

GLOBAL UPDATE:

- **US:** Fed signals key rates to maintain on hold at the current low level while economy sends contradictory signals
- **Asia:** Credit fears weigh on China while Japan is shaken by the strong yen
- **Europe:** Manufacturing continues to improve but at a slower pace
- **Currency:** USD & JPY try to move higher

WEEK AHEAD

- US ISM and employment data – most important this week
- Asia manufacturing PMI, Japanese industrial production plans and Tankan index may show further improvement
- Germany unemployment is likely to rise further

Market Data*		
CDS HY 5Y	651,5571	
ITX Crossover	547,723	
CDS Japan 5Y	106,7161	
CDS EM 5Y	110,2499	
CDS Russia 5Y	216,915	
US Tsys 10Y	3,80%	+0,15%
US Tsys 5Y	2,59%	+0,09%
Brazil 10Y	5,15%	-0,43%
UK 10Y	3,62%	-0,13%
Germany 10Y	3,24%	+0,08%
LIBOR-OIS	0,1150	+0,0045
EUR/USD	1,4632	+0,39%
USD/JPY	89,391	+0,27%
EUR/GBP	0,9212	-0,02%
Oil Brent	65,59	+0,74%
Gold	995,2	+0,36%
Copper	5990	+0,50%
Nickel	16811	-1,18%
S&P 500	1060,14	+1,51%
Topix	904	+0,39%
Shanghai Comp	2763,525	-2,65%
DJ EURO Stoxx	2886,71	+1,93%
VIX	25,51	-0,10

*As of 14:00 GMT, Bloomberg

US: The state of the economy remains unclear

The US markets started the week positively but fears of a new possible dip in economic activity moved S&P 500 lower. As had been widely expected, FOMC at its regular meeting decided to leave the key rate unchanged, improved its assessment of economic situation and extended the purchasing horizon for agency debt and MBS purchases to the end of the 1st quarter, 2010. The final statement said that the rate would be at extremely low levels for an extended period of time. The committee also expects inflation “to remain subdued for some time”. The only shift in the FOMC tone concerned the quantitative easing policy. In comparison with the last statement which said that the committee would “employ all available tools to promote economic recovery” this time it promised to use “wide range of tools to promote economic recovery and to preserve price stability”. FOMC voting member Walsh published an article in WSJ, suggesting that the monetary policy should be quickly tightened when the economy improves. Economic data were mixed. The Conference Board’s Index of Leading Economic Indicators rose 0.6% in August (1.9% on an annual basis) and the the July reading was revised to 0.9% increase. That was a clear sign that the US economy had exited the recession. Friday Michigan consumer confidence topped 73.4 points, above consensus forecast at 70.4 points. Initial claims for unemployment benefits fell 21K to 530K, below consensus estimates of 550K. Continuing claims also fell to 123K. As a whole these figures reflect that the labour market went on stabilizing in September. But the quantity of those applied for the federal and state emergency programs increases, pointing to the fact that the unemployment rate is still rising. The housing market data also showed that the situation was getting better, but were below estimates. New home sales went up to 429k in August from a downwardly revised 426k in July, also less than consensus (440k) estimates. July’s 9.6% surge was revised to a 6.5% jump. Yet it takes 12.9 months to sell a house in the US, but months’ supply of new homes continued to slide, down to 7.3 (6-7 is considered to be a normal level). The trend of sales is also seemed to be watching up. Foreclosure-related transactions fell to 31% comparing to 45% average this year. The FHFA price index rose 0.3%.

Durable orders statistics were quite gloomy on Friday - Durable goods orders fell 2.4% in August (consensus - +0.4%), weighed down by a significant drop in nondefense aircraft. Core capital goods orders fell 0.4% and the August figure was revised down to -1.3% from -0.3%. Core capital goods shipments fell 1.9%.

The main result of the G20 statement from Pittsburgh - the new “Framework for Strong, Sustainable and Balanced Growth” urged all parties

involved to take measures to get strong, sustainable and balanced growth, although the path seems to be unclear. G20 was also declared to become a new primary decision-making body with EM increased voting share. The G 20 statement also reiterated to pledge to maintain policy stimulus until “ a durable recovery is secured. Unfortunately, no real progress was made in the issue financial regulatory reforms – the new guidelines will developed by the end of 2010 and implemented by the end of 2012. Finally the G20 endorsed the principles of bankers’ compensation, which will be included into the national legislation of some countries.

Asia: recovery is going on but pace not impressive

Most Asian markets traded weaker this week. Japan was pressured by disappointing export/import data. According to the Japanese Finance Ministry, shipments abroad dropped 36% y/y and 0.7% m/m in August. However, this decline might have been overstated by long country’s Obon holidays. BOJ minutes from the August 10-11 meeting pointed out the improvement of the Japanese economy, having no surprises for investors.

Chinese stocks went on stagnating under fears of future monetary policy tightening in case inflation speeds up. The signs of real estate asset bubble seem to be more evident and pose a serious danger to the situation in China. This week the Chinese exchanges will be closed from Thursday to Friday due to celebrating the 60th birthday of the People’s Republic.

