

GLOBAL UPDATE & WEEK AHEAD

- US: Economy yet to prove its path to recovery
- Earning season starts this week
- UK PMI, Japanese machinery orders, German Industrial Production will be of interest
- ECB & BOE will hold regular meetings

Market Data*		
CDS HY 5Y	716.34	+9.94%
ITX Crossover	570.22	+4.11%
CDS Japan 5Y	149.96	+40.52%
CDS EM 5Y	110.27	+0.02%
CDS Russia 5Y	215.83	-0.50%
US Tsys 10Y	3.68%	-3.25%
US Tsys 5Y	2.43%	-6.04%
Brazil 10Y	5.10%	-0.98%
UK 10Y	3.44%	-4.97%
Germany 10Y	3.13%	-3.36%
LIBOR-OIS	0.1291	+12.23%
EUR/USD	1.4624	-0.05%
USD/JPY	89.867	+0.53%
EUR/GBP	0.9148	-0.69%
Oil Brent	67.64	+3.13%
Gold	1006.3	+1.12%
Copper	5879	-1.85%
Nickel	17197	+2.30%
S&P 500	1025.21	-3.29%
Topix	869	-3.87%
Shanghai Comp	2,779.43	+0.58%
DJ EURO Stoxx	2772.17	-3.97%
VIX	28.68	+12.43%

*Weekly change, as of 14:00 GMT, Bloomberg

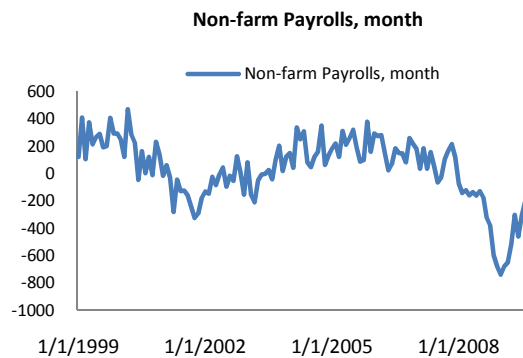
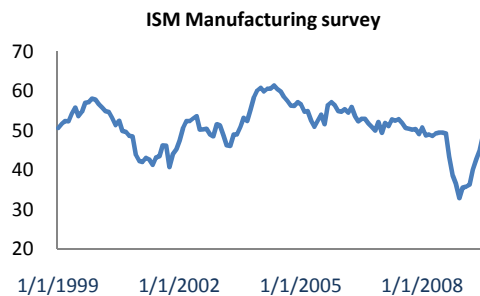
US: Economy yet to prove its path to recovery

The volatility at the US stock markets rose last week due to increased uncertainty concerning the pace of economic recovery. Dallas manufacturing survey was below estimates and the Chicago PMI fell to 46.1 in September from 50.0 in August, below consensus (52.0) expectations due to the drop in new orders index and production. Finally, the ISM manufacturing index slipped to 52.6 in September from 52.9 in August, below consensus (54.0) expectations due to slide in production (55.7 from 61.9). The data showed that situation in manufacturing is still rather shaky.

Another bad news - Consumer confidence fell to 53.1 from revised 54.5 in August, below estimates of 57 points. Again, falling employment and incomes were the main lagging components. Gloomy state of the labor market was reflected in Friday employment report for September. Nonfarm payrolls slumped by 263,000, much worse than consensus of -175,000. The unemployment rate increased to 9.8% from 9.7% in August.

A sharp drop of 785,000 in household payrolls overshadowed a decline of 571,000 in the labor force. Indeed, if the labor force participation rate had not declined to 65.2% from 65.5%, the unemployment rate would have actually jumped to 10.3%. Full-time employment collapsed 814,000. And the average work week declined 0.1 hours to 33.0, reverting to the record low reached in June. Factory orders fell 0.8% below consensus estimate of 0.0% due to a decrease in durable goods orders.

