

CIS

CIS Fixed Income Daily

07 October 2008

Today's news

Russia: Equity market crashes hard

RTS index posts drop of over 19% – a record daily fall since 1995

Ukraine: Credit growth slows to 54.1% YoY in September

The September data still do not fully reflect shocks on the domestic FX and money markets, which occurred in late September. We reiterate our forecast for nominal credit growth to drop to 33.3% over 2008.

Companies in this issue

Company	Currency	YTW (%)	Rec	Previously	Since
none					

none

Source: ING

Benchmark yields

	Last	%ch (DoD)
UST 10Y (US\$)	3.603	-0.029
Russia 10Y (RUB)	8.240	0.120
Russia 10Y (US\$)	5.815	-0.041
Russia '30 (US\$)	7.195	-0.005
Ukraine '16 (US\$)	13.357	1.122

Currencies

	Last	%ch (DoD)
RUB/US\$	26.27	1.11
KZT/US\$	120.03	0.07
UAH/US\$	5.30	1.60

Money market rates

	Last	%ch (DoD)
3 months RUB	9.42	0.17
3 months KZT	5.70	0.00
3 months UAH	11.88	-0.54

Russia

Equity market crashes hard

RTS index posts drop of over 19% – a record daily fall since 1995

Russian share prices yesterday again came under severe pressure as a result of contagion from abroad, the continuing fall in oil prices, and concerns that major Russian companies may be experiencing liquidity problems. The massive shares sell-off resulted in high demand for US dollars in the domestic market, while the Central Bank was reportedly the only buyer of the rouble. The CBR did not publish how much of the US currency it had to sell to keep the rouble stable against the bi-currency basket (at 30.40, which is the weaker bound of the band). However, the severity of the sell-off suggests that it had to spend at least several billion US dollars to do so.

This selling will likely manifest itself in a weekly fall in FX reserves when they are reported in the middle of next week. Nevertheless, we believe in the CBR's determination to support the rouble at its current level. The authorities are determined not to allow the economy to lose its growth momentum; household consumption is a key driver of growth. So far, we have detected no signs of a slowdown in household demand, but if the rouble were allowed to weaken this would deal a severe blow to household confidence (and probably trigger a run on bank deposits). We expect the CBR to hold the ground against any speculation and think it would be prepared to spend a substantial portion of its FX reserves (\$562bn) to defend the rouble.

We maintain our view that the rouble will not break though the weaker bound of the +/-2% bi-currency band, although end-year FX reserves could be a lot lower than we expect if the market panic continues (our current forecast for December FX reserves is \$570bn).

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Ukraine

Credit growth slows to 54.1% YoY in September

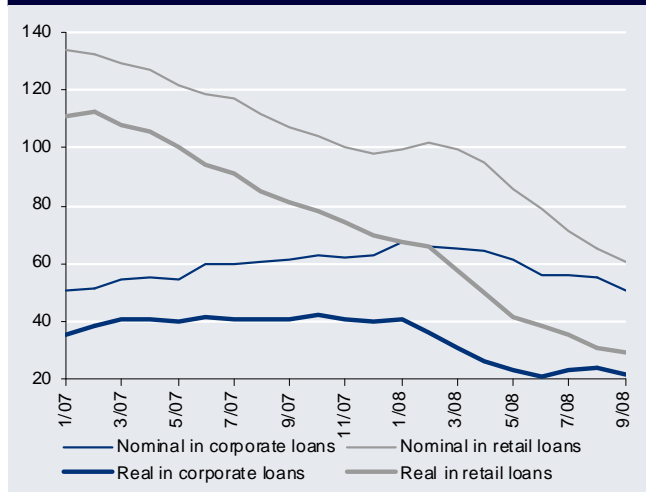
The September data still do not fully reflect shocks on the domestic FX and money markets, which occurred in late September. We reiterate our forecast for nominal credit growth to drop to 33.3% over 2008.

Difficulties in obtaining new resources due to the global financial crisis and liquidity squeeze on the hryvnia market are still the biggest reasons behind the domestic slowdown in credit growth this year. Nominal growth in total loans declined to 54.1% YoY in September compared to 58.8% YoY in August or 74% YoY at the end of 2007. Estimated real growth declined to 23.8% in September compared to 58.8% in August.

