



Citrus Advisors

Russian Military Action in Ukraine

First-Cut Views

“Buy to the sound of Cannons, Sell to the sound of Trumpets”

Key Questions

- What is the issue?
- How wide will be the theatre of war?
- How much will the sanctions bite?
- What happened to the Global Markets?
- Our Views

What is the Issue?

- Ukraine used to be a part of the erstwhile USSR till it broke away as an independent country.
- It was a significant industrial belt and economically quite prosperous
- Post Independence, Ukraine has repeatedly tried to become a member of NATO
- Russia has been strongly opposed to this move as it would bring NATO to its doorstep
- As a deterrent, Russia initially positioned 1.1 Lakh troops on the Ukrainian border. This number was then later raised to 1.9 Lakhs
- Russian president has recognized the independence of 2 Russian controlled territories (Donestsk and Lugans) in eastern Ukraine
- Territories have been armed, financed and controlled by Russian territories but until this week Russia still recognized as part of Ukraine
- On 23rd February 2022, Russian Military has bombarded many locations in Ukraine and they have been alleged to have entered inside Ukraine

How wide will be the Theatre of War?

- Marks the end of the Minsk Peace deal signed between Russia and Ukraine in September 2014 which is now void
- This brings the Western bloc consisting of NATO and Allied countries in a dangerous stand-off with Russia and some significant countries like China, Syria and others
- US and allies have already threatened economic sanctions against Russia. Germany has stopped work on Nord stream 2 gas pipeline
- In the event of a prolonged action by Russia, economic sanctions may escalate into regional conflicts.

How much will the sanctions bite?

- During the Russian invasion of Crimea in February 2014, only the Russian markets fell initially
- Crude prices had already crossed \$100 before the invasion. They fell to below \$50 within a year from the invasion
- As a result of sanctions on Rusal (one of the largest producer of aluminum in the world) the prices had scaled to a peak due to cut in supplies to the world markets
- Russia is one of the largest suppliers of Natural gas and Crude to Europe and it is estimated that energy prices will go up by 40%.

What happened to the Global Markets?

- Crimea was a non-event for India as well as global markets. After initial volatility they continued their upward trajectory
- USD strengthened further. Commodities began to soften due to stronger USD
- Crude also corrected sharply after initial volatility due to stronger USD and sharp increase in shale oil production. Natural Gas was correcting throughout this time.

Our Views

- Knee-jerk reaction will be very negative
- In the background of relentless selling by FIIs, the markets may remain weak for sometime
- The Midcap and the Small cap index have corrected more than the Sensex/Nifty but domestic retail interest continues to be strong in the equity markets
- In the Medium-term, much will depend on how global commodity prices behave:
 - We expect the Russia-Ukraine stand-off to be resolved sooner rather than later
 - Therefore it is likely that commodity prices may start coming off shortly
 - This will ease the margin pressure being experienced by companies across various sectors
 - This can further reinforce a rally based on earnings momentum being maintained
- There have been numerous events such as Demonetization, North Korean crisis and Covid-19 in the last 7 years, but none of them have kept the market for too long.
- This fall in the market provides the much awaited correction for investors to accumulate good quality stocks at attractive prices

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