



SECURITIES DIVISION

II Cbonds Russia & CIS Fixed Income  
Conference

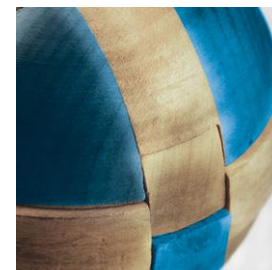
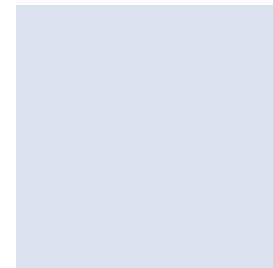
# View On Credit Spreads of Russian Issuers

Pavel Mamai

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# What I Want To Talk About

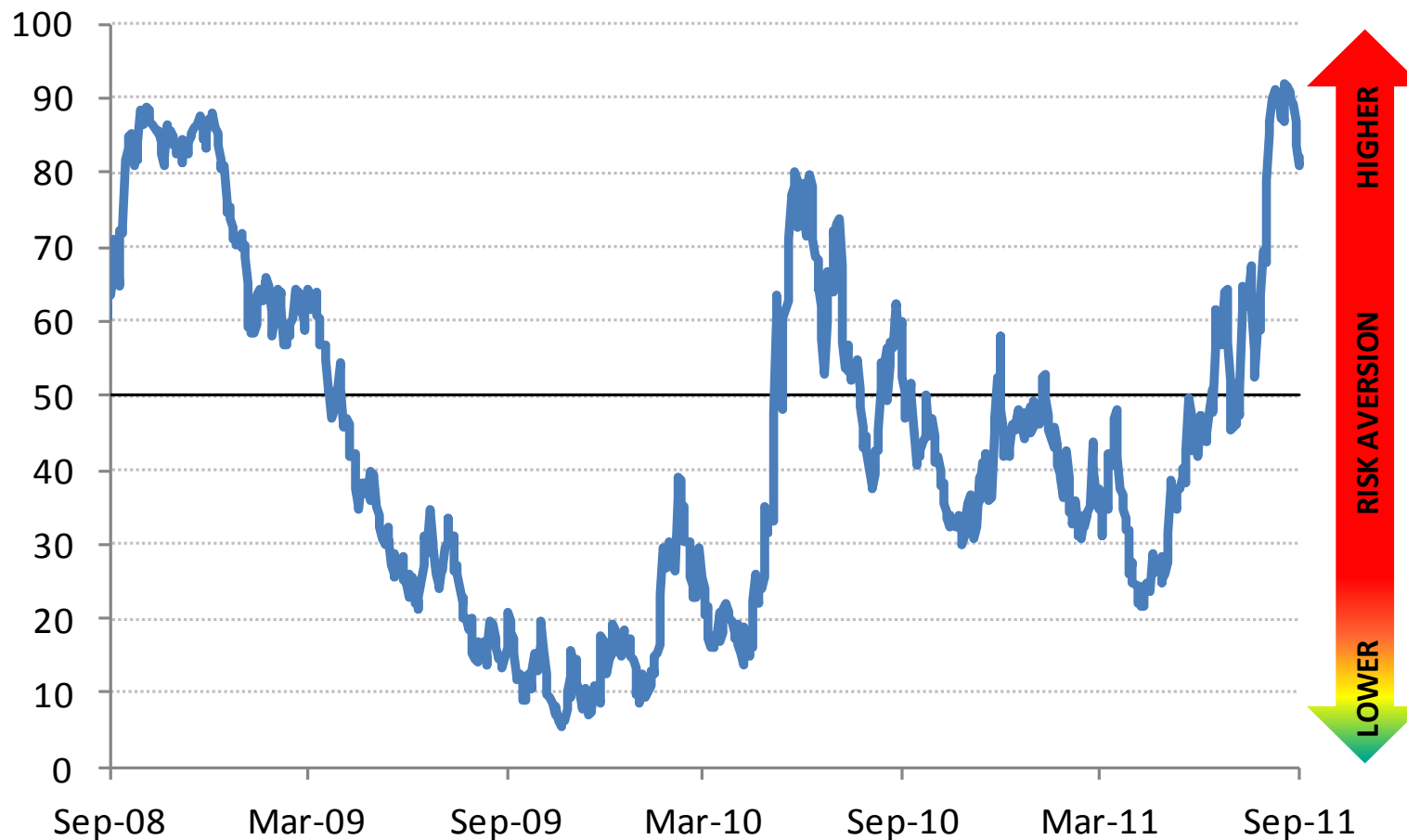
1. Market Background
  - a. Risk-On/Risk-Off
  - b. Fund Flow
2. Russian Spreads Relative Value
  - a. vs. Developed Markets
  - b. vs. Emerging Markets
  - c. vs. Equities
3. Conclusions



# Market Background



## Average Risk Aversion Indicator<sup>1,2</sup>



1 - Note: Constructed as the average of 1yr percentiles of 22 risk aversion indicators

2 - Source: Goldman Sachs Sales & Trading, Bloomberg. Past performance figures are not a reliable indicator of future results. Levels as of September 12, 2011.

