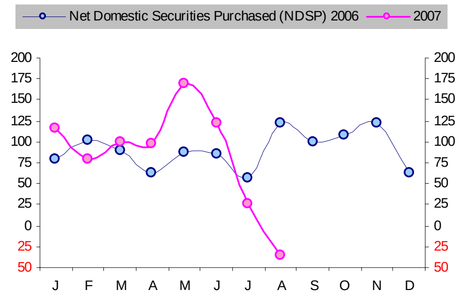
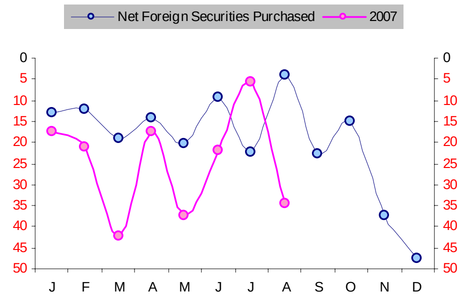
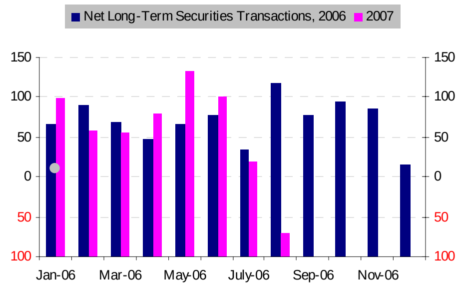
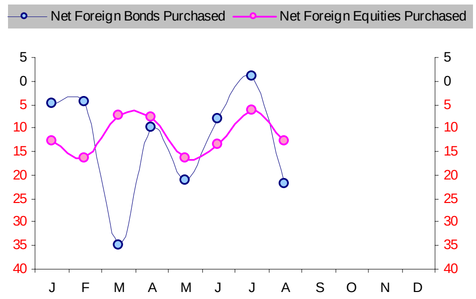
US Treasury International Capital

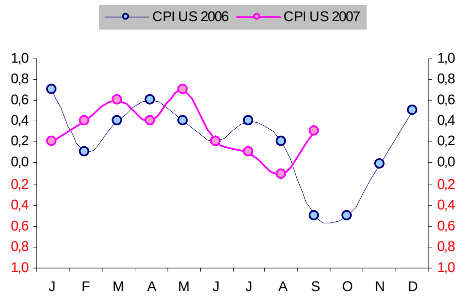


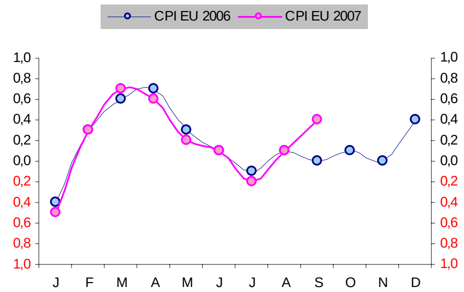






US vs. EU Inflation





Interest Rates

gg

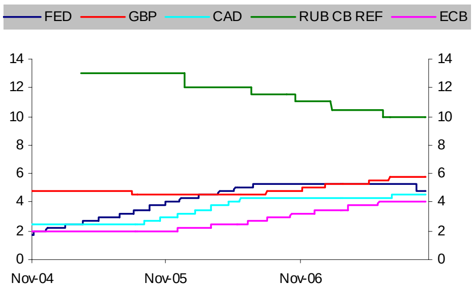
Russia	10.00%
USA	4.75%
UK	5.75%
EU	4.00%
Japan	0.50%
Canada	4.50%
Australia	6.50%
New Zealand	8.25%

Gg

Last week the Bank of Canada left its key interest rate unchanged: overnight rate target remained at 4.50% and bank rate at 4.75%.

The UK interest rate outlook is still highly uncertain. We look for the Monetary Policy Committee to leave rates on hold in November.

The Bank of England's Monetary Policy Committee split 8-1 in deciding to leave rates unchanged at its October meeting.



