

Daily Market Watch

US Dollar		23.6748
Euro		36.6841
RTSI	+0.74%	2,356.71
MICEX	+0.85%	1,826.67
Brent (ICE)	-1.39%	134.25
Urals	-1.69%	130.36
Dow Jones	+1.37%	12,307.35
NASDAQ	+2.09%	2,454.5
S&P500	+1.21%	1,356.09
DAX	+0.76%	6,765.316
FTSE-100	+0.21%	5,802.801
CAC-40	+0.21%	4,682.297
Nikkei-225	+2.66%	14,345.53
Bovespa	-0.17%	67,203.5

Overview:

Market Roundup

Russian stocks powered ahead amid bullishness on commodity markets and ahead of the long holidays. By the close, the RTS Index gained 0.74% and the MICEX Index advanced 0.85%.

After a short breather O&G stocks outperformed the market: Lukoil spiked 2.3%, Gazprom added on 2.5%, Rosneft jumped 1.1% and Tatneft edged up 0.5%. Hefty gains were posted by steel makers: NLMK jumped 2.4%, MMK was up 1.3% and Severstal improved 0.6%. Norilsk Nickel headed further south after the release of weaker-than-expected financials, off 1.3%. Bank stocks again suffered slackening demand notwithstanding a spurt in international financial groups: Sberbank lost 0.5% and VTB inched up 0.1%.

At the end of last week, American exchanges experienced high volatility, but bullishness in the last trading session offset a pullback the day earlier. Asian markets are up this morning, posting gains on a strengthening dollar, and commodity markets look mostly stable. Metal prices were up slightly and of note is a sharp leap in nickel prices on the back of fears metal supplies from Australia could decline. Oil contracts continued to hover around USD 135 a barrel.

According to our estimates, today's morning news flow is moderately upbeat for the Russian market. The strongest demand could be seen in metal issuers on the heels of surging metal prices on the international market. Financial names could also outperform the market, while O&G plays will likely remain on the sidelines, and we expect domestic stocks to kick off near Wednesday's close. Polymetal can be expected to see big speculative demand today on reports that 69% of the metal producer was sold at a 14% premium to the market.

Breaking News

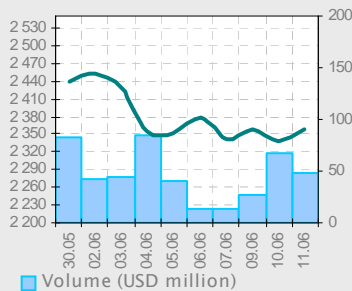
- In global petroleum market news, oil prices pulled back Friday after OPEC questioned whether crude can remain so high and the dollar gained against the euro. [\(page 2\)](#)
- Gazprom Export's general director, Alexander Medvedev, and Rainer Seele, Wintershall Holding AG board member and Wingas GmbH board chairman, have signed an agreement of intent for the prolongation of a gas supply contract between Gazprom Export and WIEH for 35 years, or until late 2043. [\(page 2\)](#)

Sector news

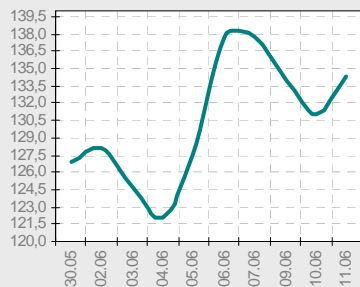
Telecoms

- Dalsvyaz: delay in the sale of cellular assets - conceptual change or just another delay? [\(page 3\)](#)

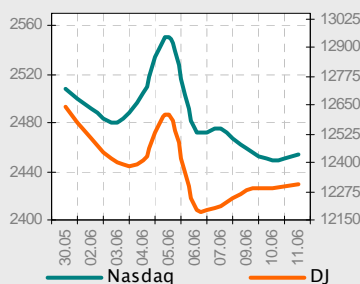
RTS



Brent (ICE)