# Risk Background

## Asset Class 1-month Correlation



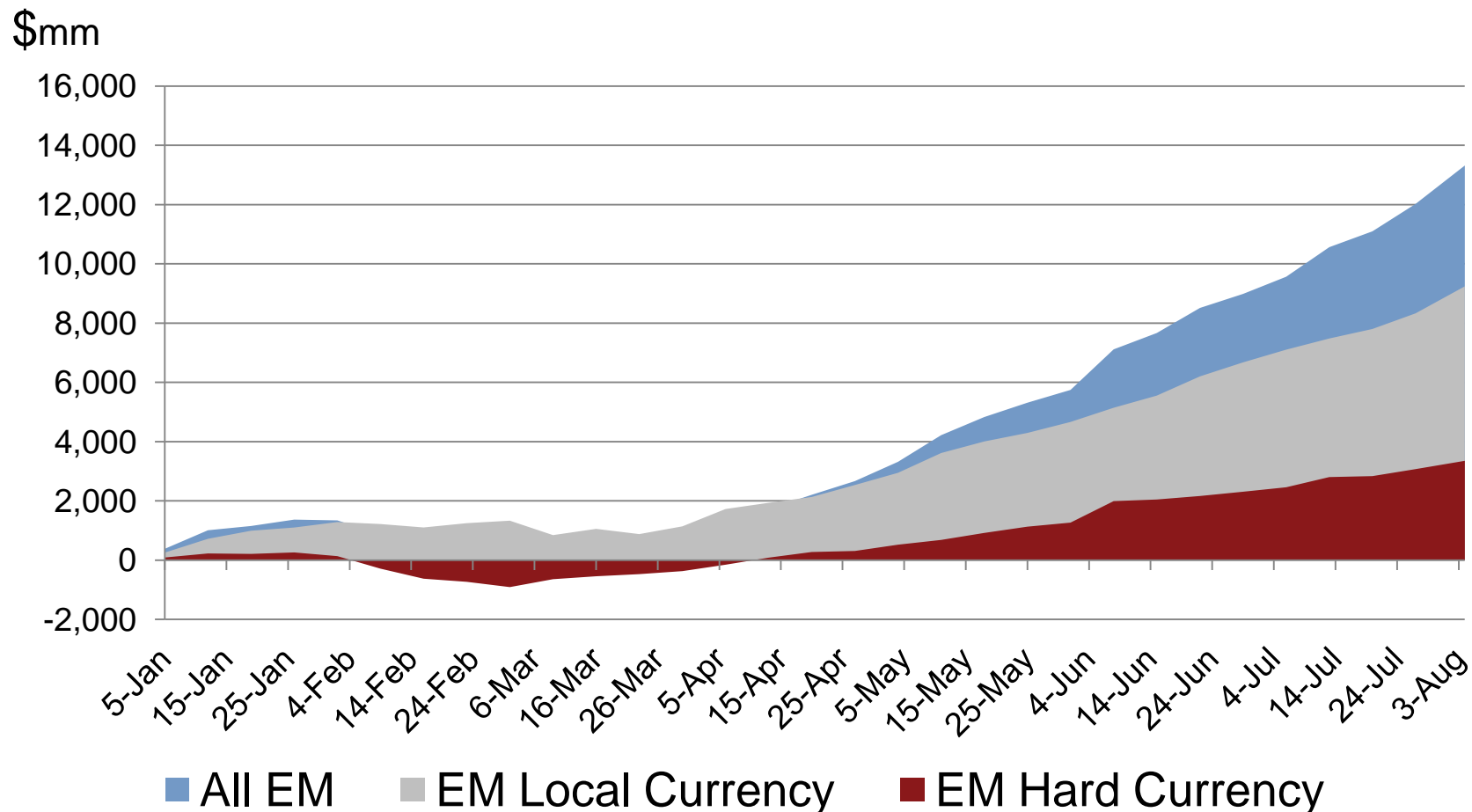
### 1m correlation of selected asset classes

	CDX EM	CDX HVOL	CDX HY	LIBOR-OIS	2yr US Swaps	10yr US Swaps	2s10s US	S&P	EUR	JPY	BRL	AUD	Oil	Gold	Copper
CDX EM	1.00														
CDX HVOL	0.93	1.00													
CDX HY	0.97	0.96	1.00												
LIBOR-OIS	0.66	0.71	0.68	1.00											
2yr US	-0.42	-0.38	-0.39	-0.41	1.00										
10yr US	-0.71	-0.73	-0.78	-0.57	0.64	1.00									
2s10s US	-0.70	-0.74	-0.79	-0.57	0.43	0.97	1.00								
S&P	-0.52	-0.50	-0.55	-0.22	0.12	0.37	0.40	1.00							
EUR	-0.30	-0.31	-0.36	-0.40	0.28	0.30	0.26	0.61	1.00						
JPY	0.20	0.16	0.19	0.48	-0.19	-0.04	0.01	-0.21	-0.53	1.00					
BRL	0.31	0.43	0.34	0.26	-0.44	-0.30	-0.23	-0.32	-0.65	0.22	1.00				
AUD	-0.54	-0.59	-0.56	-0.41	0.53	0.52	0.45	0.53	0.62	-0.30	-0.87	1.00			
Oil	-0.46	-0.48	-0.48	-0.24	0.39	0.43	0.39	0.58	0.52	-0.19	-0.73	0.91	1.00		
Gold	0.20	0.18	0.20	0.05	0.11	-0.20	-0.27	-0.44	-0.05	-0.36	-0.07	-0.10	-0.19	1.00	
Copper	-0.62	-0.59	-0.60	-0.18	0.29	0.50	0.51	0.69	0.26	0.07	-0.33	0.52	0.56	-0.35	1.00

**Note:** The linear (Pearson) correlation is calculated on the daily changes of levels (level today – level last close) for CDX EM, CDX HVOL, CDX HY, LIBOR-OIS, 2yr US swaps, 10yr US swaps, and 2s10s US. We consider daily percent changes (level today / level last close – 1) for the rest of the assets

