

Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

From: "Smith, John" [redacted] (b)(6)
To: "Hammerle, Barbara" [redacted] (b)(6)
Date: Thu, 17 Jul 2014 09:09:36 -0400

----- Original Message -----

From: [redacted] (b)(6)
Sent: Thursday, July 17, 2014 07:52 AM
To: [redacted] (b)(6); Smith, John; Fisch, Eytan; [redacted] (b)(6)
Gatjanis, Gregory; [redacted] (b)(6); Smith, Bradley; Tuchband, Matthew; [redacted] (b)(6)
Subject: Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

----- Original Message -----

From: [redacted] (b)(6)
Sent: Thursday, July 17, 2014 06:56 AM Eastern Standard Time
To: [redacted] (b)(6)
Subject: Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

This is a really good hit.

----- Original Message -----

From: Cohen, David
Sent: Thursday, July 17, 2014 06:15 AM
To: [redacted] (b)(6); Esser, Victoria; Chemali, Hagar; Sheets, Nathan; Glaser, Daniel; Szubin, Adam
Cc: [redacted] (b)(6)
Subject: Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

Quite good.

----- Original Message -----

From: Nuland, Victoria J [mailto:[redacted] State (b)(6)]
Sent: Thursday, July 17, 2014 03:30 AM Eastern Standard Time
To: Atkinson, Caroline [redacted] (b)(6); MacFarquhar, Rory; Kupchan, Charles
[redacted] (b)(6); Fried, Daniel [redacted] State (b)(6); Mortlock, David [redacted] (b)(6); Cohen, David
Subject: Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

This is good from Tim. He's an opinion driver in these markets...

From: Pyatt, Geoffrey R
Sent: Thursday, July 17, 2014 7:47 AM
To: Nuland, Victoria J
Subject: Fw: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

Good market reaction here.

From: Timothy Ash (STANDARD BANK PLC) [mailto:[redacted] State (b)(6)]
Sent: Thursday, July 17, 2014 06:43 AM
To: Pyatt, Geoffrey R
Subject: (BN) U.S., EU Escalate Sanctions on Russia as Putin Ignores

This represents a seismic hit to Russia, and to Russian markets. The market had been expecting VEB and Gazprombank to be sanctioned in the last iteration of sanctions a month or so back, but when the US failed to move the market assumption was that the US would not risk sanctioning Russian entities with traded debt and equity. This former realisation drove the recovery in Russian market assets that we have seen in recent weeks. Clearly the market consensus was totally wrong. The fact that such prominent companies as VEB, Gazprombank, Novatek and Rosneft are being sanctioned suggests that the US administration is deadly serious about sending a clear message to Moscow not to mess with Ukraine and to stop intervening directly in Ukraine. The US is now showing that it thinks the evidence is now overwhelming that Moscow has been aiding and abetting the separatists in Donetsk and Luhansk and indeed recent actions (e.g. the downing of a Ukrainian transport plane) might have been directly the result of Russian actions. I have also heard rumours that the US might even go as far as to claim Russian state support for terrorism, via its support for the separatist cause in Ukraine, which again would have massive ramifications for any entities dealing with Russia, and FATF compliance implications.

I think also the US is eager to send the message to Moscow not to try and intervene to prevent the Ukrainian military from its on-going offensive against the separatists which seems to be bearing fruit. The US clearly wants to give that offensive a chance of success, and of stabilising the situation in SE Ukraine.

Note that with such prominent companies sanctioned, questions will now be asked which other Russian companies will be next on the list. Also note that it does not really matter what the EU itself does, but the fact that these Russian companies are being sanctioned by the US will force European companies with business interests in the US to comply - every Western business is ultimately forced to comply with the SEC/UST/OFAC.

By these actions the US government has in effect closed out Russian entities' access to international capital markets.

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The stakes have been significantly raised by the US through these actions. I expect a very significant and very negative reaction across Russian markets to these latest actions from the US.

For specific details on the US actions, see:

<http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20140716.aspx>

Sent from Bloomberg Professional for iPad

The above commentary represents a personal view, is not investment advice or Standard Bank research, but may contain extracts from published research.

U.S., EU Escalate Sanctions on Russia as Putin Ignores Ultimatum
2014-07-16 23:41:52.958 GMT

(For more on the Ukraine crisis, see EXT2.)

By Margaret Talev and Indira A.R. Lakshmanan
July 16 (Bloomberg) -- The Obama administration, acting in concert with the European Union, imposed sanctions on Russian banks, energy companies and defense firms in the latest attempt to punish the country over Ukraine.

The U.S. and EU, which say Russia is supporting the rebels in Ukraine, sought to squeeze the country's \$2 trillion economy by limiting access to financing.

Among the companies hit by the U.S. penalties were OAO Rosneft, Russia's largest oil company, natural gas producer OAO Novatek, OAO Gazprombank, the country's third-largest lender, and state economic development lender Vnesheconombank, the U.S. Treasury Department said today.