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Economies of Majors

USA

	Current	Previous
NY Fed Empire State manufacturing index (September)	28.75	14.7
TICS long-term (August), bln	-$69.3	+19.2
TICS (August), bln	-163.0	+103.8
Capacity utilisation (September)	82.1	82.2
Industrial production (September)	0.1%	0.0%
Building permits (September), mio	1.226	1.307
Housing starts (September), mio	1.191	1.331
CPI excluding food and energy (September) Y/Y	2.1%	2.1%
CPI excluding food and energy (September)	0.2%	0.2%
CPI (September) Y/Y	2.8%	2.0%
CPI (September)	0.3%	-0.1%
Jobless claims (week to 13.10)	337K	308K
Leading indicators (September)	0.3%	-0.8%
Philadelphia Fed index (October)	6.8	10.9
M2 money supply (08.10), bln	+1	+2.1

Europe

	Current	Previous
DE HICP (September) final Y/Y	2.7%	2.7%
DE CPI (September) final Y/Y	2.4%	2.5%
DE CPI (September) final	0.1%	0.2%
EU Harmonized CPI ex EFAT (September) Y/Y	1.8%	1.9%
EU Harmonized CPI (September) final Y/Y	2.1%	1.7%
EU Harmonized CPI (September) final	0.4%	0.1%
DE ZEW economic expectations index (October)	-18.1	-18.1
EU Trade balance (August) unadjusted, bln	1.3	4.6
DE PPI (September), y/y	1.5%	1.0%
DE PPI (September)	0.2%	0.1%

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OIL PRICES

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Last week our CEB composite OIL Index grew from 81 to 85 which is very sounding. Brent, Urals, WTI, Rebco grew by 3.58%, 3.73%, 5,75%, and 4.01%.

Last week oil prices shot up and crossed new psychological level of $90/bbl.
AMEX oil index, Oil service index, and RTS O&G showed the opposite side movement, they declined considerably backed by rising oil prices.

US EIA: US commercial crude oil inventories for October 5 (excluding those in the Strategic Petroleum Reserve) rose by 1.8mio barrels last week and reached 321.9mio barrels. At this level U.S. crude oil inventories are above the upper end of the average range for this time of year. At previous showing stores fell by 1.7mio barrels to 320.1mio barrels.

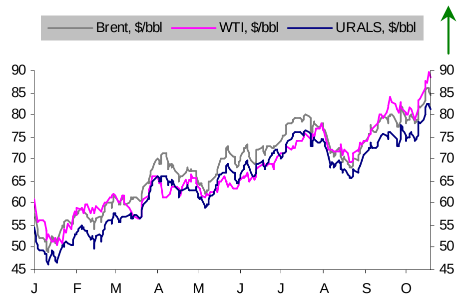
The rise in crude oil prices was attributed to the continued tensions between Turkey and Iraq, which grew out to the war on Turkey-Iraq state border. Prices were pushed up backed by fears that actions between Turkey and Kurdish rebels in Iraq could disrupt supplies. At place of possible war there are two oil pipelines - Kirkuk-Jeyhan and Baku-Jeyhan. Weaker USD also added to higher oil prices.
Positive data from US DoE together with profit taking on long crude oil positions by many market participants led to the downward correction of oil prices. But new negative news from Turkey/Iraq again pushed prices up. Taking into considerastion all happened recently, we could conclude that $100/bbl is possible for crude oil but it will be the bubble for sure. Price of $100 is an extremely psychological and technical level. Hazard of traders could technically push crude oil prices to approach this $100.

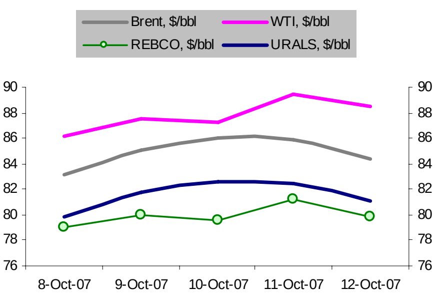
According to OPEC the demand for oil will increase to 85.72mio bbl/day, and to 87.09mio bbl/day. OPEC specialists increased these two figures by 20,000bbl/day for 2007 and for 2008. This was explained by better that expected reaction of the US economy to the financial crisis. Important also is the fact that hedge-funds and traders continue to accumulate long positions in crude oil contracts according to the CFTC commission's data. Moreover it is expected that this winter will be cold and there will be shortages in supplies in winter period. Moreover general perception that the US weathers out the financial crisis led to the inflow of speculative capital to crude oil trading which also pushed oil prices up.