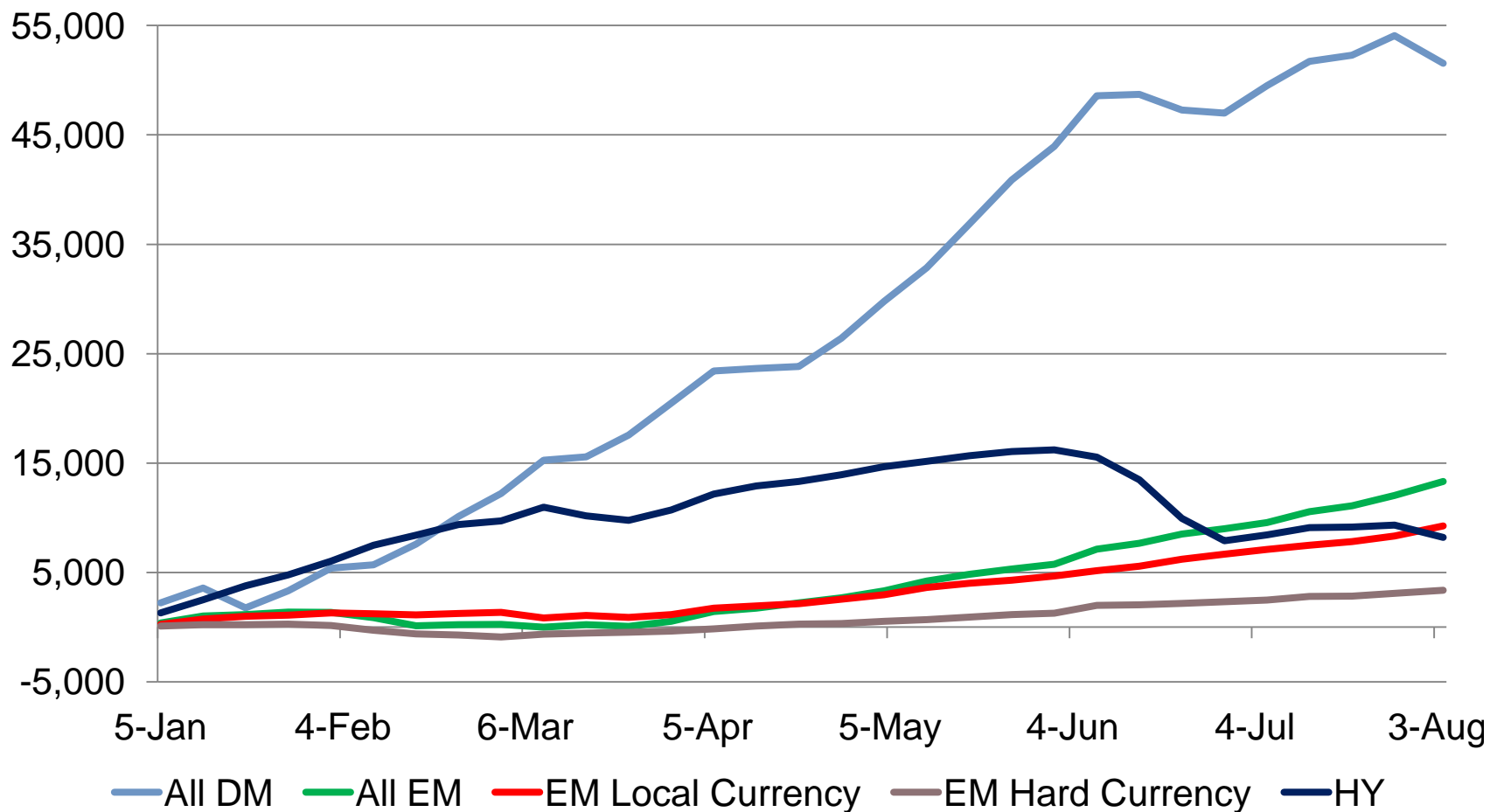


## Emerging Market Cumulative Fund Flows



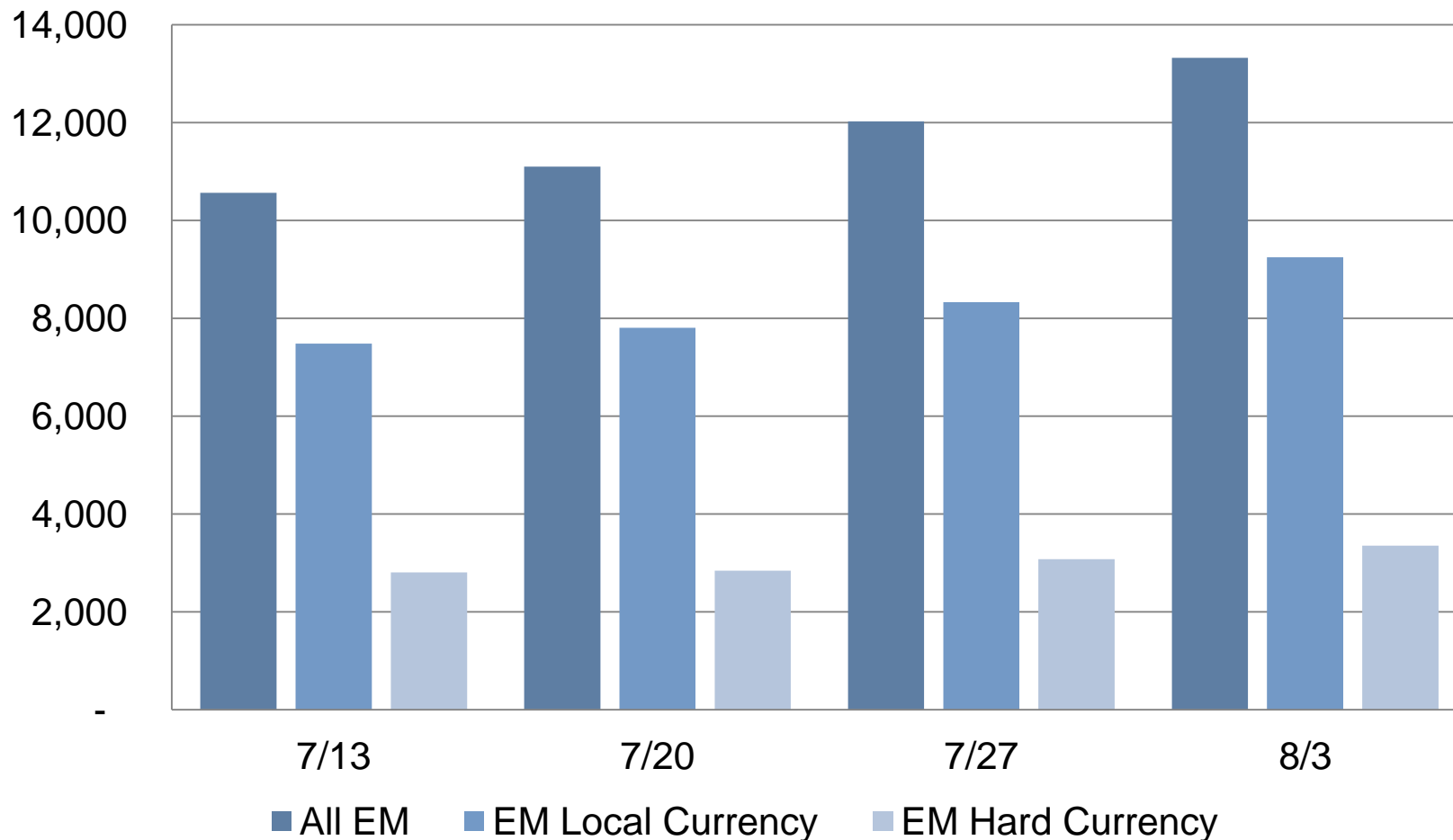


