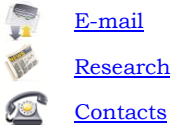


## Bond Market

2013-10-22



[E-mail](#)

[Research](#)

[Contacts](#)

### Latest reviews and commentaries:

- [Norilsk Nickel offers 7-year Eurobonds: Participation Recommended](#)
- [NOTA-Bank places Russian ruble bonds with a premium to the market](#)
- [Primary Market Revival and Priced-In QE3 Tapering Will Support Russian Eurobonds in Autumn](#)

### Global Markets and Macroeconomic News

- Global markets will come out of an apathetic state after the September employment report in the U.S. is released.
- USA: sales in the secondary housing market in September 5.29m houses, prev. 5.39m.
- The Federal Treasury will begin the purchase of currency on October 23 for the replenishment of sovereign funds. A total of 10bn rubles will be allocated in the next five business days.
- The head of MED Alexei Ulyukaev: in the first three quarters of this year foreign direct investment amounted to \$72bn.

Indicators			
MICEX	S&P 500	Brent	Gold
1 533,61 ↑ 0,02%	1 744,66 ↑ 0,01%	109,64 ↓ -0,27%	1 316,00 ↓ -0,02%
Russia-30, price	Russia-30, yield	UST-10, yield	Russia-30-UST-10
119,03 ↓ -5 b.p.	3,84% ↑ 1 b.p.	2,60% ↑ 2 b.p.	123 ↓ -2 b.p.
EUR/\$	\$/RUB	EUR/RUB	Bicurrency basket
1,3681 ↓ -0,04%	31,96 ↑ 0,03%	43,68 ↓ -0,03%	37,24 ↓ -0,10%
OFZ 25079	OFZ 26205	OFZ 26207	Russia-18-OFZ 26204
101,45 ↑ 0,01%	103,64 ↓ -0,25%	105,80 ↓ -0,33%	-11,3 ↑ 0 b.p.
Liquidity, bln rubles	NDF 1 year	MOSPrime o/n	MICEX repo
898 ↓ -66	6,16 ↓ -4 b.p.	6,32 ↑ 4 b.p.	6,13 ↓ -4 b.p.

### Key Statistics Today:

- Unemployment level and employment changes in U.S. economy sectors (4:30 p.m.);
- Net volume of acquisition of American securities by foreign investors (5:00 p.m.);
- Manufacturing PMI by the Federal Reserve Bank of Richmond (6:00 p.m.).

### Trading Idea of the Day:

- Novatek-22. We expect the price of the Eurobond to grow after a number of news positive for the company. Yield reduction potential is 15-20 bp. in mid-term.
- Nornickel-20. We expect the yield of new issue to continue to reduce to the fair, in our opinion, level of 5.3-5.4% per annum. Yield reduction potential is 7-10 bp. in mid-term.

### Debt Market

- Russian Eurobonds will show neutral dynamics on Tuesday after a slight correction on Monday in anticipation of the statistics on the U.S. labor market.
- At the end of last week the average expectations for QE-3 scrapping were pushed to the spring of 2014, and now some market participants are thinking whether they overestimated the adverse effect on the economy of the recent shutdown of U.S. government agencies.
- Yesterday benchmark Russian Eurobonds RUSSIA-30 and RUSSIA-42 increased in yield by 1-2 bp., moving together with US Treasuries, where the yield on 10-year securities completed the trading session on Monday with similar increase to a level of 2.60% per annum.

### Comments

- On Monday **NOVATEK** received a tax concession for the MET on natural gas extraction in the Gydan peninsula, a condition for which is the liquefaction of the extracted gas at the company's Yamal LNG facility. The appearance of the prospects for the plant expansion, in our view, can enhance the market's expectations regarding cash flow generated by NOVATEK.. However, due to the remoteness of the forecast horizon, the impact of this news on the company's Eurobonds, by our reckoning, will be restrained. Among the Eurobonds traded by NOVATEK we highlight the issue NVTKRM-22 (YTM – 5.12%, Z-spread - 259 bp.). We estimate the potential reduction of yield on the Eurobond at 15-20 bp.



## Global Markets and Macroeconomic News

Global markets will come out of an apathetic state after the September employment report in the U.S. is released.

U.S. Department of Labor will present the assessment of the level of unemployment and the number of jobs outside the agricultural sector at 4:30 p.m. MSK. Released late due to a partial suspension of government activities, labor market data will be the starting point for the Fed in making a decision at the session in October.