Monthly nominal growth in corporate loans still continued its pace of growth in September (3.8% MoM) and is higher than the average monthly growth rate over the last 12 months (3.5%) despite banks facing difficulties in finding resources while industrial production is also cooling down. At the same time, monthly nominal growth in retail loans in September (2.4% MoM) was considerably behind monthly average growth level over the last 12 months (4.0%). Thus the major banks are still keeping their attention on corporate customers, which represent their core business. Another reason of the more significant decline in retail loans is the more elastic demand for retail loans than for corporate loans after banks increased interest rates significantly.

Despite the bulk of banking statistics over September coming in line with market expectations, the largest surprise came from the loans-to-deposits ratio. The ratio increased to 166% in September, compared to 163% in August or 152% at the end of 2007 when the threat of a banking crisis was not so evident. Thus the banks continue to increase their loan portfolios significantly ahead of deposits growth despite tighter conditions on the global financial markets. This increases their refinancing risks in the medium term.

As the banking system moved quite close to recession at the end of September when the FX market saw the biggest hryvnia weakening over the last seven years and when one of the banks in top 10 (Prominvestbank) experienced a temporary shortage of liquidity, the banking statistics over September may not reflect the real situation in the sector currently. Thus the data for October should show how the banking system adapts to recent shocks on the FX and money markets. Nevertheless we see a monthly decline in the loan portfolio over October which may be the start of another trend in the sector. We reiterate our estimate of nominal credit growth over 2008 at 33.3%, which would translate into 10.6% in real terms.

Fig 1 Credit growth (%YoY)

