



August 2006: performance of the MICEX markets and the MICEX Stock Exchange markets.

In August 2006, 4787.18 billion rubles (178.9 billion US dollars) worth of transactions were made in all of the MICEX Group's markets, 19.1% more than in July and 124.9% than in August 2005.

The share market on the MICEX SE. In August the MICEX Index grew by 5% to 1448.72 points. Common shares in Gazprom grew by 12.8% (to 313.4 rubles per 1 share), while Sberbank grew by 10.9% (57122 rubles per 1 share). Common shares in Rostelecom dropped by 5.9% (to 127.3 rubles per 1 share), while RAO UES fell by 0.3% (19.7 rubles per 1 share), Norilsk Nickel fell by 0.9% (3615 rubles per 1 share), LUKoil fell by 3.3% (2246 rubles per 1 share) and Surgutneftegaz fell by 0.5% (39 rubles per 1 share).

In August the activity of market participants increased against July. The total turnover in shares amounted to 1.47 trillion rubles. The average daily turnover grew by 24% to 63.9 billion rubles. The turnover in the negotiated deals mode (address transactions) amounted to 53.25 billion rubles or 4.7% of the turnover in shares in the secondary market (in July: 3.7%). The turnover in repos with shares amounted to 342.1 billion rubles or 23.4% of the total turnover in shares (in July: 23.3%).

The market of corporate and regional bonds on the MICEX SE. In August, in the sector of corporate and regional bonds, investors' activity increased considerably, the dominating trend being the gradual decrease of yields on most liquid issues. The Corporate Bonds Index RCBI-c (coupon) grew by 1.04% and reached 143.25 points by 31 August. The MICEX Corporate Bonds Index (RCBI) grew by 0.58% and amounted to 101.43 points.

As compared with July figures, the total volume of trading in corporate and regional bonds grew by 17.5% to 483.5 billion rubles, of which 244 billion rubles (50.5%) was accounted for by secondary trading, 214.7 billion rubles (44.4%) – by repos and 24.7 billion rubles (5.1%) – by new placements: bonds of Samara Region (face value: 4.5 billion rubles), NIKOSKHIM-INVEST (1.5 billion rubles), SIF (4 billion rubles), M-INDUSTRIA Construction Company (1 billion rubles), ALPI-Ivest (1.5 billion rubles), Metropolitan Food Stores (1.5 billion rubles), Implosia-Finance (0.3 billion rubles), Faeton-Aero-Finance (1.0 billion rubles), Marta Finance (2 billion rubles), 2006 municipal bonds of Kazan City (2.3 billion rubles), AIZhK KO (1 billion rubles), Moscow Bread-baking Plant (1 billion rubles) and Bank Petrocommerce (3 billion rubles).

In August the share of corporate bonds in the overall structure of trading amounted to 73.6% of the total turnover (355.9 billion rubles), the share of regional securities amounted to 25.4% (122.7 billion rubles), while municipal issues accounted for 1% (4.8 billion rubles).

In August yields on most of liquid bond issues decreased considerably. Yield on the bonds of MosGorZaim (the 39th issue) decreased to 6.87% (-0.18 points), yield on the bonds of Moscow Region (the 4th issue) dropped to 6.77% (-0.21 points), yield on the bonds of Moscow Region (the 6th issue) dropped to 7.07% (-0.33 points), yield on the bonds of Russian Railways (Series 05) dropped to 6.79% (-0.67 points), yield on the bonds of Russian Railways (Series 06) dropped to 7% (-0.26 points), yield on the bonds of Gazprom (Series 04) dropped to 6.75% (-0.35 points), yield on the bonds of Federal Network Company UES (Series 02) dropped to 7.13% (-0.47 points) and yield on the bonds of Federal Network Company UES (Series 03) dropped to 7.53% (-0.46 points).

The government securities market. In August the Government Bonds Index (RGBI) grew by 0.69 points to 117.21 points. The Total Revenue Government Bonds Index (RGBI-tr) grew by



2.07 points to 165.63 points. The gross yield to maturity of government bonds (RGBY) decreased by 0.15 points to 6.51% of yearly interest. In the secondary market, the average weighted yield on the most liquid issues (46017, 46018 and 46020) decreased by 0.11-0.19 points.

The total volume of trading amounted to 220.7 billion rubles, 1.4 times more than in July. The volume of secondary trading grew 1.5 times to this year's maximum level of 70.7 billion rubles. The volume of inter-dealer repos amounted to 125.3 billion rubles or 56.8% of the market's turnover. The OFZ-FD sector accounted for 53.9% of the secondary market's turnover, OFZ-AD accounted for 30.8%, OFZ-PD accounted for 9.7%, while OBR accounted for 5.5%.

At the auction to sell the additional issue of OFZ 25060 (volume of supply: 9 billion rubles) the demand reached 15 billion rubles, while the value of placement amounted to 8.8 billion rubles at par value and the average weighted yield amounted to 6.3% of yearly interest (premium: 0.03 points against the secondary market). At the auction to sell the additional issue of OFZ 46017 (volume of supply: 10 billion rubles) the demand reached 24.2 billion rubles, while the value of placement amounted to 9.5 billion rubles at par value and the average weighted yield amounted to 6.7% of yearly interest (at the level of the secondary market). Two auctions were held to sell OBR # 4-03-30BR0-4 with obligatory repurchase, the total value of placement amounted to 5.9 billion rubles, while the average weighted yield amounted to 4% and 3.98% of yearly interest.

