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MARCH 2022

Russia's Financial Panic

To begin, Russia's stock and bond markets that were vulnerable to any financial setback have suffered a remarkable crash, as a reformed country in an instant becomes a lesser country. Due to a rogue leader.

On March 3rd, credit agencies Fiske and Moody's both announced that they had reviewed Russia's sovereign debt and dropped it to junk – a shocking 6-notch downgrade. Decades ago when it was known in Canada as Dominion Bond Rating Service we knew a guy there, and he stated that any such agency is reluctant to announce the ultimate humiliation – a downgrade to junk.

The chart covers Russia's Ten-Year Note Yield since 2001 and the periods of distress are obvious, with the present being extraordinary. But because the panic is so extreme it may soon be over.

But severe damage has been done to investors, and beyond this consider that Russia has now joined the post-bubble contraction that started a year ago in March when Argentina, South Africa and Turkey announced that their central banks had run out of reserves. As part of the collapse of previous great financial bubbles, troubles appear first in lesser countries. But beginning in May China started discovering insolvencies, becoming a huge and financially stressed country outlying the world's financial center.

Russia's low yield was 5.60% last June and the breakout was at 8.77% in early December. Now it is at 19.69%, the worst was 14% in January 2015. Investors have been whacked, margin clerks busy and staffers at The Central Bank of Russia have yet to return our phone calls.

Early into Bill Clinton's first term, the bond market quickly determined that he was another socialist and Treasury yields went up. In his book "The Agenda" Bob Woodward wrote that when Alan Greenspan explained this to him:

"Clinton's face turned red with anger and disbelief, 'you mean to tell me that the success of the program and my reelection depends upon the Federal Reserve and a bunch of ---------- bond traders?'"

Can't help but wonder what Putin is thinking about yields soaring from 6 to 19 percent?

Russia's stock index (MOEX) has been trashed as it plunged 43% from 3644 on February 16 to 2069 on February 25th when trading was halted.

The record high was 4280 set in October.

However, the suddenness and severity of the hit is largely due to Putin's remarkable blunder in invading Ukraine. Doubtless he and others are trying to find a way to end the mess. We all know that street to street warfare is infinitely costly in lives and treasure and recently a British military expert observed that in order to occupy Kiev, Putin would have to destroy it.

Hungary's 1956 popular uprising was a country-wide revulsion of controlling communism that was brutally put down by Soviet tanks, troops and machine guns.

Similarly, the "Prague Spring" of 1968 was a popular uprising that had elected a reform leader. Soviet generals, with some 200,000 troops and 2,000 tanks thought that they could quell the reform movement in less than a week, but it took eight months to finally reach a diplomatic solution.

Regrettably, Czechoslovakia remained authoritarian,until the Velvet or Gentle Revolution of late 1989.

Russia's currency along with stocks, bonds and politics are in a severe panic. Severe enough to look for relief.

And we recall a wise observation made by "The Economist" during the initial crash that ended the 1873 Bubble:

"Although the panic may be over, the results of the panic are not".

That "Great Depression" lasted from 1873 to 1895.

Point being that Russia's financial markets have taken a hit that on its own could be followed by a cyclical contraction, but it has joined other countries in what could be another classic post-bubble contraction.

"Nowhere did restrictions, purges, repressions and in general all forms of bureaucratic hooliganism assume such murderous sweep as they did in the Ukraine in the struggle against the powerful, deeply-rooted longings of the Ukrainians for greater freedom and independence".

– Leon Trotsky, November 1949.