

Russian Stocks, Currency Rebound As Putin Mollifies Ukraine Fears

By [The Moscow Times](#)

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After plummeting over 10 percent on Monday, Moscow's MICEX and RTS indexes rebounded by over 5 percent Tuesday.

Russian assets rebounded Tuesday as President Vladimir Putin said he would only use force in neighboring Ukraine as a last resort.

The mood on the markets was calmer after panic selling on Monday when escalating tensions between Ukraine and Russia sent Moscow's main stock indexes plummeting and forced the Central Bank to unexpectedly raise interest rates — by a hefty 150 basis points — and burn its way through as much as \$12 billion of reserves to prop up the ruble.

By Tuesday evening the ruble-denominated MICEX share index had rebounded 5.2 percent to 1,356 points, while the dollar-denominated RTS index was up 6.1 percent at 1,184 points. The indexes have yet to fully recover Monday's more than 10 percent declines.

"From morning today we have seen good demand for liquid shares from foreign hedge-funds and also long-only funds. Oddly enough U.S. investors are also buying," said Andrei Yarnikh, equity salesman at UBS.

"It looks like Western countries are not so intent on introducing sanctions against Russia, and the threat of bringing [Russian] troops into Ukraine has also lessened."

Markets were cheered initially when Putin ordered the end of large-scale military exercises in Russia, and gained a further boost after he said at a press conference that he saw no immediate need for Russian military intervention.

"People are bored of expecting a bad scenario in Ukraine and have started to believe that there will be no military scenario and a confrontation of the Ukrainian army with Russia will not happen," said Oleg Dushin, senior analyst at Zurich Capital Management.

"The fear that Russian troops might go into, say, Kharkiv [in eastern Ukraine], is not now on the agenda. You could say that the question of a World War III has been removed," he said.

The ruble also rebounded, after sliding 2 percent on Monday. On Tuesday evening it was up 1.2 percent to 36.10 against the dollar and was up 1 percent at 49.6 versus the euro.

Against the dollar-euro basket it was up 1.1 percent at 42.16.

"Many in the market took Putin's speech as an attempt to reverse gear in the conflict, or tried to convince themselves of this," said a forex trader at a large Russian bank, who cautioned that "it is not over yet."

In a note to investors, Mattias Westman, founding partner of Prosperity Capital Management, a major portfolio investor in Russia, said "a series of bad decisions has been made by all sides in this situation" in Ukraine, but that cooler heads were now expected to prevail.

"The situation, in the last day or so, appears to have stopped escalating and different parties appear to be trying to find a peaceful solution," he said.

Investors, however, continued to be wary about the economic implications of Russia's involvement in the Ukraine crisis.

The U.S. said Monday that Russia had violated international law with its military intervention in Ukraine and that it would look at a series of economic and diplomatic sanctions to isolate Moscow.

The Russian economy was showing signs of slowing before the crisis, with manufacturing activity shrinking for a fourth month in a row in February.

A salesman at a Russian investment company said institutional investors still expected a wave of outflows from Russia and the region this week.

He said "the market is pricing a completely different valuation range for Russia as a consequence of recent events" because of the increased risk caused by Putin's unpredictability and economic difficulties that Russia may experience for an extended period.

"When the further development of events becomes more or less clear then it would be worth taking a look at murdered liquid Russian stocks," said Vladislav Silaev, a trader at Alfa Capital.

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