## Fixed Income Fund Flows (US\$ Mil)





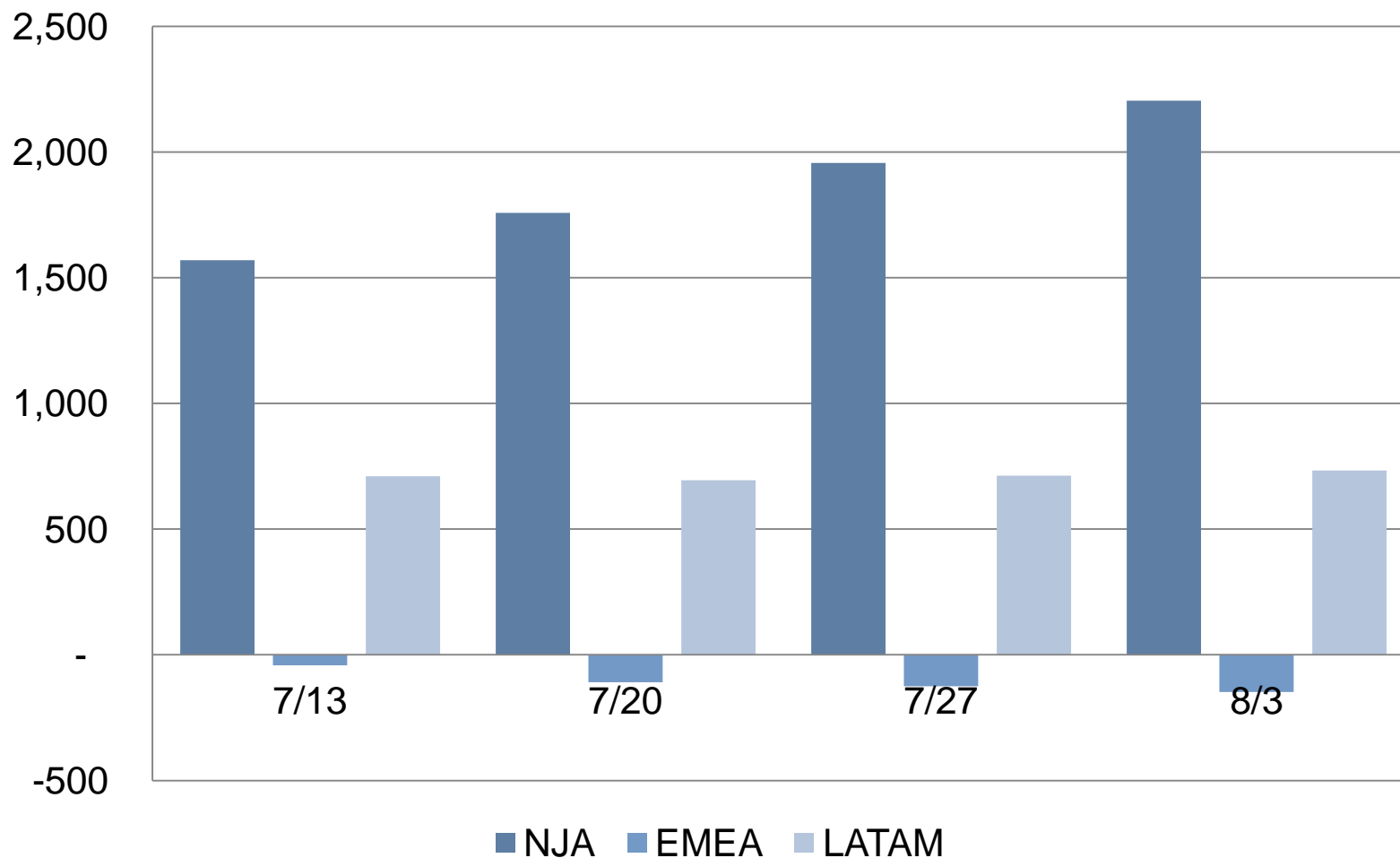
## Cumulative YTD EM Fund Flows by Asset Class (\$mm)