World indices



Breaking News

In global petroleum market news, oil prices pulled back Friday after OPEC questioned whether crude can remain so high and the dollar gained against the euro. Benchmark light, sweet crude for July delivery fell USD 1.88 to settle at USD 134.86 on NYMEX. In London, July Brent crude lost USD 1.84 to settle at USD 134.25 on the ICE Futures exchange. Friday's close puts the price of oil more than USD 4 below the all-time trading high it struck the previous Friday, but still more than 10% higher than it was before its latest surge, which began just over a week ago. The price for a barrel has swung back and forth in a band about USD 10 wide since then. In its monthly market report, OPEC said oil's recent volatility "reconfirms the view that current price levels do not reflect supply and demand realities." The cartel also lowered its 2008 global demand forecast, saying it now expects demand to increase by 1.28% to an average of 86.9 mn bpd, down from a previous forecast of 1.35%. "A review of prospects for the remainder of the year also shows little support for prices to remain at current levels," OPEC noted. That downward revision follows similar moves by the U.S. Energy Department and the International Energy Agency earlier last week. Some market watchers believe prices could yet push higher, while others think prices are due to fall, perhaps sharply. A stronger dollar also helped keep oil prices in check Friday. The greenback gained against the euro after a Labor Department report showed consumer prices rose by the biggest increase since November, helping alleviate concerns that growing inflation could force shoppers to tighten their belts. Investors who bought commodities such as oil to protect against inflation when the dollar was falling tend to sell when the currency gains ground. Many developing countries, which typically have far lower household incomes, hold food and fuel prices lower through subsidies. But higher commodities costs are forcing some governments to hike those discounted prices. In Malaysia, more than 1,000 opposition supporters marched through Kuala Lumpur on Friday to protest the government's recent decision to hike retail prices 41% to USD 3.30 a gallon. Demonstrations have also broken out in India. U.N. Secretary-General Ban Ki-moon said soaring food and fuel costs could pose a threat to global stability. "Unless we properly manage this issue, this could trigger a cascade of other challenges and crises affecting not just social and economic issues, but also political and security issues," Ban said following talks in London with British Prime Minister Gordon Brown. In other industry news, Saudi Arabia may announce an oil output increase at a meeting it will host in Jeddah on June 22 for oil producers and consumers because customers are asking for more crude, an OPEC official said on Sunday. The kingdom will host the Jeddah summit after oil prices more than doubled in a year to a record USD 139.12 a barrel on June 6. Surging oil and food prices have replaced the credit squeeze as the biggest threat to the world economy, finance ministers from the Group of Eight nations said after meeting in Osaka, Japan yesterday. Higher commodity prices pose a "serious challenge" to global growth, they said in a statement. State-owned Saudi Aramco said June 13 that it would start pumping oil from its 500,000 bpd Khursaniyah field within a month, a project it previously had said would start operating last December. After confirming the delay in opening the field in January, Aramco said it was ready to use its spare capacity, which includes 1 mn barrels of Arab light crude, to meet market demand. Looking ahead, we believe Saudi Arabia's bid to ramp up production is questionable in the long-term, although it could put a short-term damper on prices for a couple of days until new drivers come along or until the market refocuses on fundamentals.

The US CPI rose 0.6% m-o-m in May and the basic index gained 0.2%. The Labor Department has reported that US citizens' real earnings, exclusive of those working in the agricultural sector, dropped by 0.4% in May, m-o-m, with account for seasonal indicators. The US Consumer Confidence Index calculated by the University of Michigan went down from 59.8 points in May to 56.7 points in June 2008.

In 1Q 2008, employment in the Eurozone grew by 0.3% q-o-q and by 1.6% y-o-y, Eurostat reported on Friday. Labor costs went up by 3.3% y-o-y in 1Q after a 2.9% rise in 4Q 07. Salaries in the Eurozone advanced 3.7% y-o-y in 1Q; in 4Q 2007, salaries grew by 3.2%, while in 3Q by 2.8%.

Worldwide oil production dropped last year, BP said in its report. According to the data contained in the Statistical Review of World Energy, oil production in 2007 dropped 0.2%, or 130,000 bbl per day,

while OPEC member states reduced oil production by 350,000 bbl per day. The ex-Soviet countries increased oil production by 500,000 barrels a day on average, including Russia and Azerbaijan: 200,000 bbl a day each. Worldwide oil consumption in 2007 gained 1.1%, or 1 mn bbl/day, a slight downturn to the reading of the last 10 years. Oil prices have demonstrated an upward trend for more than 6 years, which is a record high based on the British company's data collected since 1861. The average price for Brent crude amounted to USD 72.39 per bbl in 2007, an 11% increase y-o-y.

Gazprom Export's general director, Alexander Medvedev, and Rainer Seele, Wintershall Holding AG board member and Wings GmbH board chairman, have signed an agreement of intent for the prolongation of a gas supply contract between Gazprom Export and WIEH for 35 years, or until late 2043. According to the joint announcement made by Gazprom and Wings, this contract is the largest in the Russian-German energy partnership. The contract prolongation will provide WIEH with a total of 500 bcm of natural gas from Russia. The document was signed in Leipzig on the 35th anniversary of gas supplies from Russia. Wings and WIEH are the joint-ventures between Gazprom and Wintershall, a BASF subsidiary.