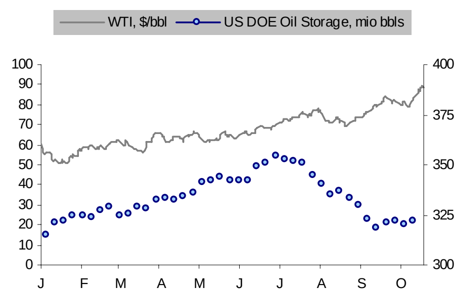
Below is the forecast for world oil demand in 2007 and 2008 (data taken from Reuters).

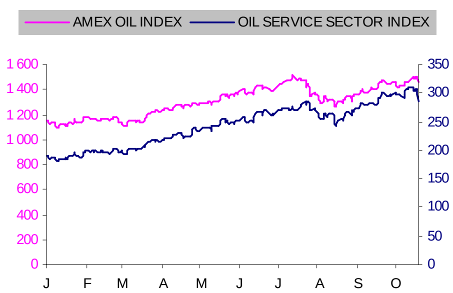
In mio bbl/day

	2007			2008				
	Q3	Q4	Average per year	Q1	Q2	Q3	Q4	Average per year
OPEC	85,57	87,07	85,75	87,33	85,6	86,68	88,73	87,09
International Energy Agency	85,5	87,6	85,9	88,3	86,7	87,4	89,4	88
Energy Information Administration	85,61	87,41	85,78	87,6	85,91	86,7	88,37	87,15

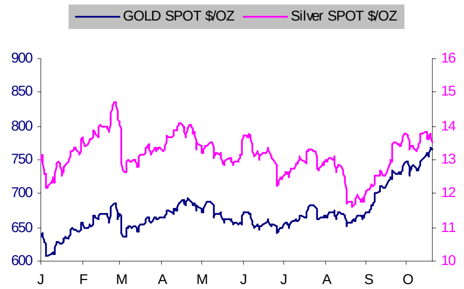


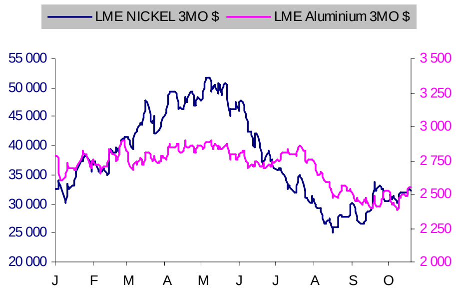






METALS


GOLD SPOT $/OZ
Silver SPOT $/OZ
900
850
800
750
700
650
600
16
15
14
13
12
11
10
J F M A M J J A S O


LME NICKEL 3MO $
LME Aluminium 3MO $
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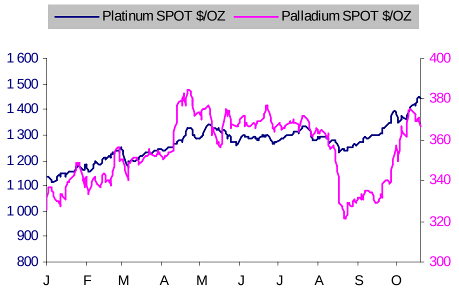
50 000
45 000
40 000
35 000
30 000
25 000
20 000
3 500
3 250
3 000
2 750
2 500
2 250
2 000
J F M A M J J A S O


Platinum SPOT $/OZ
Palladium SPOT $/OZ
1 600
1 500
1 400
1 300
1 200
1 100
1 000
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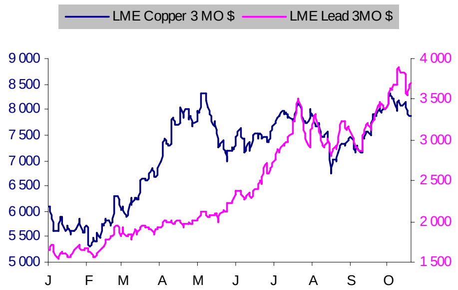
800
400
380
360
340
320
300
J F M A M J J A S O


LME Copper 3 MO $
LME Lead 3MO $
9 000
8 500
8 000
7 500
7 000
6 500
6 000
5 500
5 000
4 000
3 500
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2 500
2 000
1 500
J F M A M J J A S O