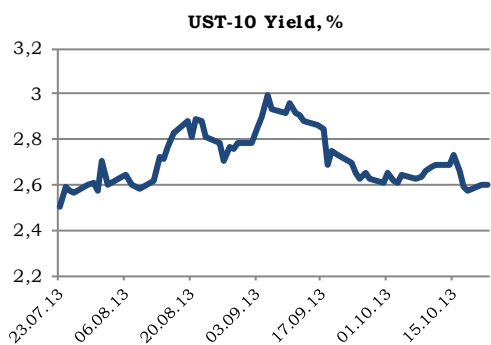
According to the head of the Federal Reserve Bank of Chicago Charles Evans, the Fed needs to see some good reports on employment and evidence of the continued GDP growth, which will persist for several months. In this case, the Open Market Committee may consider lowering the amount of the buyout of assets from the market. However, according to Evans, the decision in December will also depend on the nature of the negotiations of American politicians. Dragging out the budget negotiations and the approach to the new 'day X' of reaching the debt limit will cause the monetary authorities to postpone the easing of monetary support.

Against this background it is not surprising that the majority of experts surveyed by Bloomberg are not expecting the QE-3 to be scaled back until the spring of 2014, with its complete cessation only after a year. The first serious conclusions about how much the economy was damaged due to the shutdown the Fed will be able to make only in November - November 7 will see the 3rd quarter GDP data published, while on October 29 a report on retail sales in September will be released.

On Monday the data on sales in the secondary homes market was released. In annual terms the sales in September fell by 1.9% to 5.29 million homes, meeting market expectations. The decline in activity was the result of growth in mortgage rates. It will be known later how the housing market, which is important for assessing trends in the economy, came through the temporary shutdown of the government.

Released quarterly reports from Halliburton and McDonalds were disappointing, which has brought down the positive attitude in the U.S. stock market (S&P 500 +0.01%). After the closing of the market Texas Instruments was also a letdown - futures on the S&P 500 is not growing (-0.04%).

In the U.S. debt market changes are minimal as well (UST 10 2.60%, +1 bp.). The U.S. dollar has strengthened slightly (DXY 79.75). Oil prices continue to stagnate just below \$110/bbl. for Brent. Gold prices are gravitating towards the mark of \$1,315/oz.



## Russian Economy

The money market interest rates experienced moderate pressure due to tax payments. The benchmark rate Mosprime increased by 4 bp. to 6.32%. At the inter-dealer repo market the one-day rate on bonds has also added 4 bp., reaching 6.17%.

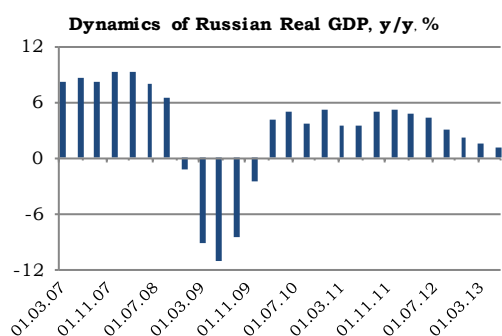
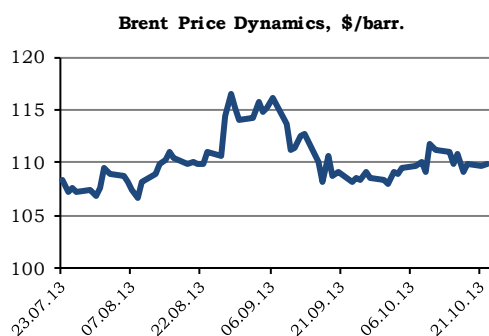
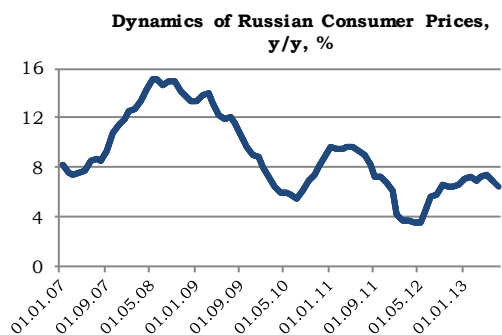
Against the backdrop of VAT payment for the 3rd quarter, the Bank of Russia raised the limit on the one-day repo auction from 190.0 to 290.0bn rubles, thus avoiding a serious deterioration in borrowing conditions. The demand increased by almost the same 100.0bn rubles to nearly 334.0bn; as a result, the size of deficit in the auction has not fundamentally changed. On the background of three-month auctions secured by non-marketable assets at a floating rate, the three-month repo auction has not aroused the interest of credit institutions, and has been declared invalid.