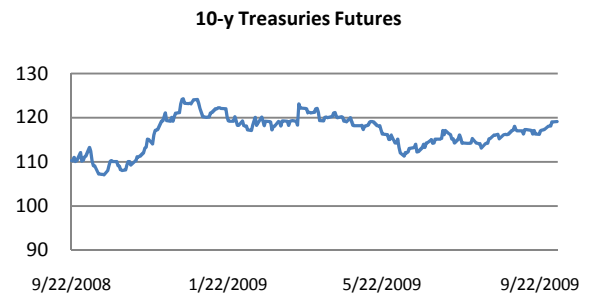
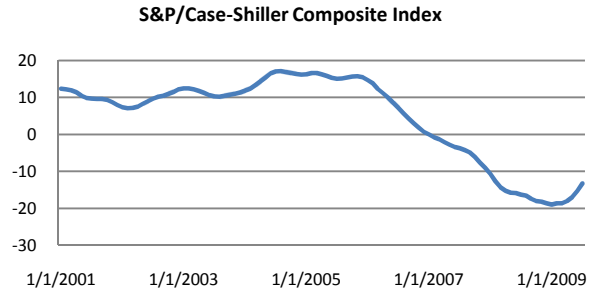
On the upbeat front, the S&P Case-Shiller home prices index increased 1.2% m/m in July well above expectations. The non-seasonally adjusted index jumped 1.6% m/m, down 13.3% y/y. The consensus forecast was at -14.3%. Of the 20 areas, only 3 showed monthly decline. This is likely to be a real bottom of the real estate market, but one should remember about extraordinary homebuyer tax credit, provided to the US home buyers.



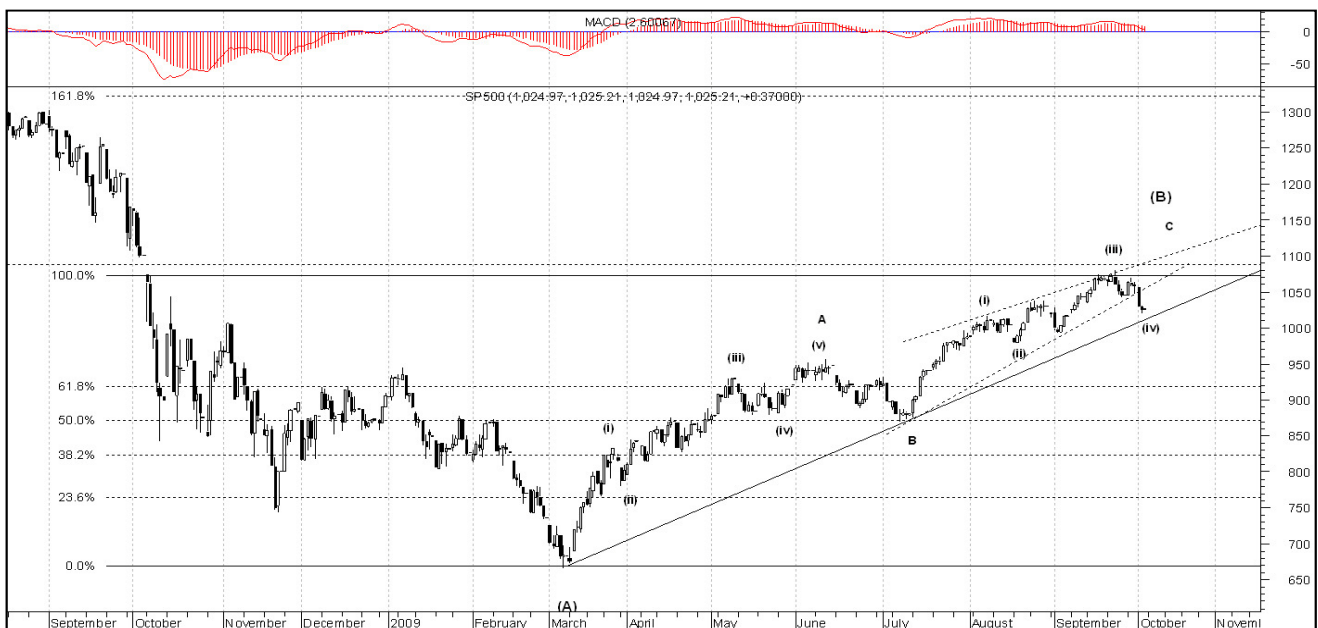
Treasuries went on the rally, rising to new highs. The situations of rising stocks and falling yields on the US treasuries is quite abnormal as these assets are historically negatively correlated, but it can be explained by an emerging role of the USD as a funding currency and unwinding carry trade against the greenback.

Boston Fed President Rosengren comments were quite dovish – he expressed his concern about quick tightening of the monetary policy, quoting Japanese experience which showed that in time of asset bubble decline inflation is likely to be subdued even in case of huge monetary stimulus. Other speaker – Fisher warned that possible policy tightening would be fast and would pre-empt possible hike of inflation rate.

Sharp sell-off on Thursday reminded investors October, 2008 and showed that low volatility might have been a temporary event.



S&P 500 Chart



Technically S&P Index is still in uptrend, but momentum seems to be decreasing. Complex corrective formation up might finish soon. If the Index is unable to pass 1090-1100 levels in October, sharp sell-off may lead it to testing 980 lows.

