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Russian Shares Regroup Despite Western Sanctions

By The Moscow Times

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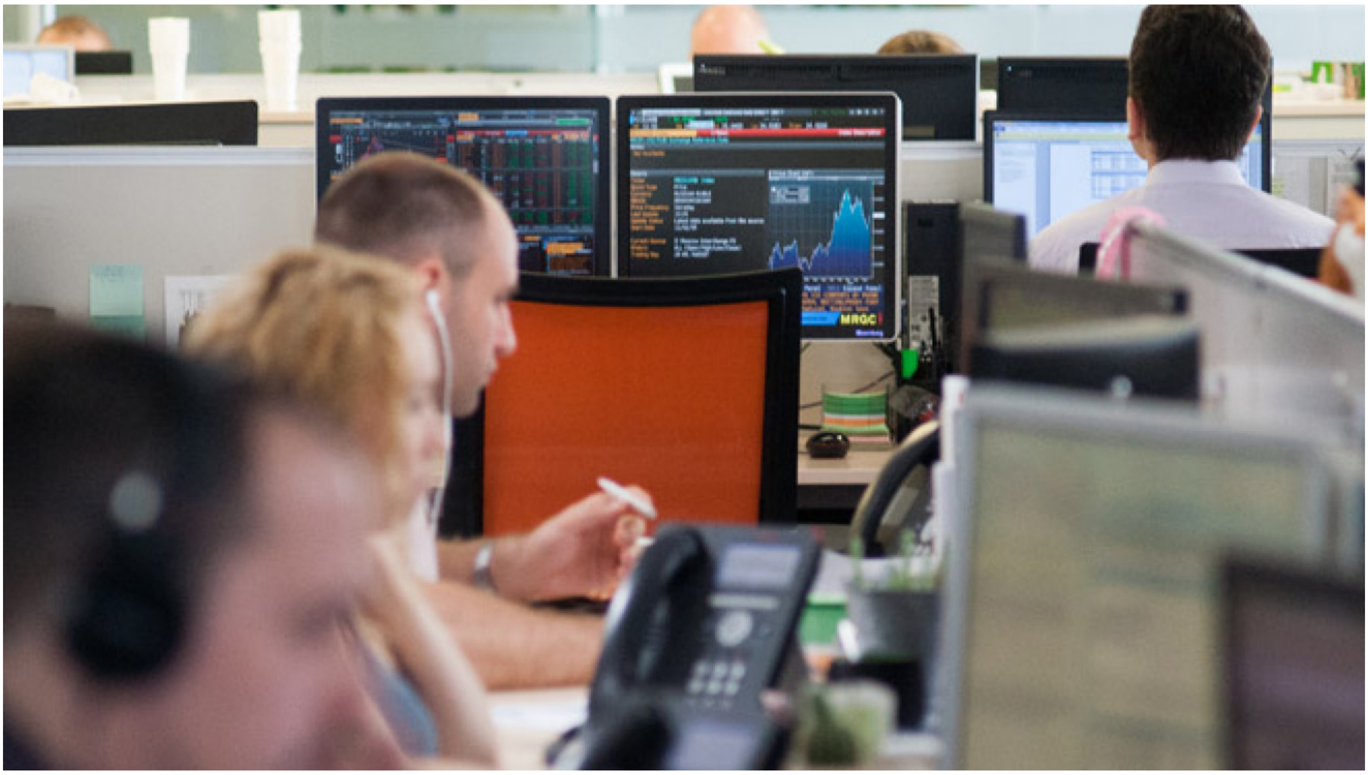

In currency markets, the ruble strengthened by 0.46 percent against the dollar to 35.63 and by 0.77 percent against the euro to 47.64.

Russian assets rallied on Wednesday, shrugging off a new round of Western economic sanctions on Moscow as investors deemed the punitive measures less severe than feared and analysts said their impact was already priced in.

The European Union agreed its first broad economic penalties on Russia over its role in the Ukraine crisis on Tuesday in measures targeting Russia's energy, banking and defense sectors.

The U.S., meanwhile, sanctioned three large state-owned Russian banks, banning U.S. citizens and companies from dealing with new debt carrying maturities longer than 90 days, or with new equity.

Investors were relieved that neither the EU nor U.S. measures extended to existing holdings of debt or equity for the Russian companies affected and that the EU measures would be reviewed after three months, according to EU diplomats.

"There is an underlying sense that the West still does not really want to bite the bullet and roll out a meaningful sanctions regime," said Timothy Ash, head emerging markets analyst at Standard Bank in London.

"It has the toolkit to hurt Russia but would rather not for fear of the collateral damage back to its own business interests," Ash said in a note.

Russia's main share indexes opened lower before rising more than 1 percent by late afternoon trading. The ruble strengthened by about 0.4 percent against the dollar, bouncing off a three-month low, while there were gains for Russia's sovereign bonds.

Russian markets have fluctuated wildly this year due to fierce fighting in former Soviet republic Ukraine and the threat of economic sanctions from the West over Moscow's perceived backing of pro-Russian rebels fighting forces loyal to Kiev.

New sanctions had been widely anticipated ever since Western countries accused pro-Russian rebels of shooting down a Malaysian airliner on July 17, killing all 298 aboard.

Erik de Poy, an equities strategist at Gazprombank in Moscow, said the stock market was relieved the EU's latest sanctions would be reviewed after three months.

"The market is focusing on that. But volumes are low in the summer so the move is not that indicative," he said. "I still think we are entering a qualitatively different investing environment in Russia."

Russia's dollar-denominated RTS index was 1.4 percent higher at 1,224.4 points by 5:50 p.m. and the ruble-traded MICEX rose 1.1 percent to 1,384.9 points. The Moscow Exchange temporarily suspended trading on its main market mid-afternoon without giving a reason.

Russia's second-largest bank VTB, which featured in the U.S. sanctions alongside its subsidiary Bank of Moscow and Russian Agricultural Bank, underperformed the broader market. Its shares fell 1.5 percent on MICEX.

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That left the Russian currency 0.67 percent stronger at 41.02 versus the dollar-euro basket the Central Bank uses to guide the ruble's nominal exchange rate.

Among the factors driving the ruble higher, Pavel Demeshchik, a trader at ING Eurasia, cited short-term buying from overseas speculators who see the Russian currency as oversold.

The yield on Russia's benchmark eurobond maturing in 2030 fell to 4.56 percent from 4.77 percent on Tuesday. Moscow's debt insurance costs fell, retracing some recent gains as analysts said the sanctions were now largely priced in.

Russia's five-year credit default swaps dropped 4 basis points from Tuesday's close to 227 bps, according to Markit.

See also:

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