The next test for banks will be on Friday, October 25, when MET and excise duties payments to the budget are made. At this point, money market rates can rewrite local highs. However, much will be determined by today's weekly repo auction. Also, the Federal Treasury will help the banks by offering about 440.0bn rubles on deposit auctions this week.

The Federal Treasury will begin the purchase of currency (EUR, USD and GBP in the proportion of 45/45/410) on October 23 for the replenishment of sovereign funds. For these purposes a total of 10 billion rubles will be allocated in the next five business days. The claimed amount should not seriously affect the market pricing. On Monday, the ruble continued to 'free float' in a neutral operational corridor without the intervention of the Central Bank, showing a slight strengthening of quotes. Further disposition will depend on the sentiment in the financial markets after the report from the U.S. Department of Labor.

According to the Minister of Economic Development of the Russian Federation Alexei Ulyukaev, in the first three quarters of this year foreign direct investment amounted to \$72bn, exceeding the amount of capital outflow (\$48bn). As for the rest, according to Ulyukaev, the situation has not become better and we are still in stagnation. You can keep track of recent trends in the economy with our [special reports](#). The September review will be published soon.

Stanislav Savinov, [vss@ufs-federation.com](mailto:vss@ufs-federation.com)



## Debt Market

### Eurobonds

Russian Eurobonds will show neutral dynamics on Tuesday after a slight correction on Monday in anticipation of the statistics on the U.S. labor market, which will have an impact on market expectations about the prospects for scaling back quantitative easing in the U.S.

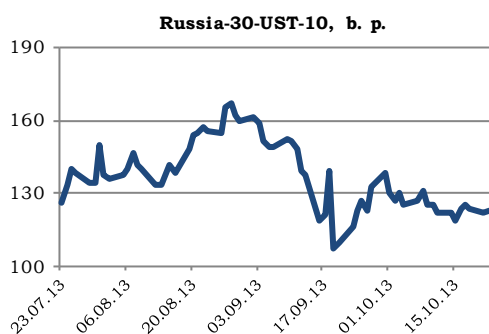
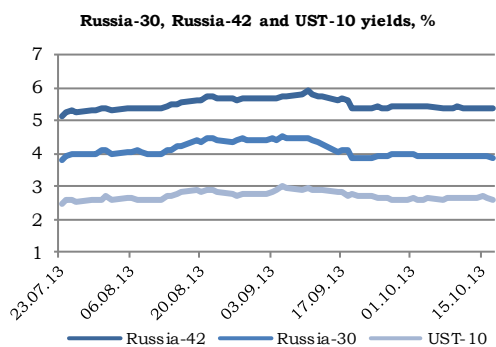
Today at 4:30 p.m. MSK the long-awaited data on the number of new jobs in non-agricultural sectors for September will be released. The market, on average, is expecting values around 180,000 compared to 169,000 in August, with the unemployment rate unchanged at 7.3%. These will have an impact on investors' perception of the prospects for the Fed scaling back the program of quantitative easing.

At the end of last week the average expectations for QE-3 scrapping were pushed to the spring of 2014, and now some market participants are thinking whether they overestimated the adverse effect on the economy of the recent shutdown of U.S. government agencies for 16 days.

Yesterday benchmark Russian Eurobonds RUSSIA-30 and RUSSIA-42 increased in yield by 1-2 bp., moving together with US Treasuries, where the yield on 10-year securities completed the trading session on Monday with similar increase to a level of 2.60% per annum. On Tuesday morning UST-10 yield is at levels of about 2.59%.

We expect neutral dynamics in the Russian Eurobond market during the first half of trading on Tuesday, while shortly before the start of trading in the U.S. investors' attention will turn to the statistics on the labor market.

Vadim Vedernikov, vva@ufs-federation.com



## Corporate Comments

---

**BBB-/Baa3/BBB-**

### NOVATEK

On Monday NOVATEK received a concession for the MET on natural gas extraction in the Gydan peninsula, a condition for which is the liquefaction of the extracted gas at the company's Yamal LNG facility.