Source: NBU

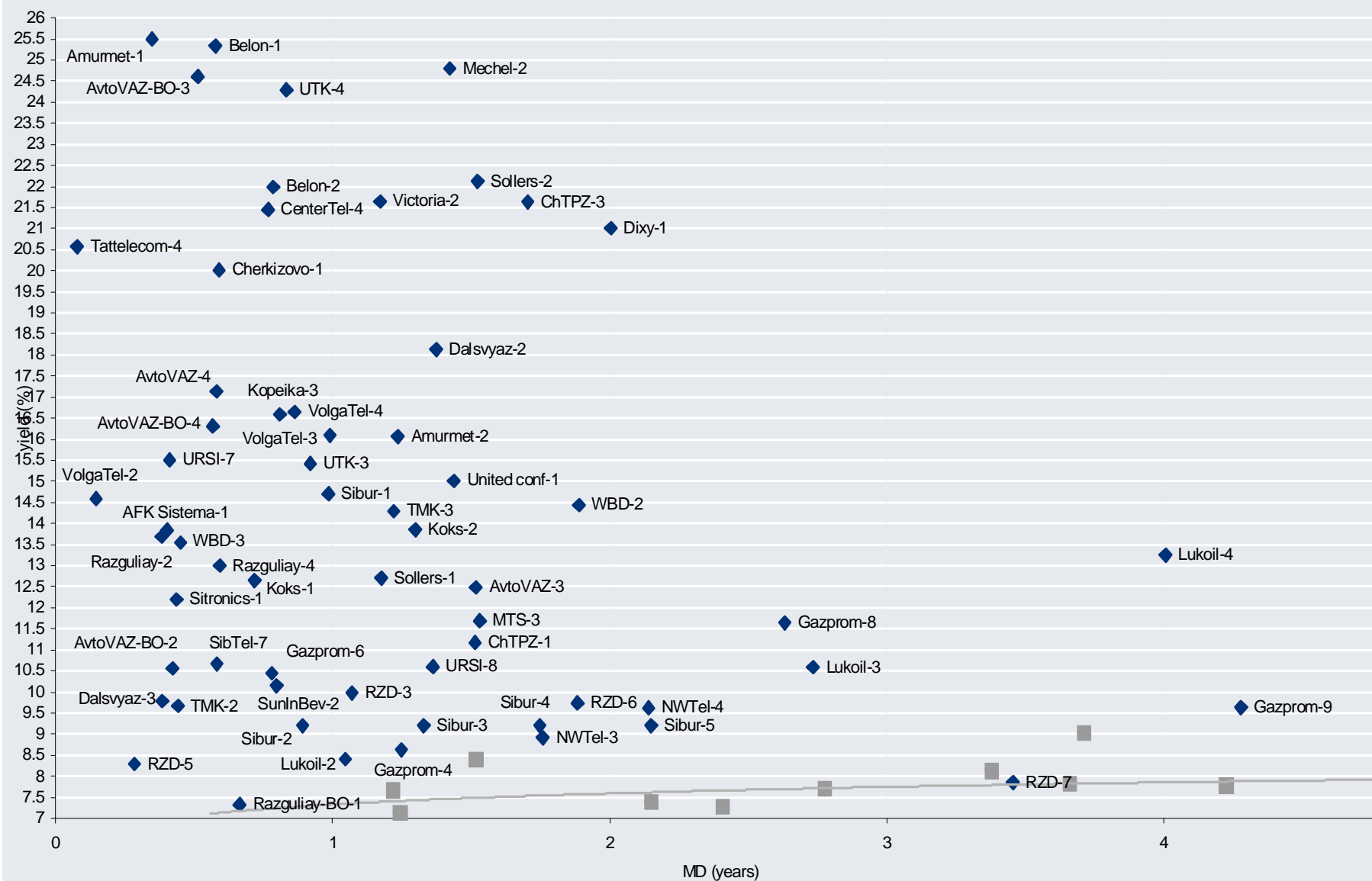
Fig 2 Loan/deposit ratio still growing

Source: NBU, ING

The growth slowdown in retail loans will negatively affect imports, thus positively impacting the trade balance. However a more significant decline in steel prices would