



### AB-ICI February: Only Good News

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#### Investment Summary

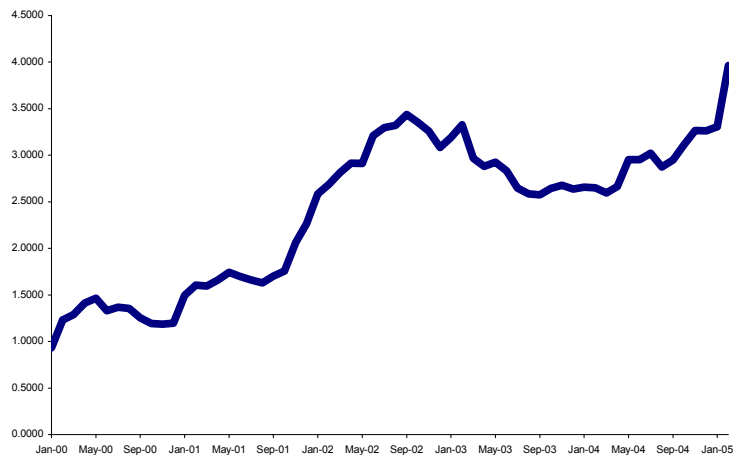
- In February the AB-ICI jumped 20%, reflecting fast reserves growth and successful IPO of Sistema
- We expect further Index growth, as fiscal easing will lead to higher liquidity in the banking sector
- Financial markets, in particular the equity market, will likely see upside in the near future

#### Good news boosted the AB-ICI 20% in February

**Unprecedented 20% jump in AB-ICI due to capital inflow, FDI growth and Sistema IPO**

The Alfa Bank Investor Confidence Index (AB-ICI) rose 20% in February boosted by several positive news items. In February Russia experienced a sharp reversal in the direction of capital flows: while there was a net capital outflow in January, this transformed into a net capital inflow the following month. As a result, CBR reserves stagnated in January at \$125 bln, only to increase by \$10 bln in February alone. Another factor was the 38% expansion of FDI flows to Russia over the past four weeks. Finally, the successful IPO of Sistema, the largest by a Russian company since 2000, fueled activity on the country's financial markets.

Figure 1. AB-ICI spiked 20% in February on a combination of positive factors



Sources: New School of Economics, Alfa Bank

**Fiscal easing explains better liquidity in the banking system**

These three factors help explain the higher level of liquidity throughout the economy. CBR data suggests that at the end of February banking liquidity stayed at the same relatively high level as seen at the end of December (see Figure 2). In our view, such favorable liquidity indicators reflect the ongoing easing of fiscal policy this year. While the initial cost of monetization of social benefits was assessed at \$10 bln, this amount stands to increase by \$6 bln.

**Oil prices averaging \$43/bbl YTD are also helping**

We expect this additional money to significantly improve banking liquidity and trigger a declining trend for domestic interest rates. Meanwhile, this creates a good environment for IPO placements and will support high valuations for

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Russian bonds and equity. Global oil prices, which are now at a more than 20-year high and average \$43/bbl YTD, are also supporting this positive trend.

**Figure 2. Monetary Base by Component, \$ bln**

	Dec-01	Dec-02	Dec-03	Sep-04	Dec-04	Feb-05
Cash in circulation	20.7	25.6	41.6	47.0	60.2	55.8
Correspondent accounts	4.8	5.3	10.4	7.8	17.5	12.3
Obligatory reserves	5.2	6.3	9.1	4.0	4.4	4.7
Deposits at the CBR+CBR bonds	0.1	1.5	3.0	1.6	3.6	8.5
Reverse repo	0.0	0.0	1.0	2.4	0.1	0.1
Reserves on foreign operations	0.0	0.0	0.0	0.0	0.2	0.2
<b>Total in banks</b>	<b>10.1</b>	<b>13.2</b>	<b>23.4</b>	<b>15.5</b>	<b>25.5</b>	<b>25.2</b>

Source: CBR, Alfa Bank estimates

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