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Putin's Renunciation of Force in Ukraine Sends Stocks Skyrocketing

By Peter Hobson

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The Russian currency was up 0.3 percent at 46.3 against the euro after having also reached a 5-month best.

Russian shares soared to a five-month high and the ruble strengthened to levels unseen since January after President Vladimir Putin on Tuesday asked the upper house of parliament to revoke Russia's right to send troops into Ukraine, where hundreds of lives have been lost to violence between the Ukrainian Army and pro-Russian separatists in recent weeks.

News that separatists had agreed on Monday to observe a cease-fire with Kiev sent stocks upwards from the beginning of trading, but they surged after Putin's spokesman, Dmitry Peskov, broke the news on Tuesday afternoon: the dollar-denominated RTS index rose more than 1 percent within minutes. By the market's close, the RTS was up 3 percent at 1,411 points — breaking the 1,400 mark for the first time since January.

The ruble-denominated MICEX performed only slightly worse, finishing up 1.7 percent at

1,512 points, its highest since the ouster of Ukrainian President Victor Yanukovych by street protesters in February launched the worst crisis in relations between Russia and the West since the Cold War.

The ruble also broke five-month records on Tuesday, strengthening to below 34 rubles to the dollar and 46 to the euro for the first time since mid-January, thanks to the cooling of Ukrainian tensions, high oil prices and an expected influx of taxes into the Russian budget.

At 7 p.m. in Moscow the ruble was 1.3 percent stronger against the dollar at 33.7 and 1.3 percent firmer against the euro at 45.8, putting it at 39.14 against the dollar-euro basket.

High oil prices, which have spiked to $114 as the Islamist militant group ISIS seizes swaths of oil-rich Iraq, have bolstered the ruble, as well as hefty payments to the government as VAT and mineral extraction taxes fall due, business daily Vedomosti reported Tuesday, citing analysts at VTB Capital.

But the biggest boost were the steps towards resolution of the Ukrainian conflict, which has put the ruble and Russian stocks through the mill since March. After President Vladimir Putin received parliamentary approval to use military force in Ukraine on March 1, the capitalization of Russian stocks fell by more than $50 billion in one day. Both indexes are now back to their pre-crisis levels.

In recent days, the U.S. and EU have increased their rhetoric of a possible third round of sanctions targeted at Russian industries, a measure the EU's heads of government are expected to discuss at a meeting Friday in Brussels. Putin's apparent renunciation of military force, and the willingness of Ukraine's pro-Russian eastern separatists to observe the cease-fire declared by Ukrainian President Petro Poroshenko, may mollify the West and prevent an escalation of the sanctions.

Contact the author at p.hobson@imedia.ru

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