



## February 2006: performance of the MICEX markets and the MICEX Stock Exchange markets.

In February 2006, 3202.2 billion rubles (113.6 billion US dollars) worth of transactions were concluded in all of the MICEX Group's markets. This is 34.6% more than in January and 103.4% more than in February 2005.

**The share market on the MICEX SE.** In February, the MICEX SE share market continued to grow rapidly. The MICEX Index grew by 12.8% to 1320.83 points. In February, growth leaders were the common shares in Rostelecom (48.0% to 93.4 rubles/1 share), RAO UES (41.2% to 19.43 rubles/1 share), Surgutneftegaz (6.6% to 41.15 rubles/1 share), LUKoil (5.0% to 2265 rubles/1 share), Sberbank (4.5% to 43578 rubles/1 share) and Norilsk Nickel (3.4% to 2493 rubles/1 share).

In February, traders' activity grew rapidly against January. The total value of operations in shares amounted to 841.04 billion rubles. The average daily trading value grew by 27% against January to a record 44.3 billion rubles. The value of repos in shares amounted to 125.15 billion rubles or 14.9% of the total value of operations in shares. The value of operations in the negotiated deals mode (address transactions) amounted to 53.94 billion rubles or 7.5% of secondary trading in shares.

**The market of corporate and regional bonds on the MICEX SE.** In the sector of corporate and regional bonds, the activity of investors grew considerably while quotations of the most liquid issues were decreasing slowly. The Corporate Bonds Index RCBI-c (coupon), after increasing in January by 0.27%, grew by 0.90% in February and amounted to 136.31 points at the close on 28 February. The MICEX Corporate Bonds Index (RCBI) increased by 0.19% and amounted to 101.53 points.

As a result of the month, the total value of transactions in corporate and regional bonds reached 330 billion rubles, of which 161.3 billion rubles (48.9%) was accounted for by secondary trading, 113.2 billion rubles (34.3%) – by repos, 55.4 billion rubles (16.8%) – by new placements (bonds of Rosselkhozbank (nominal volume: 7 billion rubles), Russian Standard Bank (6 billion rubles), MosGorZaim a (the 44<sup>th</sup> issue, 5 billion rubles), Gazprombank (5 billion rubles), Pipe Metallurgical Company (5 billion rubles), GAZ-finance (5 billion rubles), Kopeika Trading House (4 billion rubles), International Moscow Bank (3 billion rubles), Transaero-Finances (2.5 billion rubles), Zenit Bank (2 billion rubles), Viktoria-Finance (1.5 billion rubles), Incom-Lada (1.4 billion rubles), Domestic Medications – Finance (1.3 billion rubles), Kuzmin NMZ (1.2 billion rubles), Uniastrum Bank (1 billion rubles), DOMO-Finance (1 billion rubles) APK Arkada (0.7 billion rubles), Top-Book (0.7 billion rubles), Project Finance Bank (0.5 billion rubles), TatInC - Finance (0.5 billion rubles) and OrgesBank (0.5 billion rubles).

In February, in the structure of trading, the proportion of corporate bonds amounted to 76.2% of the total trading value (251.5 billion rubles), the proportion of regional securities amounted to 23.1% (76.2 billion rubles), while the proportion of municipal issues reached 0.7% (2.2 billion rubles). As compared with January, the total value of trading in corporate and regional bonds grew by 40.4%.

In February, yields on liquid issues of corporate and regional bonds increased. Yield on the bonds of Moscow Region (the 5<sup>th</sup> issue) increased by 0.21 points, yield on the bonds of Moscow Region (the 4<sup>th</sup> issue) increased by 0.05 points, yield on the bonds of Russian Railways (series 06) increased by 0.08 points, yield on the bonds of Federal Network Company UES (series 02) increased by 0.01 points, yield on the bonds of Russian Railways (series 04) increased by 0.33



points, yield on the bonds of Russian Railways (series 07) increased by 0.07 points, yield on the bonds of Gazprom (series A6) increased by 0.16 points. Yield on the bonds of MosGorZaim (the 39<sup>th</sup> issue) dropped by 0.01 points, yield on the bonds of Novosibirsk Region (the 1<sup>st</sup> issue) decreased by 0.23 points, yield on the bonds of Vneshtorgbank (series 05) decreased by 0.24 points, and yield on the bonds of Russneft decreased by 0.25 points.

**The government securities market.** In February, the Government Bonds Index (RGI) decreased by 0.41 points to 117.53 points. The Total Revenue Government Bonds Index (RGI-tr) grew by 0.41 points to 159.65 points. The gross yield to maturity of government bonds (RGIY) grew by 0.01 points to 6.58% of yearly interest. In the secondary market, the average weighted yield of the previous month's most liquid issues (26198, 46017, 25057) changed within the range of (-0.02) to (+0.11) points.