LME TIN 3MO $
LME ZINC 3MO $
17 000
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14 000
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12 000
11 000
10 000
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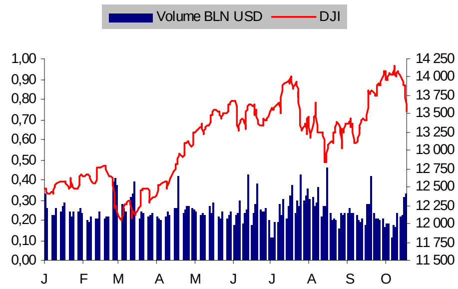
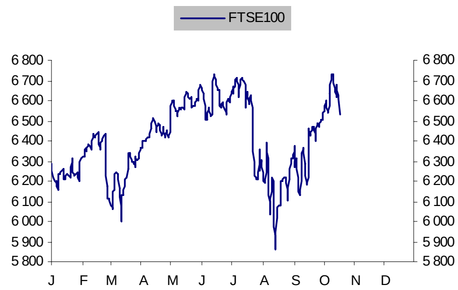
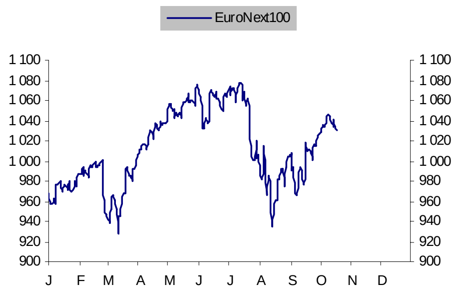
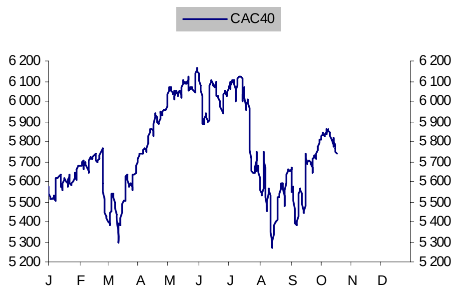
Major Equity Indices









Last week all major world market indices showed considerable decline. Top loseres of the last week were DOW (-4.05%), S&P500(-3.92%), and FTSE100(-3.01%).

Index	Close	%Ch
DOW	13522	-4,05
S&P500	1501	-3,92
NASDComp	2725	-2,87
Nikkey225	16814	-2,98
FTSE100	6528	-3,01
EuroNext100	1031	-1,37
CAC40	5740	-1,77
DAX	7884	-1,95
SWISS	8937	-2,83

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IMM CoT Analysis

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ABOUT CFTC
Congress created the Commodity Futures Trading Commission (CFTC) in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States.

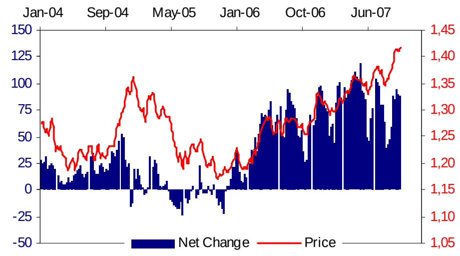
Today, the CFTC assures the economic utility of the futures markets by encouraging their competitiveness and efficiency, protecting market participants against fraud, manipulation, and abusive trading practices, and by ensuring the financial integrity of the clearing process. Through effective oversight, the CFTC enables the futures markets to serve the important function of providing a means for price discovery and offsetting price risk.

INTERPRETING THE DATA
The Commitments of Traders (COT) reports provide a breakdown of each Tuesday's open interest for market reports in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC.

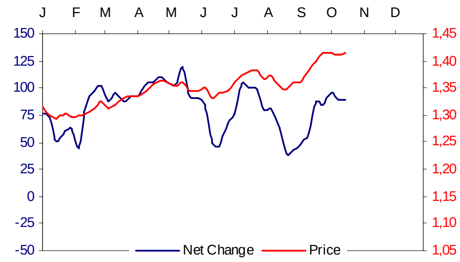
First of all we pay attention to whether the position figure is positive or negative. Positive figure means that long positions exceed short ones on the financial instrument.

Secondly, we are interested in the dynamics – thus, increasing net position figure shows that traders turn to long side and interest changes to "buy" on the financial instrument.

