A different type of counterattack!

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THE RUSSIA-UKRAINE saga continues, resulting in an unfortunate loss of life and livelihood. Not to speak of the increasing uncertainty and anxiety in the rest of the world. In light of all this, you would no doubt have heard, the year 2022 is no better than 2020 or even 2021!

Most people would be able to think of and relate to pre-COVID years as being relatively stress and anxiety-free and they would be right, partly.

There was no worldwide health pandemic but there were several health events that broke out over the years – SARS, Avian Flu, Ebola etc. Well, at least there were not such intense conflicts!

Again, not true, there was the war in Syria – that resulted in millions of Syrians fleeing seeking asylum and refuge and for the world at large to look on with little or limited support.

We now have a situation with Ukrainians and citizens of other countries fleeing the oncoming Russian assault.

Europe has been a bit warmer to the idea of refugees from Ukraine (and if reports are to be believed, only Ukrainian refugees) and this is a welcome humane effort! However, again as last week, we still do not know how this conflict ends or when.

The unconventional war

While Russia uses airstrikes, artillery and armoured vehicles to force submission from Ukraine, a different type of war has been launched by the world economies.A range of unprecedented sanctions has been slapped on Russia and Russian companies.

These include sanctions on the Central Bank of Russia. These sanctions will have a crippling effect on the Russian economy – already anxious Russians are lining up outside ATMs to access funds.

Russian Rouble has gone into a free fall (losing over 30% in value over the last week) which has forced the Russian Central Bank to double interest rates to 20%. According to a forecast by JPMorgan, the Russian GDP will collapse by 35% in the second quarter of this year itself.

Russian Central bank's overseas assets, approximately $600bn, have been frozen. All banking channels are closed except for the payment of oil and gas. The global markets continue to feel the effect of this issue. Mastercard and Visa have shut operations in Russia.

The Australian government owes $8bn through its bonds owned by Russia. The sanctions issued by Australia mean, Russia is no longer able to purchase additional bonds however, Australia will continue to service the interest on these bonds into a European clearing house, although these payments are not expected to reach Russia due to sanctions from Europe.

Closer to home the newly merged QSuper and Sunsuper – Australian Retirement Trust - Australia's 2nd largest superannuation fund with a whopping $230bn funds under management, has given clear mandates to its Fund Managers: Sell its Russian assets.

Several other super funds have also announced they will divest Russian assets. This follows the removal of Russia from MSCI's emerging markets index, the benchmark for emerging markets (Brazil, Russia, Indian and China) investments.

While there are of course consequences of this movement – banks that hold Russian and Ukrainian debt may be facing losses, business that has money owed from Russian businesses may not get this payment. The devaluation of the assets can trigger a sell down causing a bigger ripple effect.

By all accounts though, the exposure to Russian assets and Ukraine is not as significant and can be weathered.

However, the long-term impact of the sanctions on Russia and how the markets view the ability to systematically unravel the financial system of a country via widespread actions remains to be seen.