Suleiman Kerimov's Nafta Moskva has sold its share package in Polymetal, a source close to Polymetal told Vedomosti. A total of almost 70% of the company shares was acquired by Alexander Nesis, founder of East group, Alexander Mamut, and Peter Kellner's Czech-based PPF fund. The newspaper's interlocutor has not disclosed how the shares were distributed among transaction participants; however, he said that none of the partners had acquired a blocking stake in Polymetal. Polymetal's board chairman, Alexander Mosionzhik, who holds a 0.55 stake in Nafta Moskva, remained a company shareholder, the same source told Vedomosti. "Several shareholders instead of a majority one is good for the company's corporate governance", believes the same source. A banker close to the management of the Czech-based fund believes that the price at issue is close to the stock-exchange quotations. Today, Polymetal BoD is to call an EGM where the shareholders will nominate their representatives to the BoD, said a source close to Polymetal.

On Thursday, the US-based steelmaker Esmark Inc., which had received a buyout offer by Indian-based Essar and Russian-based Severstal, rejected the Russian company's offer. According to Esmark, the relevant decision was made by the company BoD, which said Severstal's offer to acquire the company at USD 17 per share was "inadequate and contradictory to the interests of the company's shareholders". Additionally, the BoD does not recommend Esmark's shareholders sell their shares to Severstal. "This decision was based on a number of reasons, including Essar's recent claim that the offer price would be raised to USD 19 per share", Esmark said in its report. Esmark has also initiated a legal action against United Steelworkers, saying the trade union had broken the labor law. United Steelworkers supports Severstal's offer and intended to block the Indian company's attempt to acquire Esmark. Severstal refused to comment on its future plans.

OAo Trubnaya Metallurgical Company (TRMK) and the pipe company Ipsco have completed a deal to purchase Evraz Group from Swedish SSAB. A press release states that TMK has acquired 100% of the shares of Ipsco Tubulars Inc and a 51% stake in the NS Group, located in the United States, for approximately USD 1.25 billion. In addition, TMK and Evraz have concluded an agreement on an option for the remaining 49% of the shares of NS Group, which could amount to USD 0.5 billion. As a result, TMK has acquired 10 manufacturing sites located in seven U.S. states, with a combined annual capacity of over 1 million tons of pipes.

Dalsvyaz: delay in the sale of cellular assets - conceptual change or just another delay?

We are extremely negative about the uncertainty that surrounds the sale of Dalsvyaz cellular assets: minority shareholders are in the dark about the fate of valuable assets.

Interfax announced on June 11 that at the last AGM of Dalsvyaz shareholders had made no decision on the spinoff of the Dalsvyaz subsidiary, Cellular Telecommunications of Northern Regions, which renders cellular phone services in the Magadan region and the Kamchatka territory. Adoption of the decision was blocked by the state, a Dalsvyaz controlling shareholder, which did not take part in the vote. The spinoff is necessary for the subsequent sale of the asset. Neither the operator nor the state holding company officially commented on the results of the June 11 vote.

Dalsvyaz
(ESPK/ESPKP)
Recommendation:
Buy / Buy
The target price
(c.s. / p.s.):
USD6.06 / USD5.90

The situation that is unfolding is paradoxical. For one part, contenders for the operator, prepared to pay a high price for the asset, are in place (in our view, Vimpecom, which needs access to the Far Eastern cellular market, could emerge as the highest bidder). For another, the management and the controlling shareholder are acting illogically, dragging their feet on the sale and doing nothing to develop the company (in 2007, the company's base of cellular subscribers rose by a mere 4%). In fact, the sale of the asset is already more than one year overdue as the first auction for the asset was held in the spring of 2007 (see [May 4, 2007](#)).

It is not ruled out that the delay in the sale reflects a change of the company's strategy from 'sales' to 'integration and growth'. If this is true, the company's statement about its plans to rid itself of the de-facto unprofitable assets, made at the end of 2007, looks surprising (see [November 15, 2007](#)).

Even though the company's fundamentals hold a downside potential, we reiterate our **BUY** recommendation on both types of shares, at least until the release of its official stance on the issue. The target price is USD 6.06 per common share and USD 5.90 per preferred share.