The foreign exchange market. During the month the exchange rate of the US dollar dropped by 9.9 kopecks (-0.4%) against the ruble, the exchange rate of the euro grew by 11.4 kopecks (0.3%). On 31 August the exchange rate of the US dollar with tomorrow settlements in the UTS amounted to 26.7166 rubles/1 dollar, while the exchange rate of the euro reached 34.3318 rubles/1 euro.

During the month participants' activity remained the same as in July. The daily average turnover in dollar instruments grew by 0.3% to 4.05 billion dollars (in euro instruments – by 54% to 56.4 million euros) a day. The total monthly turnover of the foreign exchange market amounted to 94.8 billion dollars. 98.2% of operations was accounted for by USD/RUR instruments. 18.7% was accounted for by deals with today settlements (in July: 18.8%), 42.5% – by deals with tomorrow settlements (in July: 41.5%). The daily average value of swaps amounted to 1.5 billion dollars or 37.6% of the exchange-based turnover (in July: 38.7%). The proportion of EUR/RUR operations amounted to 1.8% of the total volume of trading. The proportion of transactions carried out in the UTS through regional currency exchanges increased slightly and amounted to 5.4% of the total turnover in the UTS.

The standard contracts market. In August the total volume of trading in the US dollar futures grew considerably over July and amounted to 76.2 billion rubles or 2858771 contracts. The daily average value of trading grew by 39% and reached 3.3 billion rubles. At the end of August the open interest reached 1545340 contracts (1.5 billion dollars), having increased by 20% over the end of July. Of the total number of open contracts, 33.4% was accounted for by September contracts, 11.4% – by October contracts, 3.6% – by November contracts, 21.2% – by December contracts, 2.1% – by January 2007 contracts, 2.3% – by February 2007 contracts, 10.6% – by March 2007 contracts and 15.5% – by June 2007 contracts.

In August the volume of trading in MosIBOR Overnight rate futures amounted to 19.9 million rubles or 2 contracts. The open interest amounted to 19 contracts.

Comment on the situation

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In August trading in the MICEX Stock Exchange's share market intensified after the July lull. As a result, the MICEX Index grew slightly. Market demand did not cover all blue chips but focused mainly on Gazprom and Sberbank shares. The drop in world oil prices had a negative effect on Russian oil companies' quotations, which began to decrease in August. In August the price of Brent futures dropped from 75 to 70 dollars per barrel, while Urals dropped from 70 to 65 dollars per barrel.

In August the Russian share market was supported by the overall positive attitude in world stock markets, caused by the expected end of the growth of the discount rate in the USA. On August 8, the US Federal Reserve left the discount rate at the level of 5.25% of yearly interest and noted that further changes in the discount rate would depend on forecasts of inflation and future economic growth. In August, in the USA, DJIA grew by 1.7%, while NASDAQ Composite went up by 4.4%. In Europe DAX grew by 3.1%, while FTSE 100 dropped by 0.4%. Nikkei grew by 4.4%.

During the whole of August prices of most liquid issues of corporate and regional bonds were slowly growing. The growth was promoted by the high level of liquidity in the banking sector (overnight MIBOR rates stayed within the range of 2-3% for the most part of the month), the upgrading of Russia's rating by Fitch at the end of July, the expected decrease of inflation and a favorable situation in foreign debt markets.

Price growth in the sector of corporate and regional bonds was also promoted by the palpable decrease in the offer of new borrowings, which amounted to only 24.7 billion rubles (almost 1.5 times less than in July). As a result, smaller amounts of funds went to the primary market, while participants' activity grew considerably in the secondary market.

Demand for national debt instruments also grew against the backdrop of high ruble liquidity and a favorable situation in the foreign debt market. The total value of secondary trading in the GKO/OFZ market reached this year's maximum. At the same time, yield on almost all liquid securities decreased.

Russian foreign currency bonds grew during most of August; at the same time, yield spread between Russian eurobonds maturing in 2030 and US 10-year Treasuries narrowed by 2.9 points. After the US Federal Reserve had left the discount rate at the level of 5.25% of yearly interest, price growth in world debt markets accelerated. Released macroeconomic figures convinced investors that the US Federal Reserve had decided to stop raising the discount rate. In particular, the published data showed that in July US manufacturers' prices had grown by 0.1% over June, while experts had predicted a 0.4% increase.

In August situation in the foreign exchange market was determined mainly by market participants' forecast of the US Federal Reserve's discount rate policy. In the first half of August, in the foreign exchange market, the US dollar dropped against other world currencies, while the ruble/dollar pair drew near its seven-year minimum: on August 11 the exchange rate reached 26.67 rubles/1 dollar.

The data published later confirmed investors' negative expectations regarding the future of the US economy. In particular, the volume of investments in house building (one of leading indicators) dropped to its 11-year minimum, while the consumer confidence index dropped to its 9-month minimum. Still, even in this situation, further decrease of the dollar was avoided.

In the second half of August the US dollar was supported by several factors. First, situation in the Middle East gradually stabilized. Israel decided to cease hostilities, which immediately

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affected oil prices. At the end of August Brent dropped below the psychological level of 70 dollars per barrel.

Second, at the end of August the US Federal Reserve released the minutes of its meeting, which showed no signs of softening the credit policy. Third, despite the rather hard-line statements made by the heads of the European Central Bank, the discount rate in the euro area remained unchanged. This was predicted by market participants and was confirmed at the final meeting of the heads of the European Central Bank on August 31.

As a result, the ruble-dollar exchange rate stabilized within the narrow range of 26.7-26.8 rubles/1 dollar. During the whole of August most of transactions were made within this range.