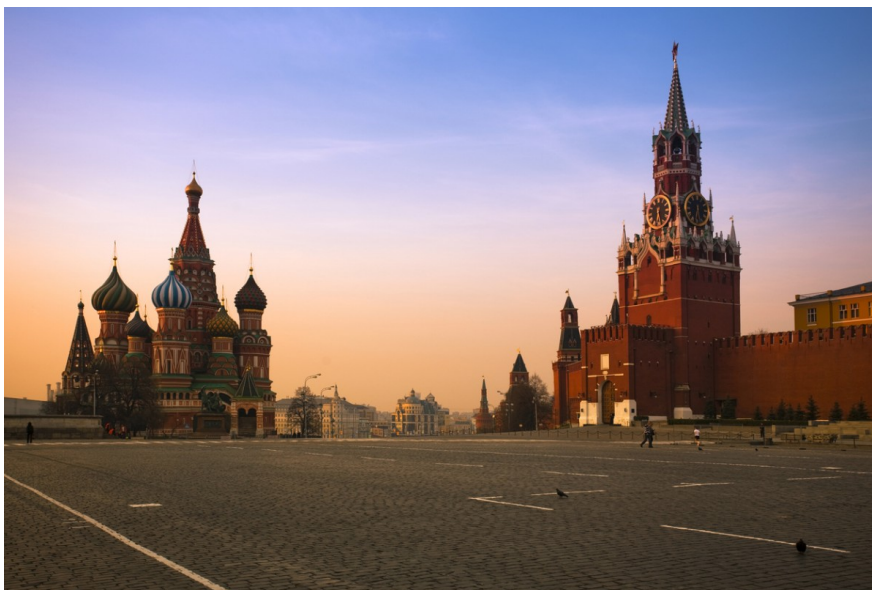


## Russia sanctions: Take it easy

The US report on Russian sovereign sanctions has been delayed until the end of this week, but other comments and the "Kremlin list" pose no major risks



Source: istock

**210** persons in the so-called "Kremlin list"  
114 politicians and 96 oligarchs

### Reports leave markets unsatisfied

The long-awaited reports from the US Administration on (i) the imposition of sanctions on the defence and intelligence sectors; (ii) the so-called "Kremlin list" of persons and oligarchs close to the Russian leadership and (iii) consequences of imposing sanctions against Russian sovereign debt & the full range of derivative products, have left observers and markets only partially satisfied. The latter report seems to have been delayed till Friday, while in the other two cases only official comments on the defence sectors and unclassified parts of the "Kremlin list" have been announced.

As stated in the report, the Administration used the official definition of "senior foreign political figure" from the Code of Federal Regulations, including senior members of the Russian Presidential Administration, the Cabinet of ministers, heads of executive agencies and other senior members of the State Duma and Federation Council. To list oligarchs, a threshold of US\$1bn wealth reported in reliable public sources was used. Yet, it was stated that the classified part of the report may include persons other than those listed in the unclassified part of the report and they may also have a net worth below the US\$1bn.

Also, given the joint letter of the Congress to President Trump dated 26 January on the implementation of the August 2017 Sanctions Act (CAATSA), the classified part could have included additional information on relationships of those people with President Putin and the ruling elite, an identification of any indices of corruption with respect to those individuals, the estimated net worth and known sources of income of them and their family members and non-Russian business affiliations of those individuals. Also, there could have been a full range of information on Russian parastatal entities.

The report also explicitly states that it was not a sanctions list, the information should not be interpreted to impose sanctions on those individuals/entities, the list doesn't create any restrictions, prohibitions or limitations on dealing with such persons by the US or foreign persons and neither does inclusion on the unclassified list mean the US Government has information about the person's involvement in malign activities. The list, though, includes some people who are already sanctioned by the US.

## Neutral outcome

The outcome looks rather neutral so far. There were no additional sanctions against the Russian defence sector because "...the threat of sanctions is putting enough pressure on Russia for now, but should sanctions be imposed, they would primarily be on non-Russian entities that are responsible for significant transactions with Russia's defense & intelligence sector". Hence, it was more about signalling to the outside world..."America First" again.

As for the approach to the individuals' list, the mechanical inclusion of the wide range of top political persons and all major oligarchs/businessmen makes it hard to believe that all or the majority of them will face sanctions. This would have further reduced room for contact at the government or/and political level, which is still needed to address global challenges. The same argument works for the businessmen representing all major public and private companies in Russia, fully copying the Forbes rating. In this respect, we also think that markets should mostly look through the (sometimes hawkish) responses from the Russian political side to the release of the report.

So, the only unknown thing left is the report on the sovereign sanctions, likely due later this week. Yet, the above arguments, the US approach and the fact that foreign investors hold around 32% of total rouble sovereign debt (OFZs) or slightly above 50% of its liquid part (excluding floaters, CPI-linkers and other less-liquid issues primarily held by locals) adds to our view that the sovereign sanctions are unlikely to be implemented anytime soon. It is impossible to predict Congress's logic and moves, but the sovereign sanctions would mostly hurt only local and foreign investors, including the US hedge and real money funds. Losses at the latter side will mean losses to ordinary tax-payers, which might be tricky ahead of the mid-term elections. And the Russian budget would easily survive with no access to foreign investors, especially if oil prices stay above

US\$55-60/bbl, which we see as budget-breakeven levels.

All in all, our take on all this is that the implemented sanctions are to stay in place, but any tightening would require new arguments to be made. For now, related uncertainty and the "pending status" of the sanctions might be intended and a sufficient tool for the US Administration.