

Georgia, Global Factors Hit Stocks

20 August 2008 [By Tai Adelaja / Staff Writer](#)

Russia stocks slumped badly Tuesday as concerns over the continuing Georgia crisis fueled investor pessimism, on top of global factors such as falling commodity prices and worries that U.S. housing lenders Fannie Mae and Freddie Mac could require a Washington bailout.

The dollar-dominated RTS index sank 5.2 percent to 1,685.6 points, its lowest since November 2006, while the ruble-denominated MICEX Index dropped 6 percent to 1,361.54 points, its steepest fall in almost seven months.

Russia's most liquid oil and gas stocks got hammered on geopolitical concerns, adding to a commodities slide prompted by reports that Tropical Storm Fay would miss oil rigs in the Gulf of Mexico. A later crude oil rally to \$115 per barrel in New York came after Russian markets closed.

On the MICEX exchange, Rosneft slid 14.68 rubles, or 6.8 percent, to 201.71, its lowest price in almost five months, while Gazprom fell 17.59 rubles, or 6.7 percent, to 244.55 rubles, in its steepest drop since June 2006. Surgutneftegaz lost 8.6 percent and LUKoil shed 6.8 percent.

RusHydro, the world's second-biggest hydropower producer, was hit by a different kind of commodity problem — a lack of water — after Goldman Sachs cut its price forecast for the firm on estimates of lower river flows. RusHydro fell 0.124 rubles, or 7.2 percent, to 1.60 rubles, its biggest decline ever, Bloomberg reported.

The perception of Russia as a commodity-driven economy "has led to a lot of inflow into the market by investors willing to have exposure to the commodity circle," said Peter Halloran, CEO of Pharos Financial Group. "What we are seeing over the past couple of months is that commodity prices across the board are sharply lower, causing a rotation away from commodity trade such as Brazil and Russia."

Some analysts said Russia's continued involvement in Georgia was raising the political risk premium.

"The new factor weighing on the market is of course the worries about geopolitics and in our opinion it is this that is causing the market to reassess the way it looks at Russian risk," said Kingsmill Bond, chief strategist at Troika Dialog. "The market worry is that the South Ossetia conflict develops into a wider one. Given the rhetoric over the weekend, this seems likely to keep tensions high for a while."

But Tom Mundy, an equity strategist at Renaissance Capital, said, "It is oil and evidence that the U.S. is moving deeper into recession that are driving the [Russian] market most."

"A bottoming out in oil prices, combined with taxation reforms in the autumn, could be the catalyst to bring investors back to the value in the Russian market."

The drastic falls on Monday of Fannie and Freddie shares hit Russian bank stocks Tuesday, with VTB Group falling 5.5 percent to 7.42 kopeks, the lowest since its May 2007 initial public offering.

"It's guilty by association, more than anything else," Mundy said. "Based on their own fundamentals, Russian banks are pretty strong and certainly very cheap right now. But no one is going to buy banks whilst there are reports of U.S. banks failing."