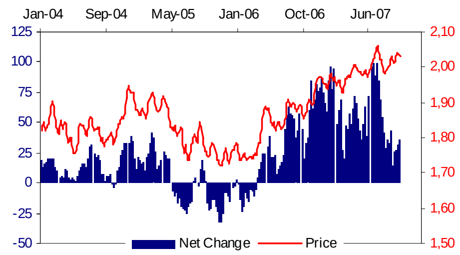
EURO Historical



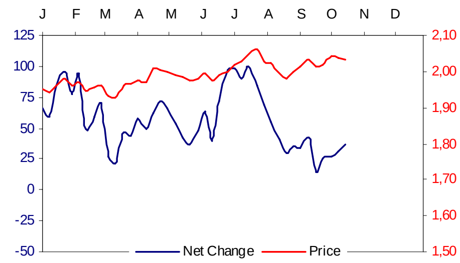
EURO This Year



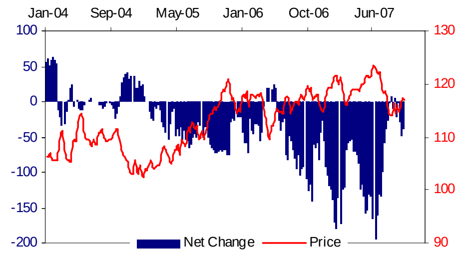
GBP Historical



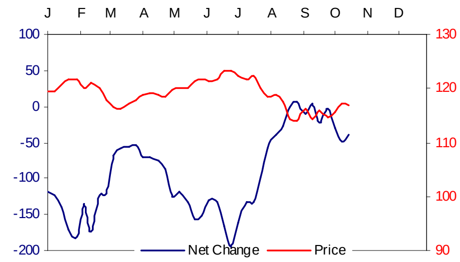
GBP This Year



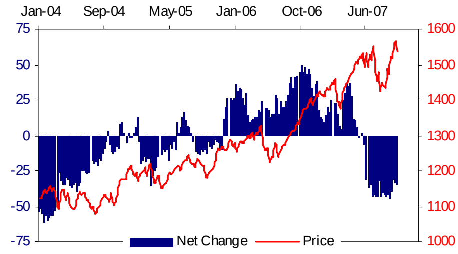
JPY Historical



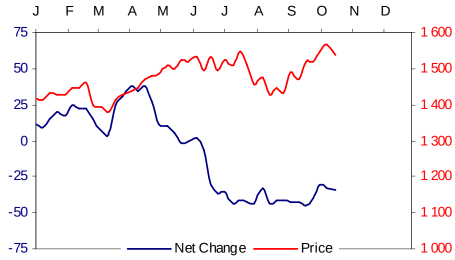
JPY This Year



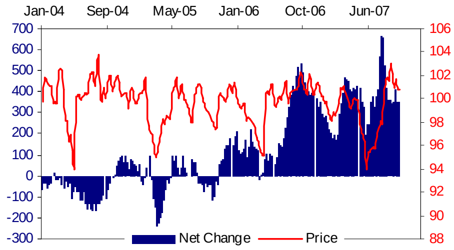
S&P500 Stock Index Historical



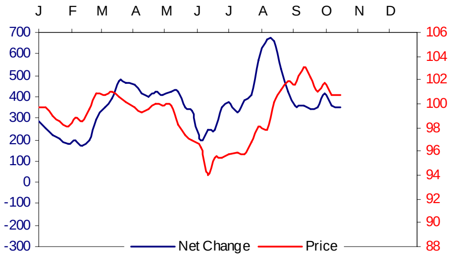
S&P500 This Year



UST10 Historical



UST10 This Year



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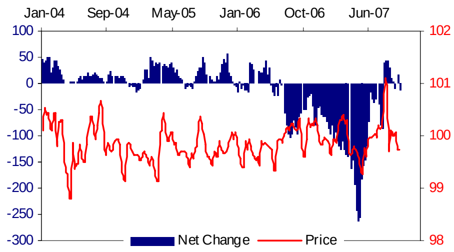
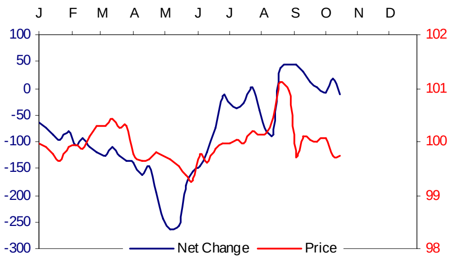
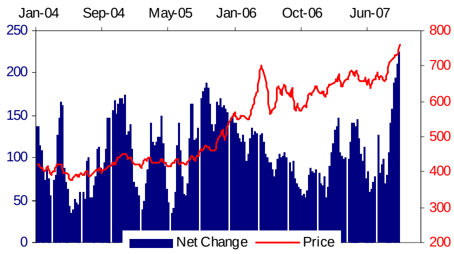