## Cumulative YTD EM Fund Flows by Region (\$mm)



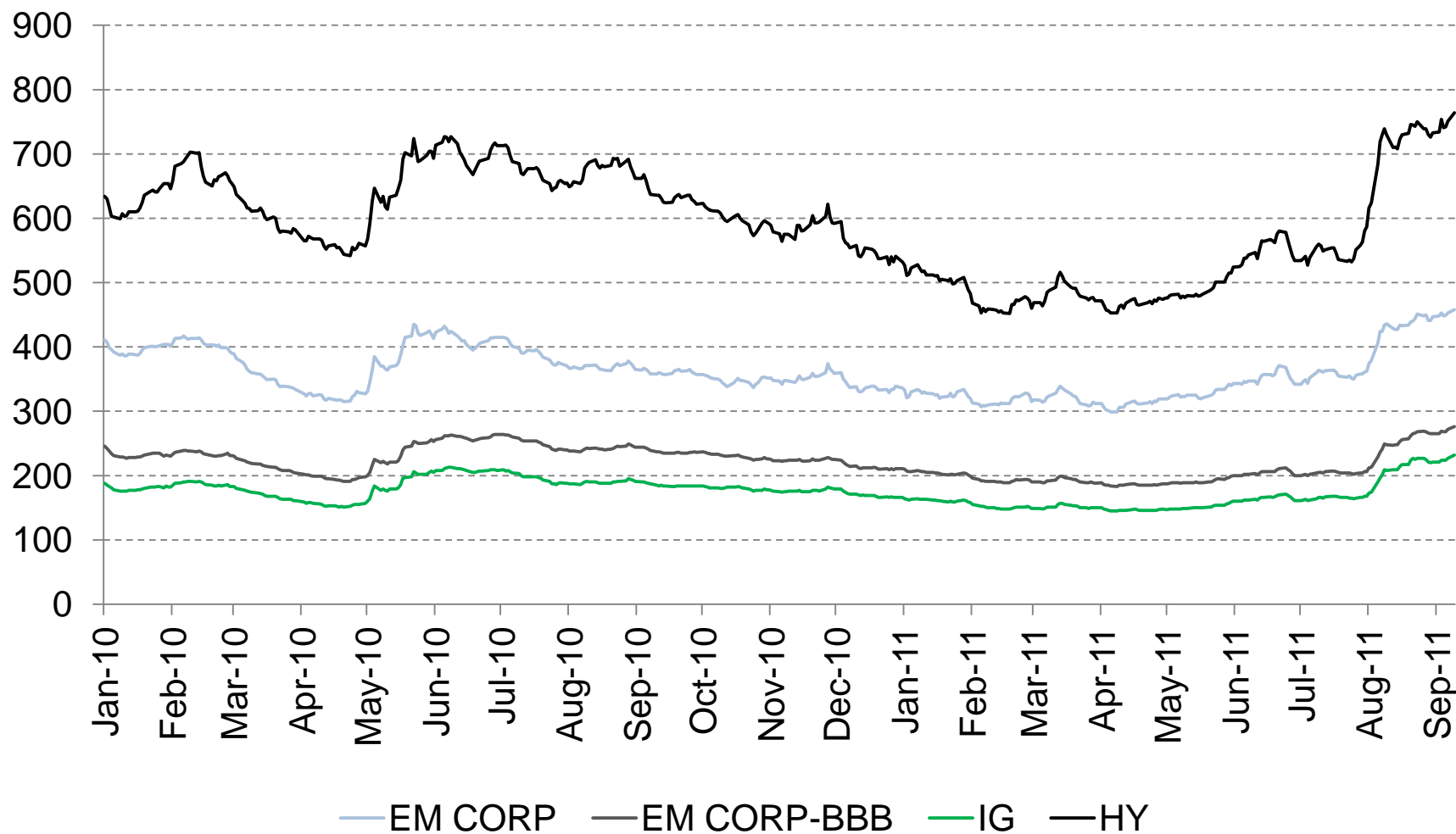


# Russian Spreads Relative Value

## Relative Value: vs. DM

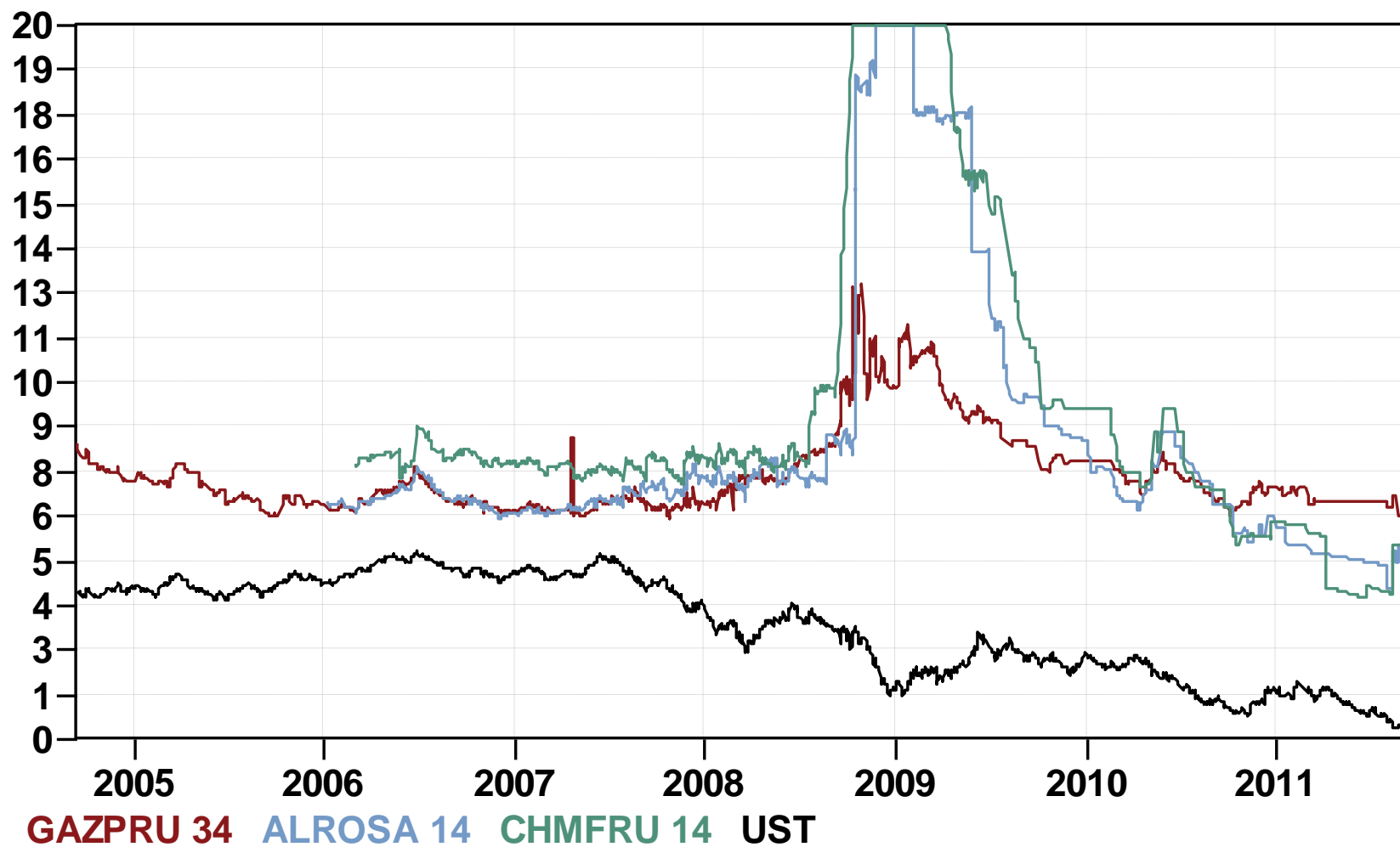


## EM vs. DM Indices, bpts



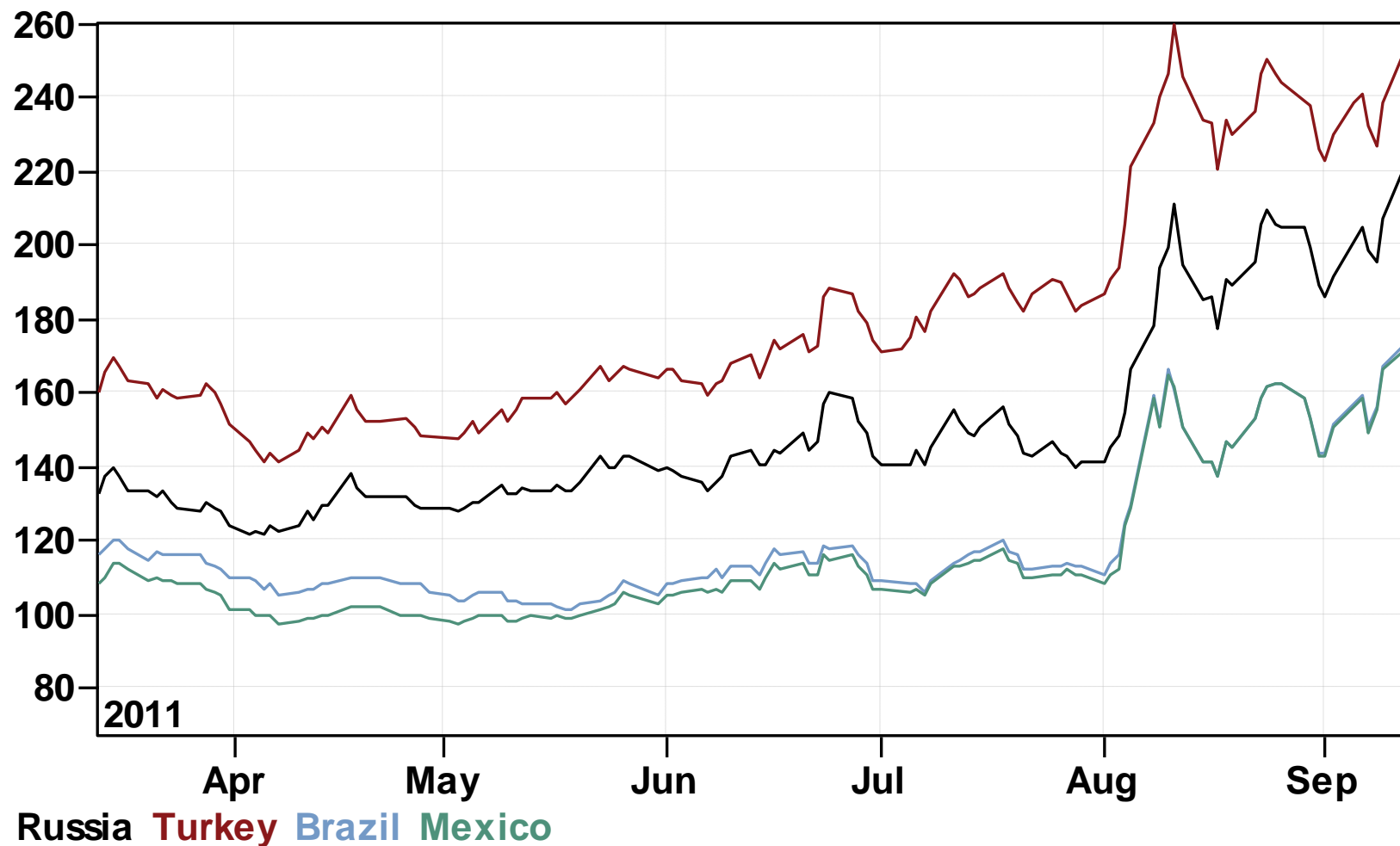


## Historic Yields



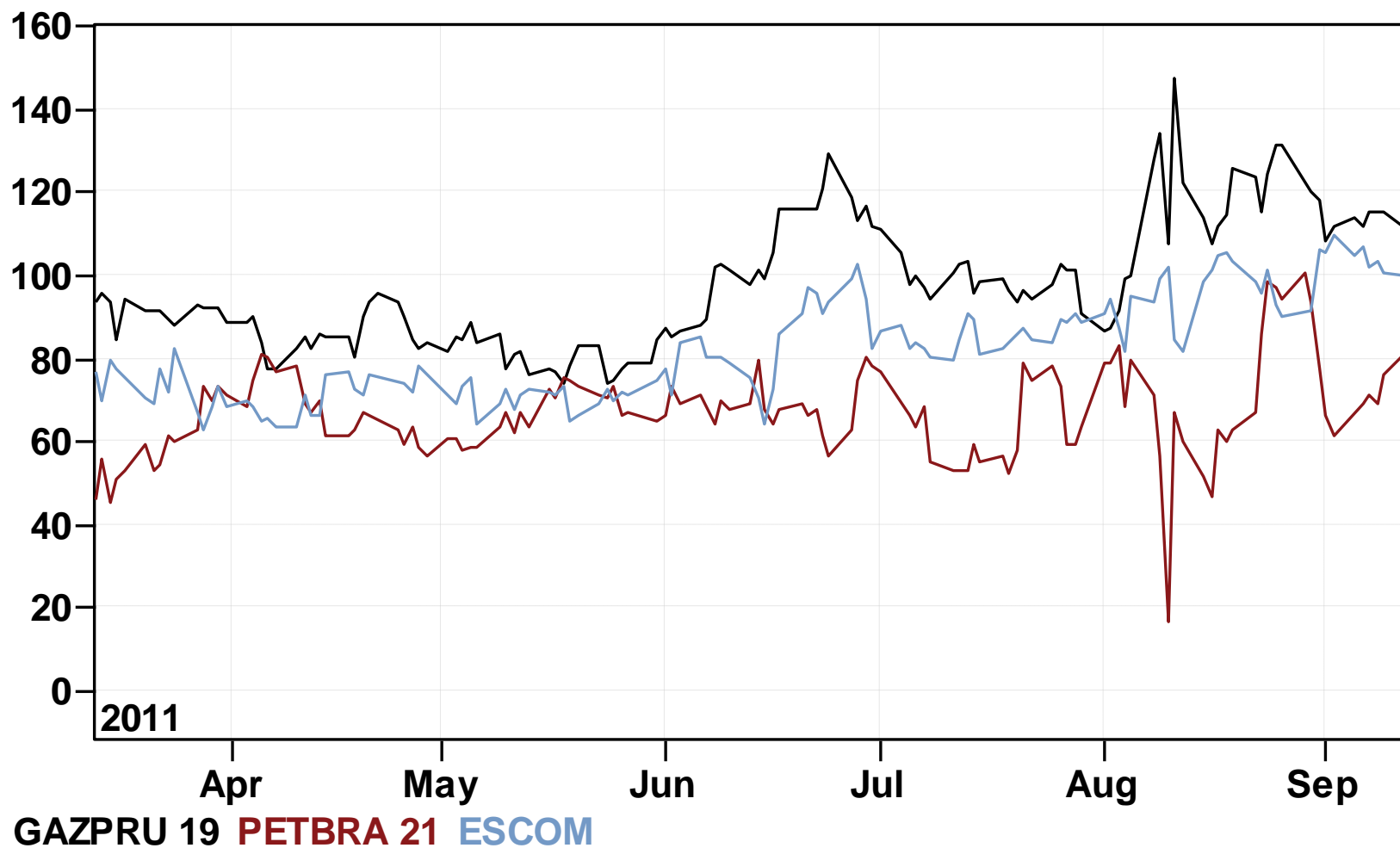


