

Analysts Expect Russian Stocks to Slide After S&P Downgrade to 'Junk'

By [The Moscow Times](#)

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People walk past boards showing currency exchange rates in Moscow, Jan. 23, 2015.

Russian stocks are expected to open sharply weaker on Tuesday, after ratings agency S&P downgraded Russia's sovereign credit rating to 'junk' late Monday, but the ruble could strengthen since it already took a heavy hit in the previous session.

S&P cut Russia's rating from BBB- to BB+, citing Russia's weakened economic growth prospects, hit by low oil prices and Western sanctions over the Ukraine crisis.

The downgrade leaves Russia in so-called "junk" territory for the first time in a decade, which could push up its borrowing costs as many mainstream investment and pension funds have rules preventing them from buying anything not classed as investment grade.

The ruble weakened sharply after the decision, which many had expected, ending the session more than 6 percent lower than the previous close against the dollar at 68.79 rubles per

dollar.

The cost of insuring Russian sovereign debt for five years rose and bond yields rose on the benchmark 2030 Eurobond rose by around 40 basis points to 7.29 percent.

Russia's stock markets were closed when S&P made its announcement, hence analysts are predicting shares to fall.

"We will likely see a short-term reaction, with a collapse in domestic stock indexes and a move upwards on dollar/ruble at the opening," analysts at Forex Club said in a note. "But a correction could happen within several hours," they wrote, adding the ruble could trade between 67 and 70 to the dollar on Tuesday.

The ruble was trading at 68.00 on Tuesday outside the trading hours of the Moscow Exchange, slightly stronger than Monday's close.

Analysts at Commerzbank said some funds could use the downgrade as a chance to buy Russian assets, "given the continued drop in external debt exposure as the private sector pays down its external debt without rolling over."

The ruble is also expected to be shielded early on Tuesday by Russian exporters, who have been selling foreign currency early in the session and at regular intervals after the government pressured them to sell forex.

Global oil prices were slightly weaker, however, with Brent crude futures trading about 0.6 percent lower at \$47.9 a barrel. Oil is one of Russia's chief exports.

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