

AB-ICI September: Showing Signs of Recovery

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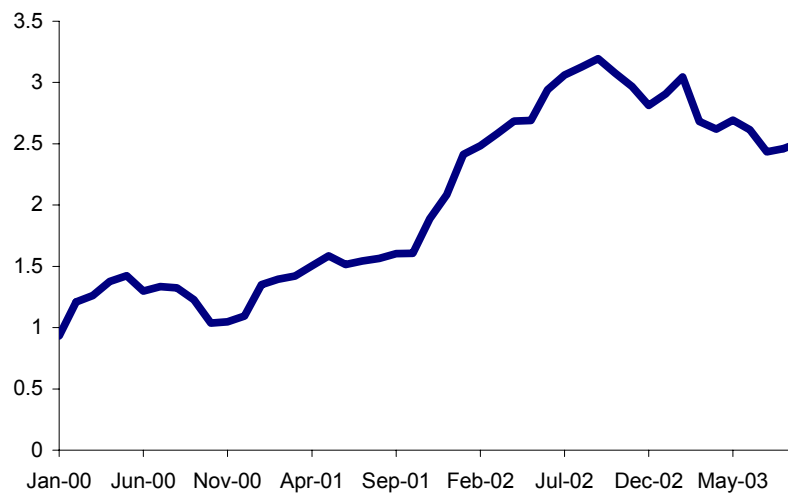
Investment Summary

- AB-ICI recovered in September on \$2.1 bln syndicated loans despite speculative pressure on R/\$
- Capital inflow and market jump after investment grade expected to push Index up from October
- FDI figures for 3Q03 will be key in determining level of foreign confidence after the BP-TNK deal

AB-ICI recovered in September on higher economic confidence

After a few months of decline the Alfa Bank Investor Confidence Index (AB-ICI) finally rose by around 2% in September. While in August the Index performance was supported solely by rapid market growth, in September economic confidence also showed signs of improvement.

Figure 1. Alfa Bank Investor Confidence Index



Sources: Alfa Bank, New Economic School

Attack on ruble in September was not sustainable, as syndicated loans in August-September reached \$2.1 bln

The dollar's recent appreciation on international markets and excess ruble liquidity encouraged players on the exchange market to more actively speculate on ruble depreciation. The drop of the ruble exchange rate to a level of R30.7/\$ reflected this speculative mood, which seemingly contradicted the fundamental dynamic. In particular, the amount of syndicated loans taken by Russian companies highlights the growth in borrowing abroad in August-September (see Figure 1). The healthy appetite for foreign capital allowed the CBR to keep reserves only slightly changed at \$62 bln last month despite its intervention on the exchange market.

Figure 1. Key Syndicated Loans by Russian Companies in 2003

Company	Volume, \$ mln	Rate	Maturity, years	Month of announcement
Ilim Pulp	30	LIBOR + 4%	1	October
YUKOS-Sibneft	500	LIBOR + 1.5%	3	September
YUKOS-Sibneft	500	LIBOR + 1.75%	5	September
Aeroflot	60	LIBOR + 3%	1	September
Rosbank	40	LIBOR + 3.5%	1	August
LUKoil	500	LIBOR + 2-3%	5-7	August
Rosneft	500	LIBOR + 3.55%	4.5	August
MDM Bank	50	LIBOR + 2.95%	1	March

Sources: Reuters, Internet Securities

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Equity market in September already reflected expectations of an upgrade by Moody's

Russia's equity market rose 7% in September, reflecting optimism among foreign investors, who may already have been pricing-in investment grade before the announcement by Moody's on October 8. In September the market also saw more aggressive corporate bond placements compared to previous months. In the meantime, the sovereign bond market offered low returns compared to Latin American countries, threatening a potential sell-off.

We expect the capital inflow and market rise to boost the Index in October

We expect Russia's investment grade status to reinforce the role of the market component for the Index in the coming months. It will likely take some time for foreign investors to increase their exposure to Russia, and many are still waiting for an upgrade by S&P or better liquidity in Russian shares. However, Russian offshore capital could return to Russia quickly and place upward pressure on asset prices.

We expect 3Q03 FDI figures to reflect a greater capital inflow after the BP-TNK deal

Next month's Index should show whether Russia is finally seeing increased FDI flows. The FDI figure for 3Q03, which will be released in the coming weeks, should indicate whether there have been any positive changes in capital inflows in the wake of the BP-TNK deal.

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