## Sovereign CDS Spreads



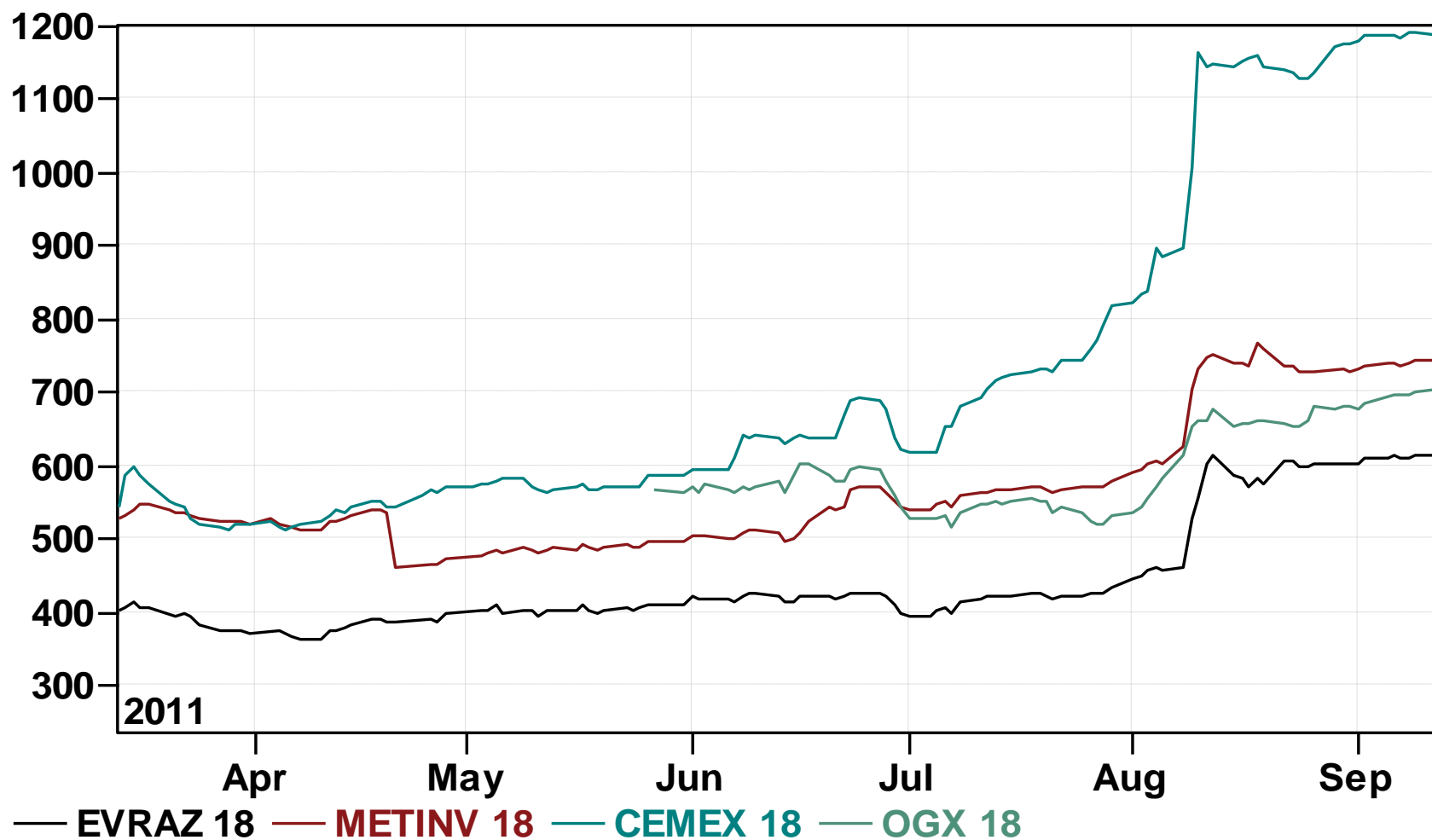


## Quasi-Sovereign Corporate Spreads vs. Sovereign



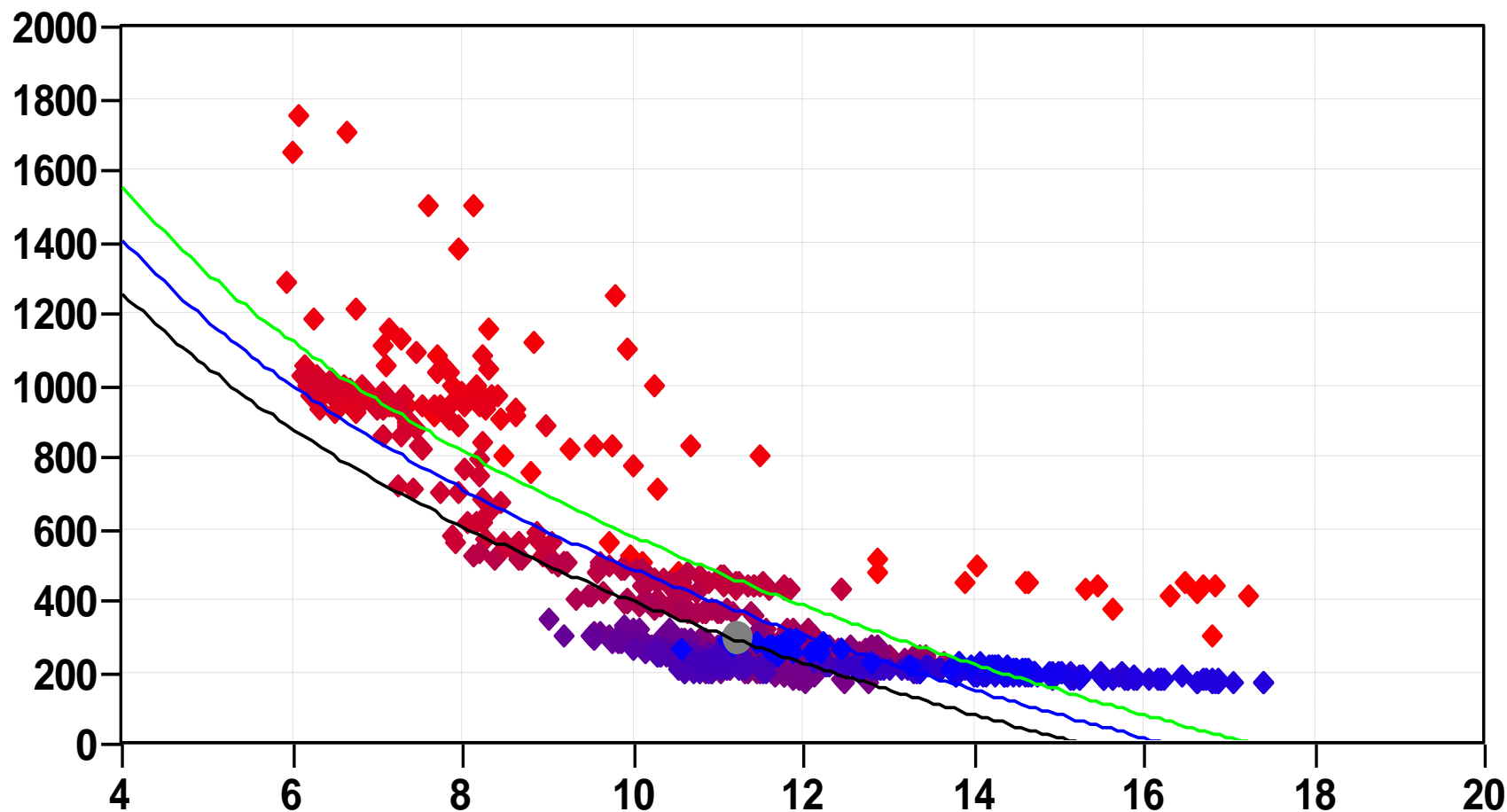


## HY Corporate Spreads vs. Sovereign





## Gazprom CDS vs Equity



◆ GAZPRU SNRFOR USD CR CDS 5yMid.EURMC

◆ GAZPROM OAO-SPON ADR - London International





## Conclusions

- Russian issuers' spreads are pushed wider by risk aversion and tighter by funds flow from DM to EM.
- Due to this funds flow, EM no longer appears cheap to DM, but appears expensive vs. EM equity.
- However, we might have to re-assess the DM/EM/Equity relationships going forward
- Russian and EEMEA credit spreads are far from historic lows, but yields are at historic lows
- Russian credit spreads look cheap vs. other EM, because EEMEA is seeing less fund inflows
- Top corporates in the region is where most value is, HY offers less value even after the sell-off
- Expect spreads to outperform in mild scenarios, both positive and negative, and underperform in extreme scenarios