*On the Gydan Peninsula, which is close to Yamal, the majority of resources, or 2.1 trillion cubic meters, belongs to the NOVATEK. Due to the proximity of Gydan fields to the main source of gas for the Yamal LNG (South Tambey field), issues with delivery of gas from Gydan to the complex look quite solvable.*

*We view the news as positive for the long-term prospects for the credit profile of NOVATEK due to the emerging opportunities for mining tax savings. In the light of the benefits received by the company we cannot rule out the emergence of plans to expand the Yamal LNG plant from the current design capacity of 16.5 million tons of LNG per year.*

*The appearance of the prospects for the plant expansion, in our view, can enhance the market's expectations regarding cash flow generated by NOVATEK for the period after 2020. However, due to the remoteness of the forecast horizon, the impact of this news on the company's Eurobonds, by our reckoning, will be quite restrained.*

*Among the Eurobonds traded by NOVATEK we highlight the issue NVTKRM-22 (YTM – 5.12%, Z-spread - 259 bp.) posted last summer. We estimate the potential reduction of yield on the Eurobond at 15-20 bp., with the price increasing to 96% of nominal value from the current levels of about 94.9%.*

Vadim Vedernikov, vva@ufs-federation.com



## Trading Ideas in Eurobond Market

Issue	ISIN	Rating S&P/Moody's/Fitch	Yield, %	Closing Price, %	Comment
Novatek-22 ( <b>NEW</b> )	XS0864383723	BBB-/Baa3/BBB-	5,13	94,89	We expect the price of the Eurobond to grow after a number of news positive for the company. Yield reduction potential is 15-20 bp. in mid-term.
Nornickel-20	XS0982861287	BBB-/Baa2/-	5,42	100,75	We expect the yield of new issue to continue to reduce to the fair, in our opinion, level of 5.3-5.4% per annum. Yield reduction potential is 7-10 bp. in mid-term.
Russia-30	XS0114288789	BBB/Baa1/BBB	3,83	119,03	The issue showed a neutral dynamics on Monday, after last week's growth. We expect additional 7-12 bp. yield reduction in the coming weeks.
Russia-42	XS0767473852	BBB/Baa1/BBB	5,34	104,21	The Eurobond showed a slight decline on Monday. We expect the ascending motion to continue, with additional 7-12 bp. yield reduction in mid-term.
Alrosa-20	XS0555493203	BB-/Ba3/BB-	5,48	113,08	The Eurobond's yield declined by 34 bp. in the last 8 trading sessions. The Eurobond has reached our target of 103% of nominal value. We recommend to lock in profits.
TCS-18 subord	XS0808636913	-/B3/B	10,33	113,18	We expect the price to increase as the IPO of the bank is implemented. Yield reduction potential is 10-15 bp. in mid-term.



## List of Analyzed Companies

To read the review on the issuer, click the name.

### Financial sector

AHML  
Alfa-Bank  
Bank Petrocommerce  
Gazprombank  
HCF Bank  
Mezhtopenenergobank  
Moscow Credit Bank  
Nomos-Bank  
Probusinessbank  
Promsvyazbank  
Renaissance Credit  
RSHB  
Russlavlbank  
Sberbank  
Sovcombank  
Svyaznoy Bank  
Tatfondbank  
TCS Bank  
UniCredit Bank  
Vnesheconombank  
VTB  
Zapsibkombank  
Kazkommertsbank (Kazakhstan)

### Sovereign borrowers

Belarus  
Ukraine

### Agricultural producers

Mriya (Ukraine)

### Metallurgy

Alrosa  
Evraz  
Koks  
Metalloinvest  
Metinvest (Ukraine)  
MMK  
NLMK  
Norilsk Nickel  
Polyus Gold  
Raspadskaya  
Severstal  
TMK

### Oil and gas sector

Alliance Oil  
Bashneft  
Gazprom  
Lukoil  
NOVATEK  
Rosneft  
TNK-BP

### Other

JSFC Sistema  
X5 Retail Group  
Eurasia Drilling

### Strategic reviews

Strategy for 2013  
Forecast for the Market Situation in the Near Term  
Russian Bond Market Monthly Review  
Islamic Bond Market

### Other reviews of the bond market

Oil&Gas Sector: 2011 Results  
Banking Sector Of Kazakhstan: 2011 Results  
Trading Ideas (Spread Analysis)  
Investments in perpetual bond market: opportunities and risks  
Russian Eurobonds Denominated in Currencies Other Than USD  
Russian Eurobonds: Interesting Idea in the Bond Market

### Telecom sector

VimpelCom  
MTS

### Chemical industry

EuroChem  
PhosAgro  
SIBUR  
Uralkali

### Energy sector

FGC UES  
RusHydro

You may subscribe for our materials by [clicking the link](#).