The total value of trading in the government securities market amounted to 195.9 billion rubles, 19.1% less than in January. 45.8% of the value was accounted for by inter-dealer repos (61.4 billion rubles) and direct repos against the Bank of Russia (28.3 billion rubles). The total value of secondary trading decreased 3 times against January and reached 22.6 billion rubles. The OFZ-AD sector accounted for 58.4% of the total value of the secondary market, OFZ-PD accounted for 36.1%, OBR accounted for 3.4%, while OFZ-FD accounted for – 2.1%.

Auctions were held to distribute OFZ-PD 25060, OFZ-AD 46020 and OFZ-AD 46019 and to make the additional placement of OFZ 25059, 25060, 46020 and the placement of additional issues of OFZ 46017 and OFZ 25060. Besides, auctions were held to sell OFZ 46011 and OFZ 26198 from the portfolio of the RF CB. Three reverse repo auctions were held in issue OBR # 4-03-30BR0-4. The total value of placement of OFZ amounted to a record 47.4 billion rubles, while the volume of sale of OBR reached 36.1 billion rubles.

**The foreign exchange market.** During the month, the exchange rate of the US dollar to the ruble lost only 3 kopecks (-0.1%) in transactions with tomorrow settlements, while the exchange rate of the euro lost more than 2% or 69 kopecks: on 28 February, the exchange rate of the US dollar with tomorrow settlements in the UTS amounted to 28.0983 rubles/1 dollar, while the exchange rate of the euro reached 33.3602 rubles/1 euro.

The average daily value of transactions in dollar instruments increased by 16.1% to 3.4 billion dollars, while the same indicator for the euro increased by 50.4% to 33.8 million euros a day. During the month, the total value of the foreign exchange market increased by 16.4% and amounted to 63.8 billion dollars. The bulk of operations, 98.8%, were accounted for by dollar-ruble instruments (18.8%: transactions with today settlements, 40%: transactions with tomorrow settlements, 40%: swaps). The volume of operations in the euro grew from 0.9% to 1.2% of the total trade volume as a result of the 3.5-fold increase of the volume of euro-ruble swap operations. The proportion of transactions carried out in the UTS through regional currency exchanges amounted to 3% of the total value of operations in the UTS.

**The standard contracts market.** In February, the total value of trading in futures on the US dollar decreased against January 2006 and amounted to 35.47 billion rubles or 1257761 contracts. The daily average value of trading decreased against January by 30% and amounted to 1.87 billion rubles. At the end of February, the open interest reached 1712370 contracts (1.71 billion dollar), having increased by 4% against the end of January. Of the total number of open contracts, 25.1% was accounted for by March contracts, 20% – by April contracts, 19.4% – by May contracts, 12.9% – by June contracts, 1.5% – by July contracts, 0.06% – by August contracts, 14.4% – by September contracts and 6.7% – by December 2006 contracts.



## Comment on the situation

In February, quotations continued to grow in the MICEX Stock Exchange share market. Beginning from the middle of the month, this trend became more visible. High oil prices and a favorable situation with ruble liquidity in the banking system contributed to the price increase. This strengthened investors' confidence in the future upturn, despite the fact that many securities remained overvalued.

At the beginning of February, following considerable price increase in January, situation in the market stabilized for some time. The equilibrium of buyers' and sellers' forces determined the MICEX Index's small changes. But the lull was only brief. Shortage of news on blue chips made players pay their attention to second-tire stocks, which at the beginning of the year were falling behind the most liquid securities by the rate of growth. Automakers' and airlines' securities generated the biggest interest: AvtoVAZ, KamAZ and Aeroflot showed a two-digit growth.

During the first ten days of the month, stocks of energy companies were growth leaders. RAO UES' securities reached new historical maximums on the results of the President's meeting devoted to the development of the Russian economy's energy sectors. At the meeting, President Putin called for creating appropriate conditions for private investments, both domestic and foreign, in electric power engineering. After the meeting, shares in RAO UES gained about 7% every day for three days in a row. Nevertheless, the rapid growth of power engineering cannot be explained by the "summit" meeting and President's statements regarding investments in this sector. Growth of energy companies' stocks could also be connected with their purchase by a strategic investor.

One should also note the stability of prices for oil companies' stocks at the beginning of the month, which didn't change much despite the strong negative correction of world oil prices. In the second half of the month, though, oil prices began to grow again, which contributed to the growth of demand for oil companies' securities. The main causes of the growth of world oil prices were the aggravation of the armed conflict in Nigeria and a terrorist act against an oil center in Saudi Arabia.

At the end of the month, stocks of telecom companies, mainly shares in Rostelecom and Uralsvyazinform, began to rise in price rapidly. Demand for these securities grew after Prime Minister M. Fradkov had signed a decree on adopting the rules of using the RF unified network of electric communication for the provision of the functioning of special-purpose telecom networks, which is a precondition for the privatization of Svyazinvest.

