

## **Tim Ash comments on latest U.S. Treasury Russia sanctions**

### **Opinion**

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**“The US Treasury has now introduced the element of unpredictability in dealing with Russia, which could ultimately prove to be its secret weapon.”**

LONDON, Apr 9, 2018 – From his vantage point in the City of London, Tim Ash of Bluebay Asset Management at 13:29 today offered the following comments on the U.S. Treasury's most recent sanctions against Russia. A few comments around Russia, its relations with the West, and recent US Treasury sanctions actions. I guess the first and most obvious point is that, against sanguine market expectations, Russia – Western relations continue to deteriorate, with little sign of a let up, or de-escalation. I think the latest US Treasury actions related to CAATSA designation from Friday April 6, were just further recognition of this. Across the board, Russia and the West are competing/testing each other's defences, in Syria, Ukraine, Salisbury, cyber space, the media, business, elections/democracy, et al. This is not even a Cold War, its actually gone beyond that to a new Hybrid War. Consequently, expectations (heard constantly since sanctions were imposed first in April 2014 over Crimea) of sanctions being eased back by the US or the EU have proven wrong, and sanctions are if anything being tightened. And, unless there is some de-escalation, we have to assume that more not less is to come on the sanctions front. Indeed, already there is cross party pressure building in the US for the more sanctions against Russia for Syria-related issues. See [https://news.sky.com/story/trump-russi ... ing-animal-assad-11322689](https://news.sky.com/story/trump-russi...ing-animal-assad-11322689) Second, I think the US Treasury actions this past Friday (see link below) were perhaps the most significant yet of US sanctions iterations, see again: [https://home.treasury.gov/news/feature ... d-entities-in-response-to](https://home.treasury.gov/news/feature...d-entities-in-response-to) I would argue “significant” as in sanctioning 7 well known Russian oligarchs, with quite diverse backgrounds, and varied distance from the Putin regime, the US Treasury has signalled that it wants to introduce a degree of unpredictability into the sanctions regime going forward. Herein much was made of the fact that the US Treasury failed to take specific sanctions upon delivering its CAATSA report to the US Congress in late-January, and was criticised therein for only providing a vague Forbes-like list of Russian oligarchs. However, the lack of clarity around US Treasury actions – failure to release some kind of list of top-100 oligarchic names positioned on the list by closeness to the Kremlin as perhaps some people expected, sends a message that any Russian oligarch should be nervous unless they go out of their way to break/distance themselves from the Putin regime. I think the message to investors is that you really need to know the oligarchs you might want to do business with very well, as if the course of Russia-Western relations continues on the current path, i.e. towards deterioration, you might be surprised by who ends up getting sanctioned. The result is that there will be pressure to reduce risk more generally around Russia – with banks I think paying even more attention to KYC issues around Russia and Russian-related entities. The upshot is that this will further tighten the financing environment around Russia – which will be an added drag to growth/recovery which is already anaemic. In some respects the ball is now in the Russian court to try and de-escalate, as if Russia-Western relations continue on the current path, more sanctions will inevitably follow, with ever more Russian oligarchs and business interests rolled in. Russia has thus far managed to ride out (nullify/moderate the impact which has

still been significant in terms of the impact on growth) prior Western sanctions iterations against it through a combination of running very hawkish/defensive macro policy – I would argue that fiscal/monetary policy has been hard to justify on the macro stand-alone story, but the fact CBR real policy rates are 400-500 bps has been to defend the rouble and Russian financial markets against the Western sanctions risk. Growth has suffered as a result, but the Kremlin has determined that Russians can take a bit of pain on the growth front for a feel good factor in terms geopolitics. High real policy rates and self-imposed deflation has, meanwhile, been great for foreign bond investors, with the rouble also being held steady/even appreciating – high carry/vol. Interestingly, also, Russian credit markets have held in because; a) sanctions have limited new issuance, creating a technical shortage of Russian bonds; b) the US Treasury sanctions regime has been easy to read, and especially the desire to avoid undue back-draft to Western institutional investors by avoiding sanctioning secondary trading of debt or slapping a Clearstream/Euroclear ban on Russia. But I think with the latest US Treasury designations from Friday, it is now going to be very difficult to read future US sanctions designations. Which oligarch/entity will be next? And the April 6 US Treasury designations now introduce a whole new risk factor/perspective around investing in Russia inc. KYC is now uber important – and the question is can foreign investors really know their Russian oligarchs well enough to assume that they will not be on future US Treasury sanctions designations, given the actions from Friday, April 6? And, while sanctioning second trading of Russian debt still seems a few sanctions iterations down the line, it cannot be ruled out, again after recent US Treasury actions which are all about sending a message of unpredictability/not ruling anything out. The US Treasury has now introduced the element of unpredictability in dealing with Russia, which could ultimately prove to be its secret weapon. ### \*\* Please note that any views expressed herein are those of the author as of the date of publication and are subject to change at any time due to market or economic conditions. The views expressed do not reflect the opinions of all portfolio managers at BlueBay, or the views of the firm as a whole. In addition, these conclusions are speculative in nature, may not come to pass and are not intended to predict the future of any specific investment. No representation or warranty can be given with respect to the accuracy or completeness of the information. Charts and graphs provided herein are for illustrative purposes only.&rdquo;