still pressure hryvnia towards further weakening. We expect a more significant negative impact from the market situation on credit growth in October.

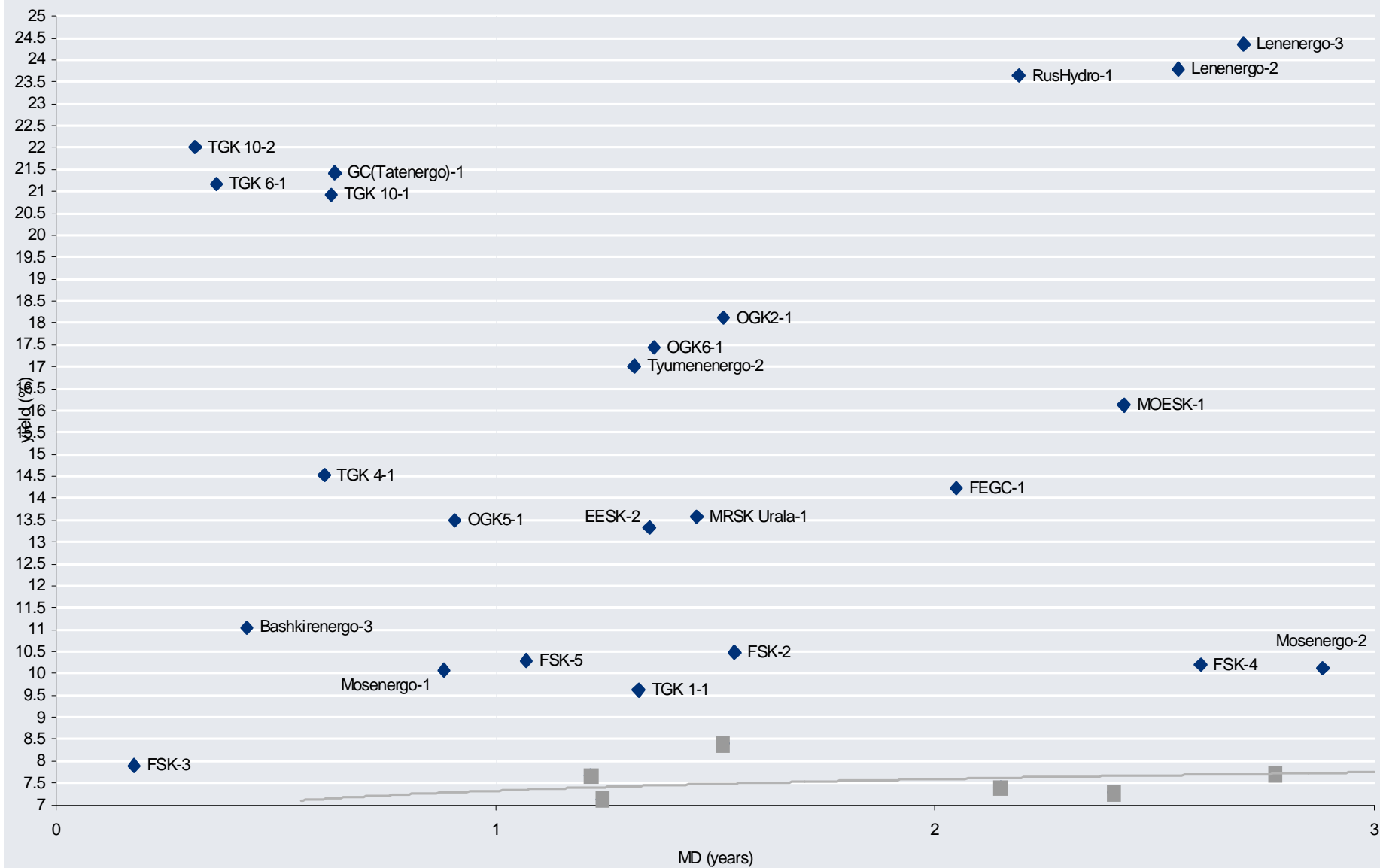
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Russia's rouble corporate debt universe