This week important PMI data will be published in major economies and Japanese industrial production in August may also be of interest.

Europe: Manufacturing is improving, but situation is still uncertain

The European PMI and German Ifo data showed the increased activity in manufacturing, but fell short of expectations. The French PMI data reflected that the French economy is recovering at a faster pace than German.

Merkel’s win at the parliamentary elections led the German market higher on Monday, due to rise in the Utilities stocks but in the long-term prospective it’s unlikely to influence the situation considerably. The coming week brings actual unemployment data for August, which may increase to 8.4%.

Currencies: USD & JPY point higher

High volatility dominated at the currency market. Repatriation of the Japanese funds and lowering risk appetite led to the appreciation of USD and JPY at the end of the week. The dovish comments from Mervyn King pointed at a rate hike not earlier than in Q3 2010 and pulled down GBP. As a whole, emerging market currencies remained relatively firm to the USD.

THE WEEK AHEAD

Important economic data will be published this week.

On Tuesday, Japanese CPI data will likely show national CPI to fall -2.2% y/y in August. The same day, a large block will come from Europe, including German import prices index, UK GDP and the Euro-zone consumer confidence. In the US, Case-Shiller home prices index will be available and the CBOT consumer confidence index reading will be released. On Wednesday, the Japanese manufacturing and the Chinese PMI data will be published. In the Euro-zone, German unemployment data will be of interest and the ADP labor market statistics will be published in the US the same day. On Thursday, German retail sales will be available as well as the US personal income data and the ISM Manufacturing index reading. On Friday, the US unemployment report will be released along with the factory orders statistics.

Technically the S&P 500 Index tested a 1039 resistance level and is likely to rebound to 1060-1090 in the upcoming days. But furthermore it is likely to slide as the correction seems to be imminent.

Global Markets Weekly

Time	Ct	Data	Per	Consensus	Prev
10/01/2009 03:50	JN	Tankan Lge Manufacturers Index	3Q	-33	-48
10/01/2009 05:00	CH	PMI Manufacturing	SEP	55	54
10/01/2009 08:00	RU	Russian Manufacturing PMI for September	OCT 1		
10/01/2009 09:00	JN	Vehicle Sales (YoY)	SEP	--	2,30%
10/01/2009 10:00	GE	Retail Sales (MoM)	AUG	0,20%	0,70%
10/01/2009 10:00	GE	Retail Sales (YoY)	AUG	-0,80%	-1,00%
10/01/2009 11:55	GE	PMI Manufacturing	SEP F	49,6	49,6
10/01/2009 12:00	IT	Trade Balance Non-Eu (Euros)	AUG	--	1711.0M
10/01/2009 13:00	EC	Euro-Zone Unemployment Rate	AUG	9,60%	9,50%
10/01/2009 16:30	US	Personal Income	AUG	0,10%	0,00%
10/01/2009 16:30	US	Personal Spending	AUG	1,10%	0,20%
10/01/2009 16:30	US	PCE Deflator (YoY)	AUG	-0,60%	-0,80%
10/01/2009 16:30	US	Initial Jobless Claims	SEP 27	535K	530K
10/01/2009 16:30	US	Continuing Claims	SEP 20	6175K	6138K
10/01/2009 18:00	US	ISM Manufacturing	SEP	54	52,9
10/01/2009 18:00	US	Construction Spending MoM	AUG	-0,20%	-0,20%
10/01/2009 18:00	US	Pending Home Sales MoM	AUG	1,00%	3,20%
10/01/2009 18:00	US	Pending Home Sales YoY	AUG	--	12,90%
10/02/2009	US	Total Vehicle Sales	SEP	9.50M	14.09M
10/02/2009	US	Domestic Vehicle Sales	SEP	7.30M	10.20M
10/02/2009 03:30	JN	Jobless Rate	AUG	5,80%	5,70%
10/02/2009 10:00	UK	Nat'wide House prices sa (MoM)	SEP	0,70%	1,60%
10/02/2009 10:00	UK	Nat'wide House prices nsa(YoY)	SEP	-0,30%	-2,70%
10/02/2009 12:00	IT	Deficit to GDP (year to date)	2Q	--	9,30%
10/02/2009 12:30	UK	PMI Construction	SEP	48,1	47,7
10/02/2009 12:30	UK	BoE Housing Equity Withdrawal	2Q	--	-£8.1B
10/02/2009 13:00	EC	Euro-Zone PPI (YoY)	AUG	-7,60%	-8,50%
10/02/2009 13:00	EC	Euro-Zone PPI (MoM)	AUG	0,40%	-0,80%
10/02/2009 16:30	US	Change in Nonfarm Payrolls	SEP	-180K	-216K
10/02/2009 16:30	US	Unemployment Rate	SEP	9,80%	9,70%
10/02/2009 18:00	US	Factory Orders	AUG	0,10%	1,30%

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