Schedule of Upcoming Events

Date	Event	Analysts Comments
UTILITIES		
June 24, 2008	Auction to sell off St. Petersburg Supply Company	A 49% stake in Saint Petersburg Supply Company (RTS: PBSB) was valuated at RUB 5 bn. The bid increment is RUB 100 mn.
June 25, 2008	Auction to sell off UES's stake in Kuzbassenergo (TGC-12, RTS: KZBE)	The share package at auction amounts to 19% of the company's charter capital, the initial price is RUB 10.03 bn, and the bid increment is RUB 10 mn. Bids are to be accepted from June 9 till June 19.
CHEMICALS AND PETROCHEMICALS		
June 25, 2008	Hearings in a claim to deprivatize a 20% stake in Apatit	If a stake in Apatit is bought by the state, PhosAgro's control over the company will weaken. This will be favorable for Akron, which will attempt to soften the terms of the agreement on apatite concentrate supplies.
TRANSPORT		
June, 2008	Aeroflot is to release its FY 2007 consolidated financials audited to IFRS	In view of the growth rates in the air travel market in 2007 and the airline's active expansion on domestic routes, we expect the air carrier to post record high revenues. Sharp price spikes on jet fuel in the closing quarter of the year may eat into the company's profit margins.
METALS		
June, 2008	NorNickel publishes FY 2007 annual report	Given the favorable conditions on the non-ferrous metals market, we expect the company's net profit to be USD 7.5 bn. The company's EBITDA should amount to USD 11 bn, in line with our estimates, while revenue should exceed USD 15.5 bn.
CONSUMER		
June 16, 2008	A EGM of Lebedyansky shareholders	An EGM at the Lebedyansky company will consider restructuring the company's business. The goal is to spin off the company's juice division for the subsequent sale of more than 75% of its shares. In our view, most of the shareholders are likely to back the spinoff with a view to getting shares in the juice division (with the possibility of a buyout offer from PepsiCo), and the baby food and mineral water unit.
FINANCIAL SECTOR		
July, 2008	Publication of VTB financials for 3M 2008	Maintaining robust asset growth rates is critical for VTB. Our estimates show that the bank is capable of achieving its most impressive operating results in the retail credit sector. Control over operating expenses is a priority task for management.

MICEX Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/11	PermEnSb	46.998	10.858	30.04	831,669.30
06/11	Tattel	0.297	0.064	27.47	38,821,214.40
06/11	IvanEnSb - p	0.287	0.059	25.88	717.30
06/11	OmskEnSb	124.0	14.000	12.73	476,620.00
06/11	MRSKV01005	0.191	0.018	10.40	145,412.10
06/11	VHZ	265.0	24.930	10.38	663,298.00
06/11	iArmada	584.8	54.800	10.34	51,078,555.22
06/11	ChelyabES	0.299	0.028	10.33	433.00
06/11	Urkaliy	327.1	30.170	10.16	242,300,883.73
06/11	KurskEnSb	0.318	0.029	10.03	327,963.70

MICEX Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/11	YarosISK - p	10.756	-2.944	-21.49	1,075.60
06/11	TGK - 11- 002	0.0272	-0.005	-15.00	27.20
06/11	RITEK - p	216.66	-36.390	-14.38	97,960.30
06/11	VoronEnSb	5.377	-0.757	-12.34	3,226.20
06/11	MRSKSib004	0.4459	-0.054	-10.82	2,119.56
06/11	ArhanSb	0.133	-0.013	-8.90	83,330.10
06/11	NutrInvHol	723.0	-67.000	-8.48	2,141,006.03
06/11	LSR	1,700.0	-150.000	-8.11	100,517.00
06/11	MRSK SZ011	0.25	-0.020	-7.37	1,425.29
06/11	Tomsk RP - p	0.455	-0.035	-7.14	14,180.30

RTS Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/11	URKA	13.7	1.200	9.60	4,237,150.00
06/11	TGKH	0.00166	0.000	7.79	16,600.00
06/11	SPTL	1.36	0.098	7.77	136,000.00
06/11	ENCO	0.097	0.006	6.01	97,000.00
06/11	KIRZ	56.0	3.000	5.66	56,000.00
06/11	MRKP	0.0132	0.001	4.76	191,218.08
06/11	DGBZP	0.649	0.029	4.68	19,415.00
06/11	URSI	0.059	0.002	4.42	279,286.40
06/11	MRKZ	0.0112	0.000	3.70	101,063.35
06/11	AFKS	1.53	0.050	3.38	38,250.00

RTS Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/11	OGKB	0.0731	-0.009	-10.64	317,231.00
06/11	VTBR	0.0036	0.000	-5.01	370,800.00
06/11	GMKN	269.0	-11.500	-4.10	11,815,970.00
06/11	SPTLP	0.855	-0.035	-3.93	170,500.00
06/11	ESMO	0.65	-0.020	-2.99	65,000.00
06/11	BANEP	11.75	-0.350	-2.89	92,450.00
06/11	TRNFP	1,415.0	-35.000	-2.41	78,575.00
06/11	BANE	17.0	-0.400	-2.30	51,000.00
06/11	RASP	9.6	-0.200	-2.04	1,652,128.60
06/11	MGRS	0.0635	-0.001	-2.01	127,000.00

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