## Research Department

<b>Pavel Vasiliadi</b> Director of Research and Risk Management Department	Tel. +7 (495) 781 72 97 vpa@ufs-federation.com
<b>Ilya Balakirev</b> Stock Market Section Lead Analyst	Tel. +7 (495) 781 02 02 bia@ufs-federation.com
<b>Aleksey Kozlov</b> Stock Market Section Chief Analyst	Tel. +7 (495) 781 02 02 kaa@ufs-federation.com
<b>Vadim Vedernikov</b> Debt Market Section Analyst	Tel. +7 (495) 781 02 02 vva@ufs-federation.com
<b>Anna Milostnova</b> Stock Market Section Analyst	Tel. +7 (495) 781 02 02 mav@ufs-federation.com
<b>Stanislav Savinov</b> Macroeconomic Analyst	Tel. +7 (495) 781 02 02 vss@ufs-federation.com
<b>Karolina Belomestnova</b> Assistant Analyst	Tel. +7 (495) 781 02 02 bkv@ufs-federation.com
<b>Daria Fedyanina</b> Assistant Analyst	Tel. +7 (495) 781 02 02 fdn@ufs-federation.com
<b>Dmitry Andreev</b> Translator	Tel. +7 (495) 781 02 02 adi@ufs-federation.com

## Trade and Sales Department

<b>Aleksey Losev</b> Director of Trade and Sales Department	Tel. +7 (495) 781 73 03 las@ufs-federation.com
<b>Ilya Homyakov</b> Head of Repo Section	Tel. +7 (495) 781 02 02 him@ufs-federation.com
<b>Nikolai Poltoranov</b> Repo Trader	Tel. +7 (495) 781 73 01 kam@ufs-federation.com
<b>Igor Kim</b> Stock Portfolio Manager	Тел. +7 (495) 781 73 04 kim@ufs-federation.com
<b>Anton Basov</b> Trader	Тел. +7 (495) 781 02 02 bav@ufs-federation.com
<b>Alexander Milennyi</b> Sales-trader	Тел. +7 (495) 781 02 02 vam@ufs-federation.com
<b>Aleksey Kushch</b> Sales-trader	Тел. +7 (495) 781 73 01 kam@ufs-federation.com

## Brokerage Service

**+7 (495) 781 73 00**

## Mutual Investment Funds

**+7 (495) 781 73 02**

This review is provided for informational purpose only and cannot be considered as a proposal for carrying out transactions in the stock market, in particular, regarding securities purchase and sale. This review contains information obtained from sources that UFS-Finance Investment Company considers reliable. Nevertheless, UFS-Finance Investment Company, its management and employees cannot guarantee absolute accuracy, completeness and reliability of this information and do not bear responsibility for any possible losses a client may bear in connection with its use. Valuations and opinions presented in this review are based solely on conclusions of company analysts in respect of analyzed issuers and securities. Remuneration of analysts is not connected with nor does it depend on the content of analytical reviews or recommendations which they produce. UFS-Finance Investment Company, its management and employees can change their opinions unilaterally without any further notice of such changes. UFS-Finance Investment Company, its management and employees do not bear responsibility for client's investment decisions based on information contained herein. UFS-Finance Investment Company, its management and employees are not responsible for any direct or indirect loss and/or damage of the client arising from the use of information or any part of it when performing securities transactions. UFS-Finance Investment Company does not undertake any obligation to update the information contained in this document or to correct any inaccuracies. Transactions closed in the past and referred to herein are not necessarily indicative of the results of future transactions. The value, price or yield on securities or derivative instruments mentioned herein, may be negatively affected by currency exchange rate fluctuations. Investing in securities implies considerable risks, and therefore, a client should perform their own market analysis and study the reliability of issuers before conducting transactions. This document may not be reproduced in whole or in part, it cannot be copied, excerpts from it cannot be used in any publications without prior written permission of UFS-Finance Investment Company. UFS-Finance Investment Company does not bear responsibility for any unauthorized actions of third parties connected with the spread of this review or any part thereof