The EU said it would halt lending for new public-sector projects in Russia by the European Investment Bank, the bloc's in-house lender, and will use its influence to stop new lending by the European Bank for Reconstruction and Development.

"These sanctions are significant," U.S. President Barack Obama said today at the White House. "But they are also targeted, designed to have maximum impact on Russia while limiting any spillover effects on American companies or those who are allies."

At a news conference in Brasilia, Russian President Vladimir Putin called the U.S. sanctions "aggressive policy" and will only end up hurting American companies. The sanctions will lead U.S.-Russia relations to a dead end, he said.

The penalties go further than earlier rounds of sanctions that targeted individuals who are part of Putin's inner circle, while stopping short of hitting entire sectors of the Russian economy. The U.S. and its allies warned that sanctions can be expanded if the situation warrants.

Debt Markets

The sanctions will prevent the Russian companies from accessing U.S. equity or debt markets for new financing with a maturity beyond 90 days. That will raise borrowing costs and effectively cut off medium- and long-term U.S. financing. They don't otherwise prohibit U.S. companies or individuals from doing business with the Russian firms.

The moves were the latest response to what U.S. and European leaders say is Putin's refusal to end support for Ukrainian rebels who have been battling government forces in the east. Russian forces again were massing at the Ukraine border, according to the Pentagon, with about 10,000 to 12,000 Russian combat troops in place, up from a low of about 1,000.

Russia has denied previous allegations that it's responsible for fomenting turmoil in Ukraine.

"The situation in the Ukraine is unacceptable," British Prime Minister David Cameron said. "The territorial integrity of that country is not being properly respected by Russia."

Russia's Economy

The U.S. and EU are seeking to raise the price for Russia's actions. The Russian economy just skirted a recession last quarter, as capital markets seized up while the U.S. and EU clamped down on individuals and companies tied to Putin's inner circle. The Finance Ministry warned last week that growth will slow to a crawl if stiffer sanctions are imposed. The ruble fell

the most in two weeks in the offshore market after the U.S. and EU announcements.

"These sanctions get the Russians' attention," Steven Pifer, a former U.S. ambassador to Ukraine and senior fellow at the Brookings Institution's Center for 21st Century Security and Intelligence in Washington, said in a phone interview. "You're now targeting major companies -- Rosneft, Novatek and now the Gazprombank."

OAQ Gazprom, the Russian gas giant, wasn't included in the sanctions.

"What they're trying to do is find a way to ratchet up the sanctions while holding something in reserve," Pifer said of the U.S. actions. "They're trying to do this in a graduated way."

Exxon Deal

Exxon Mobil Corp. and Rosneft had been set to start their first Arctic well this year, targeting a deposit that may hold more oil than Norway's North Sea. In return, Rosneft has the option of buying into Exxon's portfolio of exploratory projects in the U.S. Gulf of Mexico, west Texas and the Canadian province of Alberta.

Alan Jeffers, an Exxon spokesman, declined to comment on whether the new round of sanctions will disrupt the Texas-based oil producer's exploration partnership with Moscow-based Rosneft, which produces 5 percent of the world's oil.

Loans Unnecessary

Rosneft Chief Executive Officer Igor Sechin called the U.S. measures illegal and said they would hurt American banks that do business with his company. Speaking to reporters in Brasilia tonight, Sechin said that Rosneft can fund its long-term projects without loans and that the penalties wouldn't affect its current projects with Exxon.

Morgan Stanley agreed in December to sell its oil-merchandising business to Rosneft. The sale received U.S. antitrust approval last month and Morgan Stanley Chief Executive Officer James Gorman said a week earlier that he expected the deal to be completed by the end of September.

Mark Lake, a spokesman for the New York-based bank, declined to comment today on the sanctions and how they might affect the deal.

Debt Squeeze

There will be a longer-term impact on Rosneft as it looks to roll over debt, said Anders Aslund, a senior fellow at the Peterson Institute for International Economics in Washington. Rosneft has \$13.7 billion in loans coming due this year out of a total debt load of nearly \$74 billion, Bloomberg data show.

"Rosneft is really on the limit with how much debt it has," Aslund said. "I think they will be seriously squeezed in their development."

The U.S. Chamber of Commerce and National Association of Manufacturers held a strategy session yesterday with representatives from about 20 U.S. companies. The Business Roundtable, an association of chief executive officers, will discuss the impact with its members tomorrow, according to people familiar with the sessions, who asked for anonymity because the discussions are private.

The U.S. action also blocks the assets of eight state-owned defense firms, including weapons-maker Kalashnikov Concern, which manufactures its namesake assault rifle. They also targeted four Russian officials, including a top aide to Putin and a commander in the security service.

Even with the threat of additional sanctions, Russia hasn't backed down in Ukraine. U.S. Army Colonel Steve Warren, a Pentagon spokesman, said the Russian troop presence on the Ukraine border is "intimidating."

"It's been building steadily over the last several weeks," he said. The Russian military "certainly has the capability to conduct operations on either side of the border."

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