This week will be rather quiet in terms of statistics. On Monday, ISM non-manufacturing data will be released. We expect the index to reach 50 points from 48.3 in August. On Wednesday, consumer credit data will be available. We forecast it to decline \$10bn. in August. Alcoa also will kick off the new Q3 earnings season. On Thursday, initial jobless claims for the recent week, wholesale inventories for August will be released. The same day Fed Chairman Bernanke will speak on the Fed Balance Sheet. On Friday, trade balance data will be available and Fed Kohn will speak on the monetary policy.

In the euro-zone, last week brought no surprises from the macroeconomic front. "Flash" HICP was broadly in line with the expectations and Final Manufacturing PMI showed that manufacturing confidence continues to trend higher. Unemployment data for August (9.5%) also showed that deterioration in labor market conditions has moderated in recent months. This week Euro-zone retail sales will be released on Monday. We expect retail sales to have decreased 0.2% in August. On Wednesday, Final GDP reading will be released. It is widely expected to contract 0.1% q/q. On the same day, New manufacturing orders survey will be published in Germany. On Thursday, ECB and BOE will announce the key rate decision. The regulators are likely to remain the key rate at the current levels. Mr. Trichet is not expected to give any views on whether ECB intends to renew its non-standard operations. And attention will be focused on macroeconomic commentary. It is expected to mention signs of economic improvement. And the inflation comment should expect the inflation rate "to remain subdued over the policy relevant horizon". The BoE meeting is unlikely to deliver any policy change. Decision on whether to take asset purchases above GBP175bn is expected to be deferred until November. The same day, Industrial production data for Germany will be published. It is expected to rise 1.9% in August. On Friday, German HICP data and French manufacturing survey will be released.

Global Markets Weekly

Economic Calendar				
Time	Ct	Data	Per	Consensus
10/05/2009 08:30	UK	PMI Services	SEP	54.5
10/05/2009 09:00	EC	Euro-Zone Retail Sales (MoM)	AUG	-0.50%
10/05/2009 09:00	EC	Euro-Zone Retail Sales (YoY)	AUG	-2.40%
10/05/2009 14:00	US	ISM Non-Manf. Composite	SEP	50
10/06/2009 08:30	UK	Industrial Production (MoM)	AUG	0.20%
10/06/2009 21:00	US	ABC Consumer Confidence	4-Oct	--
10/07/2009 05:00	JN	Leading Index CI	AUG P	83.3
10/07/2009 09:00	EC	Euro-Zone GDP s.a. (QoQ)	2Q F	-0.10%
10/07/2009 10:00	GE	Factory Orders MoM (sa)	AUG	1.10%
10/07/2009 14:30	US	DOE U.S. Crude Oil Inventories	2-Oct	2300K
10/07/2009 14:30	US	DOE U.S. Gasoline Inventories	2-Oct	1125K
10/07/2009 14:30	US	DOE U.S. Distillate Inventory	2-Oct	-450K
10/07/2009 19:00	US	Consumer Credit	AUG	-\$10.0B
10/08/2009 10:00	GE	Industrial Production MoM (sa)	AUG	1.80%
10/08/2009 11:00	UK	BOE ANNOUNCES RATES	8-Oct	0.50%
10/08/2009 11:45	EC	ECB Announces Interest Rates	8-Oct	1.00%
10/08/2009 12:30	US	Initial Jobless Claims	3-Oct	540K
10/08/2009 12:30	US	Continuing Claims	26-Sep	6115K
10/08/2009 14:00	US	Wholesale Inventories	AUG	-1.00%
10/08/2009 23:50	JN	Machine Orders (MoM)	AUG	2.10%
10/08/2009 23:50	JN	Machine Orders YOY%	AUG	-25.40%
10/09/2009 06:00	GE	Trade Balance	AUG	12.0B
10/09/2009 06:00	GE	Consumer Price Index (MoM)	SEP F	-0.40%
10/09/2009 06:45	FR	Industrial Production (MoM)	AUG	0.30%
10/09/2009 06:45	FR	Manufacturing Production (MoM)	AUG	0.60%
10/09/2009 12:30	US	Trade Balance	AUG	-\$33.0B
10/05/2009 08:30	UK	PMI Services	SEP	54.5
10/05/2009 09:00	EC	Euro-Zone Retail Sales (MoM)	AUG	-0.50%
10/05/2009 09:00	EC	Euro-Zone Retail Sales (YoY)	AUG	-2.40%
10/05/2009 14:00	US	ISM Non-Manf. Composite	SEP	50
10/06/2009 08:30	UK	Industrial Production (MoM)	AUG	0.20%

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