

Flash Comment

Ukraine crisis update

Meeting in Minsk: no clear signals for the markets

Yesterday in Belarus's capital Minsk, top officials from the Eurasian customs union and from the EU, as well as Russia's president Vladimir Putin, met with Ukraine's president Petro Poroshenko. The presidents held talks on the situation around Ukraine and economic issues. The message given to the public after the two-hour talks was positive. Two counterparties reported beginning discussions to resolve the crisis politically. President Poroshenko said that there will be a road map. President Putin stated that they have agreed 'on how to interact' on the needs of humanitarian aid to Donetsk and Lugansk. Among economic issues, the gas transit was discussed along with the economic consequences for Russia and Ukraine if the latter steps into an association with the EU. According to Putin, the Russian economy would lose up to RUB100bn. These were the first negotiations between the two presidents since the short meeting on 6 June 2014 in Normandy. The next EU-Russia-Ukraine talks will be held on 12 September in Brussels.

However, no breakthrough concrete actions were agreed upon during the meeting. Only the counterparties' viewpoints were declared. Thus, the market reaction was quite muted. The main result of the meeting from an investor's point of view is that it has opened up the pathway for diplomacy and negotiations. Russian stocks and the rouble gained a bit (as of the afternoon of 27 August) and OFZ levels have not changed significantly, USDRUB three-month volatility has continued to fall, but is still far from the June 2014 lows. We expect the meeting in September to calm the markets further, but emphasise the remaining geopolitical risks as severe fighting in eastern Ukraine continues.

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