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Moscow Mimics Global Market Reaction

By Howard Amos

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Russian shares dived in line with global markets as the world witnessed the biggest equity sell-off since the 2008 economic crisis at the end of last week in the face of debt woes in Europe and fears of a U.S. slowdown.

Within hours of opening on Friday, the MICEX Index declined 4.1 percent and the RTS Index was down 4.6 percent, amid warnings of an imminent "double-dip" U.S. recession, falling commodity prices and the biggest U.S. one-day market slump in more than two years.

Analysts further cautioned that the decision by Standard and Poor's rating agency to cut the U.S. credit rating by one notch early Saturday morning Moscow time from AAA to AA+ could weigh negatively on global markets, including Russia, when trading begins on Monday morning.

State-owned gas giant Gazprom plunged as much as 4.2 percent at one point during Friday's trading and closed down 2.8 percent at 95.9 rubles (about $3.40). Other high-profile losers included the country's biggest lender, Sberbank, down 2.8 percent; LUKoil, down 1.7 percent;

Rosneft, down 2.5 percent; and steel-maker Severstal, down 3.9 percent.

Despite significant initial drops, Moscow's bourses had pared back their declines by the end of the day's trading. MICEX closed down 2.1 percent, and RTS was down 3.1 percent.

As with market movements in Asia and Europe, the volatility of Moscow's bourses was closely linked with developments in the United States, where low growth figures earlier in the week had sparked fears that the world's largest economy was stalling.

"The markets are very nervous," said Louise Gibney, head of sales at ING Bank in Moscow. But "it's definitely much more the big picture — nothing Russia-related at all."

A decline in U.S. unemployment and better-than-expected U.S. job data released at 4:30 p.m. Moscow time on Friday precipitated a rally on Wall Street that was immediately reflected in Russian markets.

Though the U.S. credit downgrade — which had been widely anticipated following acrimonious negotiations over the raising the debt ceiling in Washington — will likely cause an initial negative reaction in Russia, a downgrade had already been priced into the market, said Peter Westin, chief equity strategist at Aton.

Systemic problems including debt and a political unwillingness to address it in Europe and the United States were more significant, he said. "People are increasingly talking about the 'r' word — recession."

Analysts predicted that investors would be looking to the United States for signs that another round of quantitative easing, the extraordinary monetary mechanism employed to increase liquidity, might be in the offing from the Federal Reserve.

"We have to wait and see what [Federal Reserve Chairman Ben] Bernanke's response over the weekend with regards to further stimulus [will be]. ... If there isn't a move of a particular type then I imagine markets globally will trade lower and Russia will follow," Gibney said.

In an internal note shared with The Moscow Times, Aton said that in the case of sharp market declines, Russia has historically performed worse than other emerging markets. The note highlights that the MSCI Russia Index (a New York-based indexes benchmark) has fallen 15 percent or more on four occasions over the last three years — on every occasion underperforming the emerging market aggregate.

But the oil price is also a key determinant of the fate of Russian markets: 17 percent of the country's GDP is generated by the hydrocarbon industry. A high oil price provides some insulation against the vagaries of the global economy.

Though oil prices slid steadily last week, there has not been a collapse of a similar scale to the equity sell-off of recent days. WTI crude closed up 0.73 percent in New York on Friday at $87 a barrel, while Brent crude was up 2 percent at $109 a barrel. Urals crude, Russia's main export blend, closed up at $107.99.

Under current macroeconomic conditions the price of oil should actually be dropping, Ksenia Udayeva, director of macroeconomic research at Sberbank, told journalists on Thursday. But instability in the Middle East is counteracting the effects of market malaise.

"As long as the Arabs are fighting, the price of oil will not fall sharply. There's that hope," she said.

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