

# For Now, Markets See Risk Remaining

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A muted market reaction to the news of Vladimir Putin's crushing electoral victory over the weekend prompted some members of the investment community to suggest Monday that questions over the regime's legitimacy would persist.

The MICEX Index rose 1.10 percent by its close to 1,625.74 following Putin's election to another six years as president with 64 percent of the vote. The dollar-denominated RTS closed up 1.47 percent at 1752.17.

Amid allegations by election observers of widespread fraud, economists and investors said that a fair election delivering a firm foundation for Putin's third presidential term might not have been achieved.

"A key desire for the markets was for the legitimacy of the current regime to be confirmed [by the election]," Russia strategist for Citibank Kingsmill Bond told The Moscow Times. With accusations flying between the authorities and the opposition, Bond saw no reason for dramatic gains on Russian bourses. "You won't necessarily get a huge market bounce," he

said.

U.S. investment bank Goldman Sachs said investors will have cause to be doubtful about the extent to which Sunday's election had conferred a new legitimacy on Putin's government. "Accordingly," the bank wrote in a note Monday, "we think investors could be cautious this week ahead of the reaction of the opposition to the result."

Parliamentary elections on Dec. 4 prompted a series of demonstrations across Russia that spooked investors and contributed to capital outflows of \$37.4 billion in the fourth quarter.

"We need to see what the opposition is going to do, and we need to see what the leadership's response to the opposition will be," Peter Westin, chief equity strategist at Aton brokerage, told The Moscow Times. "I wouldn't lower political risk yet, that's for sure."

A series of protests are expected this week, following the estimated 100,000 people that turned out Sunday to mark Putin's victory. Opposition activists have called for supporters to attend a 7 p.m. demonstration Monday in central Moscow.

"In light of the fallout from the State Duma elections in December, the markets are to be anxiously digesting the scale and mood of this gathering," state-controlled investment bank VTB Capital wrote in a note.

While the 64 percent garnered by Putin in the vote was an even higher figure than many expected, there was little suggestion that it would put an end to the protest movement that has flourished in recent months.

"The key issue is whether the protests will fizzle out over the next week or so," said Citibank's Bond. "But our assumption is that they will continue because they are a reflection of a wider discontent within a broad section of society called the middle class."

The anti-Putin vote was concentrated in Moscow and St. Petersburg where the only new face in the presidential contest, Mikhail Prokhorov, beat communist candidate Gennady Zyuganov, leaving the veteran candidate in third place.

Eric Kraus, an independent fund manager in Moscow, said Putin's strong showing should convince investors that the likelihood of a violent revolution in Russia was almost nonexistent. "But in the near term it could get messy and that could temporarily worsen the perception of risk," he added.

Alfa Bank drew investors' attention Monday to the fact that Moscow was the only region in the country where support for Putin dipped below 50 percent, the figure at which — had it been achieved nationwide — would have forced a second round of voting.

ING Bank's Russia chief economist Dmitry Polevoi said the Moscow result should remind "the ruling camp [that it] should not ignore the voices of Moscow's middle class and opposition."

But some denied that Sunday's result had any significant impact on Monday's trading in Moscow and argued that Putin's victory was so well predicted it had already been factored into the market.

Moscow's bourses jumped by almost 5 percent on Feb. 24, nine days ahead of the election, when polling agencies gave Putin a significant margin of victory for the first time.

Many commentators, however, said Monday that Putin's success at the ballot box increases the chances for stability and Russia's attractiveness for investors.

"Political risk will now lessen because investors no longer need to worry about the unpredictability of political change," Yelena Shaftan, a director with Jupiter Asset Management that has \$700 million under management in Russia and Eastern Europe, told The Moscow Times.

"They will no doubt focus instead on the familiar evils of corporate governance and corruption — but here comes the welcome change, they are now at the top of Putin's agenda."

Renaissance Capital, a private Russian bank whose biggest shareholder is unsuccessful presidential candidate Prokhorov, also stressed the positives from Sunday's outcome.

"From a purely economic perspective," chief economist Ivan Tchakarov wrote in a note Monday, "we think that the market will take comfort from the win as a sign of continuing stability."

"It's going to be harder to question the result of the presidential election than the Duma elections," Aton's Westin said.

While Russian stock exchanges showed small gains over the course of Monday, they contrasted with global markets, which were marginally down.

Westin said the comparison was slightly positive for Russia. "It's a weak thumbs up from the investment community," he said.

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