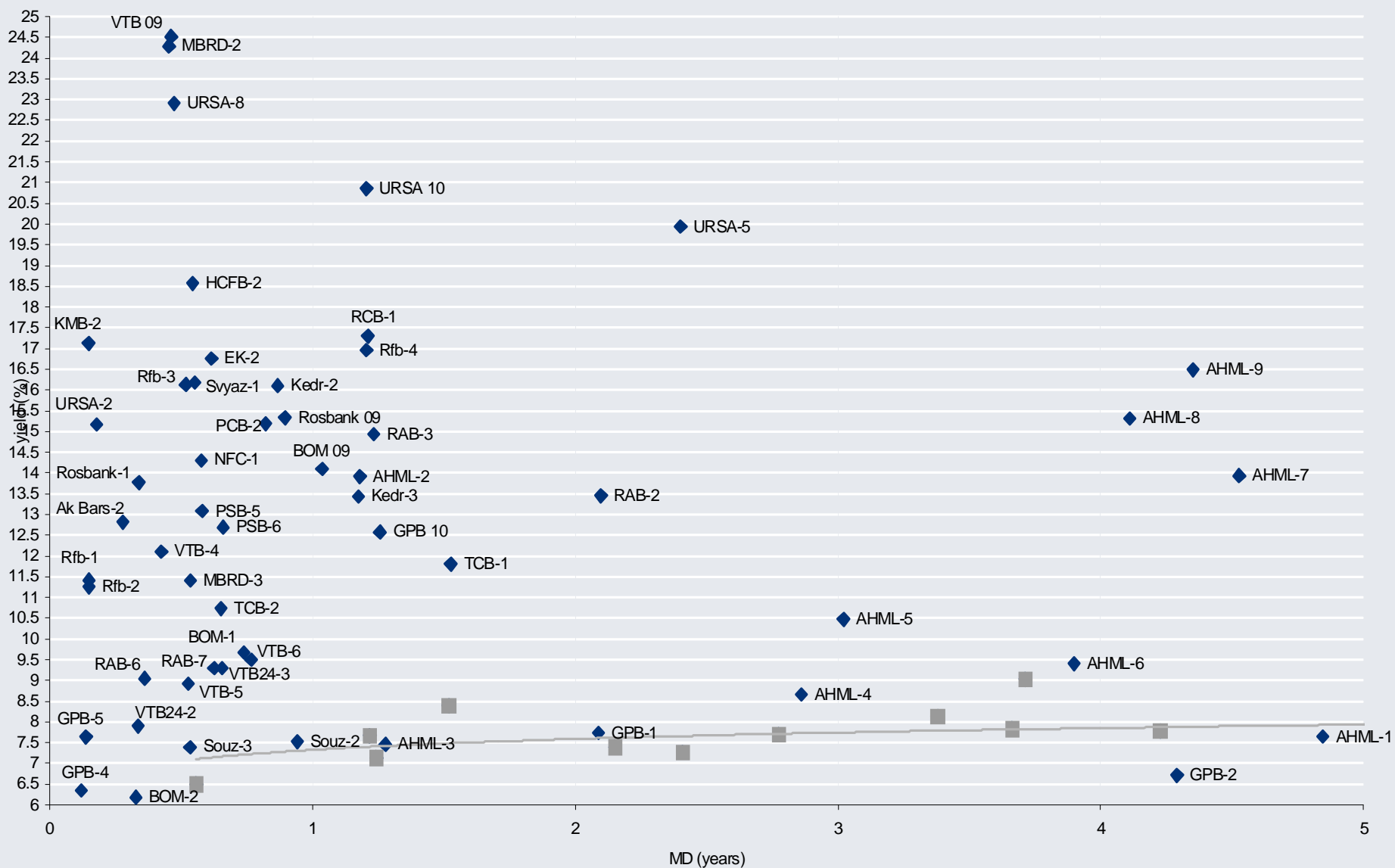
Source: Bloomberg, Micex, ING

Russia's rouble utilities debt universe



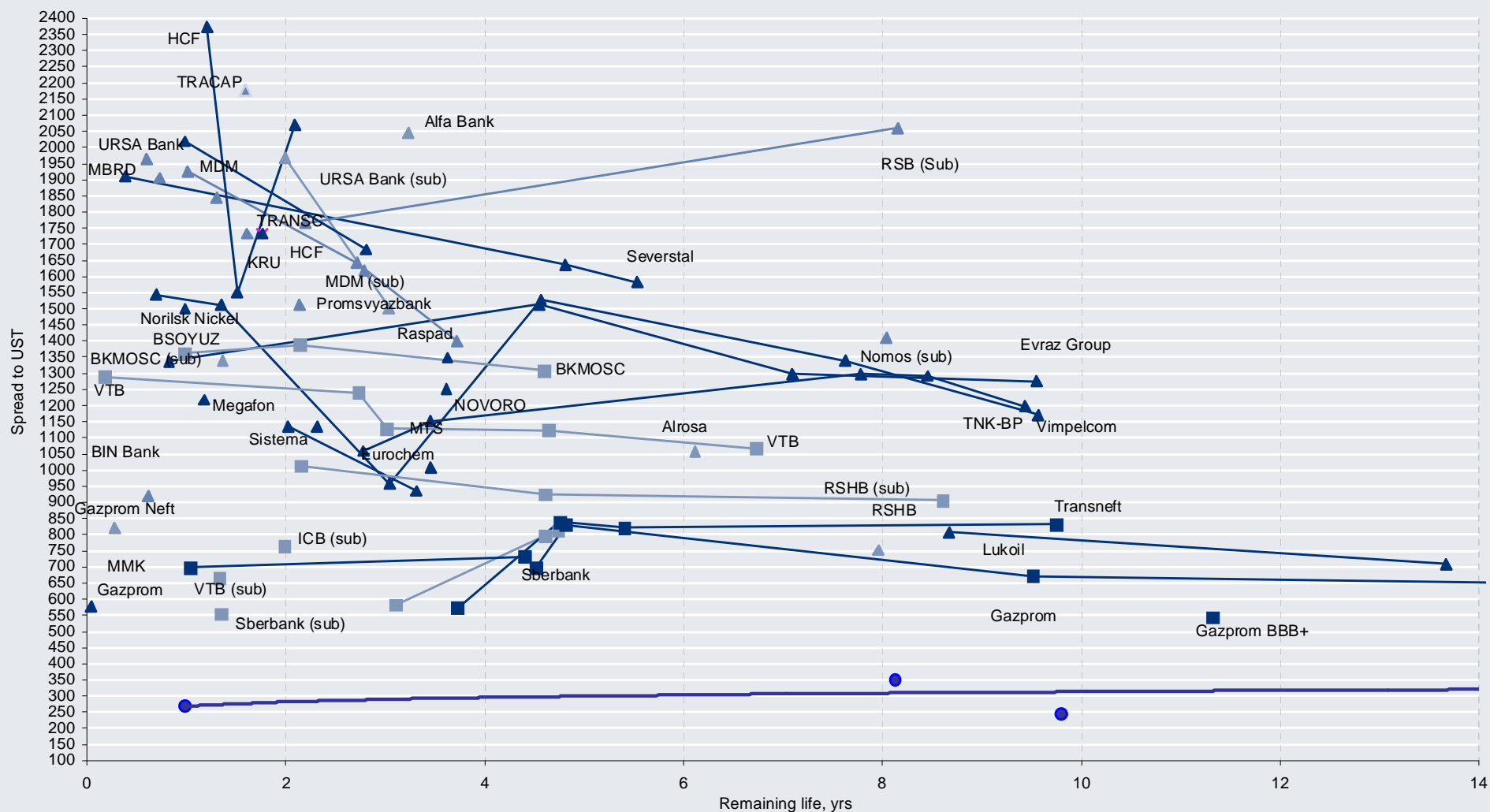
Source: Bloomberg, Micex, ING

Russia's rouble financial debt universe