In February, in world stock markets, quotations were growing slowly, which contributed to the positive attitude of investors in the Russian market. In the USA, DJIA grew by 1.2%, while NASDAQ Composite dropped by 1.1%. In Europe, DAX grew by 2.1% and FTSE 100 went up by 0.5%. In Japan, Nikkei decreased by 2.7%.

In February, trading was quite intensive. On 27 February, the value of trading in the MICEX SE share market reached a new historical maximum, 73.5 billion rubles (2.6 billion dollars).

The sector of corporate and regional was dominated by the moderately negative dynamics of prices. The market was under the pressure of large volumes of primary placements, which drew investors' funds away from the secondary market. Besides, in the first half of the month, the exchange rate of the ruble to the US dollar decreased, which made ruble-denominated instruments less attractive.

The expected growth of interest rates in developed markets could also contribute to the growth



of yields, although in February, situation in the market of the RF foreign debt was quite favorable. In all probability, it was the external factor that had the strongest influence on the attitude of investors, as other factors did not give cause for the increase of sales. In particular, in the second half of the month, the ruble began to strengthen again, while ruble liquidity remained high during the month.

In February, situation with ruble liquidity in the banking system deteriorated only slightly, compared with January. The average overnight rate of MIBOR amounted to 3.28% of yearly interest against 3.06% of yearly interest, while banks' average balances in correspondent accounts dropped to 327.7 billion rubles from 360.9 billion rubles in January.

Primary placements in the market of corporate and regional bonds were quite successful for issuers. Overall, the results of auctions came up to analysts' expectations.

In the market of government securities, the bulk of traders' funds were concentrated in the primary sector. A number of new issues were floated, including the 30-year OFZ-AD 46020. At auctions, demand always exceeded the supply, but, as traders offered too low prices, issues were not placed fully. Nevertheless, the total value of securities sold during the month was record-high.

In the secondary market, price changes were minimal. Yield on OFZ 26198 and OFZ 46017, which were the most liquid issues in January, increased by 0.11 and 0.06 points correspondingly. At the same time, yield on another liquid issue, OFZ 25057, decreased by 0.02 points. On the whole, given the stable ruble and good situation with ruble liquidity, demand for government bonds was high but was mainly focused on the primary market.

In the foreign market, the dynamics of Russian securities were better than the dynamics of US bonds. Quotations of Russian Eurobonds to be redeemed in 2030 grew by 1.19 points to 113.005% of the face value, while their yield decreased by 0.12 points to 5.54% of yearly interest. Yield on 10-year US Treasuries grew by 0.02 points to 4.55% of yearly interest. In the USA, no noticeable movements were seen in the market of Treasury securities. The new head of the Federal Reserve System Ben S. Bernanke stated that the FRS' regulatory policy would not change much. The US macroeconomic data confirmed the continuing growth of the economy and the inflation, but the market's reaction was quite low-key.

The foreign exchange market was under the influence of several important events, including Ben S. Bernanke's appointment as Chairman of the US Federal Reserve System and sharp fluctuations of oil prices in the world market, which dropped by more than 17% in the first half of February and then grew by 10%. The market was also affected by official holidays (in Russia: Day of the Defender of the Fatherland (February, 23), in the USA: President's Day), which caused irregularities in the coming of export receipts and the growth of exchange rates' volatility.

Despite the fluctuations of the US dollar, the Russian national currency strengthened by the end of February. As a result of the month, the ruble grew against the US dollar by 3 kopecks (0.1%) to 28.10 rubles/1 dollar in transactions with tomorrow settlements. The trend was supported by official statements about the necessity to stop restraining the growth of the ruble, as this measure promotes inflation, which amounted to 4% during the first two month of the year.

The exchange rate of the euro against the ruble is largely determined by the situation in the world market. In February, after decreasing in FOREX market from 1.21 to 1.19 dollars/1 euro, the euro lost more than 2% (70 kopecks) on the MICEX and reached 33.36 rubles/1 euro in transactions with tomorrow settlements.

The presented information is exclusively for your acquaintance. The present comment does not contain any recommendations and could not be considered the guiding principle for the operations on the financial markets.



Traders' activity grew rapidly during the first ten days of the month. This was caused by the sale of hard-currency export receipts at the previous period's high prices and the inflow of funds to the Russian stock market. On February 8, the daily value of trading in the MICEX currency market reached a record 8.365 billion dollars. Then trade volumes decreased a little but remained considerably above the average level in January. Overall, the average daily value of operations grew by more than 16% and amounted to 3.4 billion dollar. The proportion of dollar-ruble swaps increased from 34% to 40% of the total trading value.

In February, the euro-ruble segment grew considerably. In this segment, average daily trade volumes increased 1.5-fold to 33.8 million euros a day. On 16 February, for the first time, the value of trading in the euro on the MICEX exceeded 100 million euros and amounted to 102.1 million euros. The proportion of operations in the euro grew from 0.9% to 1.2% of the total trading value, primarily as a result of the 3.5-fold growth of euro-ruble swaps.