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Capital Inflow Slows Following Navalny Verdict

By Irina Filatova

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Foreign investors have been wary of purchasing Russian securities in the wake of the verdict against whistleblower Alexei Navalny, with capital inflow to Russia-oriented investment funds slowing down to $12 million during the week that ended on July 24, according to data released by EPFR Global on Friday.

This is nearly a tenfold decline from the previous seven days when the influx reached $102 million, according to the U.S.-based research firm.

Generally cautious investor sentiment toward emerging markets like Russia was aggravated by concerns that the country might face new massive street protests triggered by the five-year prison sentence imposed on Navalny on July 18, analysts said. This was the first day of the week measured by EPFR Global.

"Foreign investors are usually worried about possible political unrest, so there were concerns that the scenario of last year, marked by large-scale protests, might be repeated," said Alexei Yevsyutin, a senior vice president at BCS brokerage. There was then a major withdrawal of funds from the domestic stock market, he added.

Foreign investors are also mindful of the political unrest in Turkey and Syria, resulting in a general negative sentiment, of which Russia is getting its portion.

"Russia is clearly a country of a different kind. The proverb 'once burned by milk you will blow on cold water' perfectly illustrates current investor sentiment," Yevsyutin said.

During the week from July 18 to 24, three investment funds managed by London-based firm Genesis Investment Management withdrew a total of $45 million from Russia, Interfax reported Friday, citing a research note by UralSib Capital. The sum is almost equal to the $44 million they had raised a week earlier, the note said.

The verdict against Navalny, who was charged with embezzling 16 million rubles ($491,000), provoked a massive sell-off on the domestic stock market, resulting in the biggest decline on the benchmark MICEX index in nearly a month.

However, Karen Isadzhanyan, a client manager at Moscow-based brokerage Rye, Man & Gor Securities, pointed out that the negative effect of the announcement was short-term, with the market paring the losses on the following day.

The slowdown of the capital influx into Russia is an indication of foreign investors' uncertainty over the prospects of high-risk emerging markets, since they "are torn between the generally negative sentiment and cheap equities," Yevsyutin said, adding that Russia is still well-positioned compared with its BRICS peers.

Similarly, Isadzhanyan said foreign investors remain interested in Russia primarily due to the relatively cheap assets it offers. Despite high risks, Russia is more attractive now than other emerging markets like Turkey, Isadzhanyan said.

That means Russia might see an influx of funds in the future that could be withdrawn from other risky markets, she added.

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