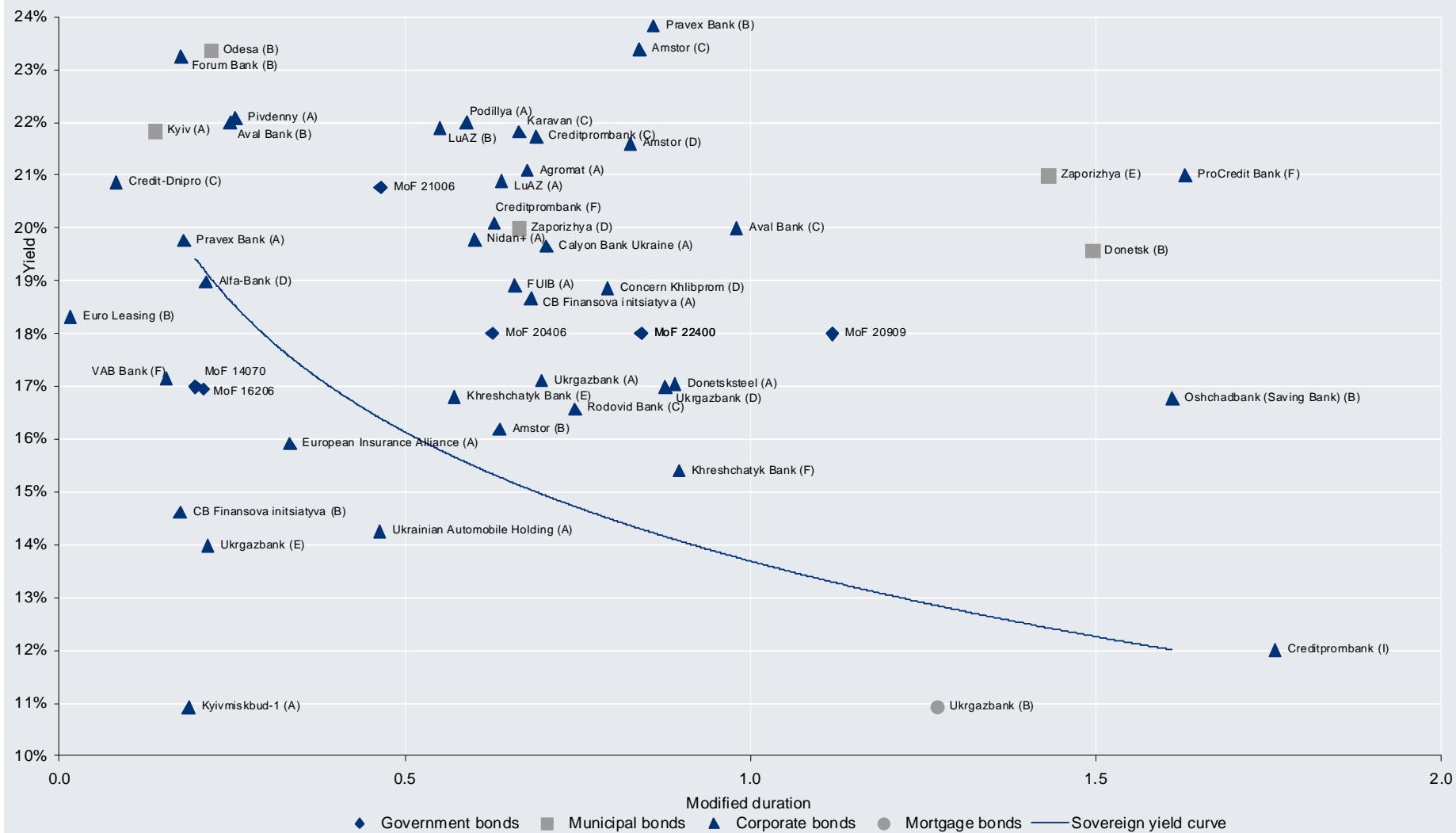
Source: Bloomberg, Micex, ING

Russian corporates - USD Credit Curve



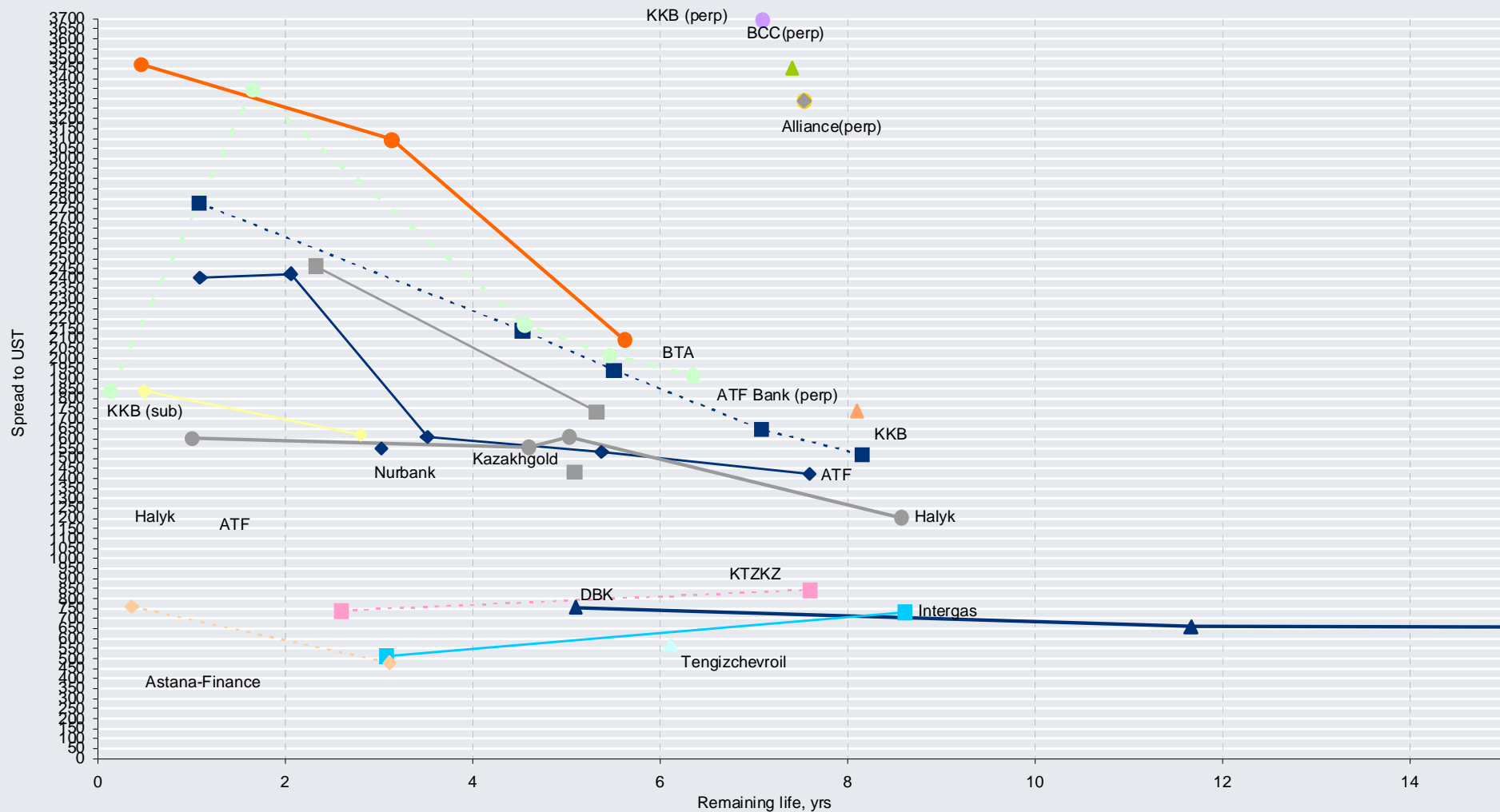
Source: Bloomberg, ING

Ukraine's domestic tradable bond universe



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

Kazakhstani corporates - USD Credit Curve



Source: Bloomberg, ING

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