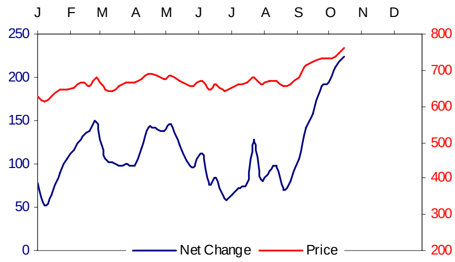
UST2 This Year



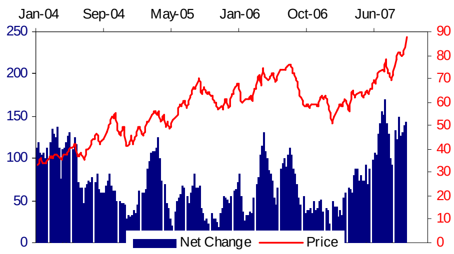
GOLD Historical



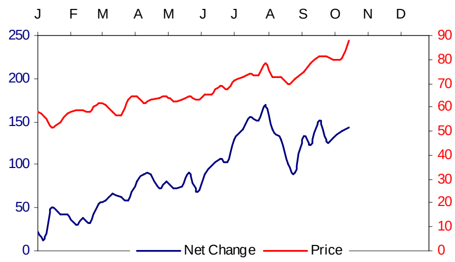
GOLD This Year



WTI Historical



WTI This Year



This Week's Agenda

		Event		Survey	Actual	Prior
10/22/2007 5:00	EU	Euro-Zone Govt Debt/GDP Ratio	31-Dec	69.00%	- -	69.10%
10/22/2007 5:00	EU	Euro-Zone Budget Def/GDP Ratio	31-Dec	-1.60%	- -	-1.60%
10/23/2007 5:00	EU	Industrial New Orders SA MoM	AUG	0.90%	- -	-4.00%
10/23/2007 5:00	EU	Industrial New Orders YoY	AUG	6.00%	- -	10.90%
10/23/2007 10:00	US	Richmond Fed Manufact. Index	OCT	7	- -	14
10/23/2007 17:00	US	ABC Consumer Confidence	21-Oct	- -	- -	-13
10/24/2007 4:00	EU	ECB Euro-Zone Current Account	AUG	2.0B	- -	1.7B
10/24/2007 4:00	EU	PMI Manufacturing	OCT A	52.9	- -	53.2
10/24/2007 4:00	EU	Euro-Zone Current Account nsa	AUG	- -	- -	3.3B
10/24/2007 4:00	EU	PMI Services	OCT A	54.5	- -	54.2
10/24/2007 4:00	EU	PMI Composite	OCT A	54.6	- -	54.7
10/24/2007 7:00	US	MBA Mortgage Applications	19-Oct	- -	- -	0.70%
10/24/2007 10:00	US	Existing Home Sales	SEP	5.25M	- -	5.50M
10/24/2007 10:00	US	Existing Home Sales MoM	SEP	-4.50%	- -	-4.30%
25-Oct	RU	Gold & Forex Reserve USD	19-Oct	- -	- -	434.0B
10/25/2007 8:30	US	Durable Goods Orders	SEP	1.50%	- -	-4.90%
10/25/2007 8:30	US	Durables Ex Transportation	SEP	0.70%	- -	-1.80%
10/25/2007 8:30	US	Initial Jobless Claims	20-Oct	320K	- -	337K
10/25/2007 8:30	US	Continuing Claims	13-Oct	2530K	- -	2534K
10/25/2007 10:00	US	New Home Sales	SEP	770K	- -	795K
10/25/2007 10:00	US	New Home Sales MoM	SEP	-3.10%	- -	-8.30%
10/25/2007 10:00	US	Help Wanted Index	SEP	23	- -	23
26-Oct	RU	Money Supply Narrow Def.RUB	22-Oct	- -	- -	3749.8B
10/26/2007 4:00	EU	Euro-Zone M3 s.a. (YoY)	SEP	11.40%	- -	11.60%
10/26/2007 4:00	EU	Euro-Zone M3 s.a. 3 mth ave.	SEP	11.60%	- -	11.40%
10/26/2007 10:00	US	U. of Michigan Confidence	OCT F	82	- -	82

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