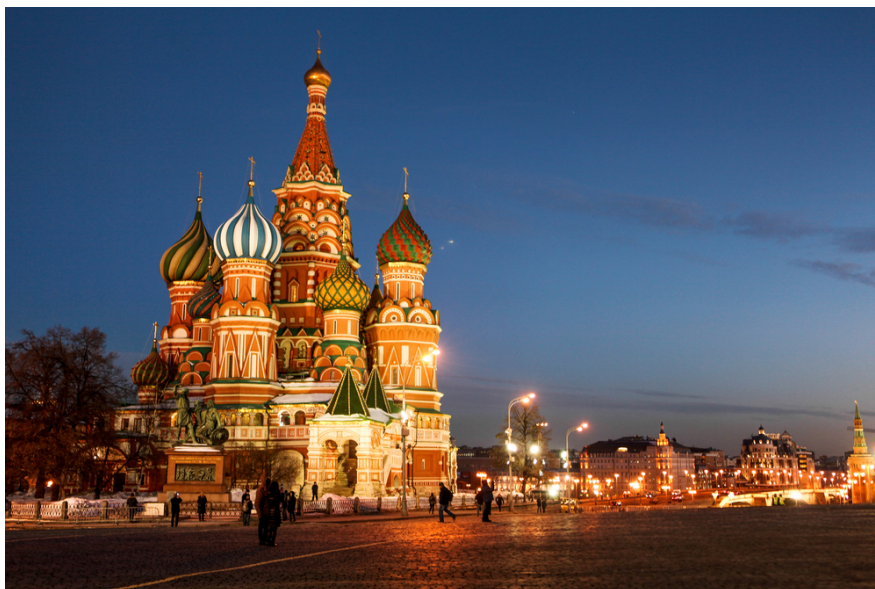


## Sanctions on Russian debt 'too risky', says report

A US conclusion that sanctioning Russia sovereign debt could be uncertain and risky for global markets should unleash further downside for OFZ yields



### Debt sanctions 'too risky'

The unclassified part of the US sanctions report concerning restrictions on the new sovereign debt and derivatives market has been made public, as reported by Bloomberg. It was presented on Monday with the 'Kremlin List', but made public only today, Friday.

Effectively, the report concludes that "*...the magnitude and scope of the consequences from expanding sanctions to sovereign debt and derivatives is uncertain and effects could be borne by both the Russian Federation and US investors and business.*" The major reasons for the cautious approach are that the Russian economy is big enough in terms of real and financial links with the external world, so the negative effects of sanctions would not be limited to Russian authorities only. Also, any sanctions to be effective need to be shared by the EU and other US partners, and that was not on the cards.

## No sanctions risk = further OFZ yield declines

The decision finally removes the last non-market risk for the OFZ market, which has remained "juicy" due to strong fundamentals in terms of prudent fiscal and monetary policy, stable RUB outlook and falling inflation, leaving further rate cuts as the major driver. The OFZ continued rallying over the week with yields moving in line with our long-standing constructive view on the OFZ market, and we think that will easily continue through 2018.