

Daily Insight

Ukraine crisis

Group Economics
Macro Research

Arjen van Dijkhuizen +31 20 628 8052
Georgette Boele +31 20 629 7789

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- **Escalating tension in the Crimea**
- **Our baseline scenario is that the Ukraine remains united**
- **The RUB and UAH have dropped while gold and US Treasuries enjoyed safe haven support**

Escalating tensions

After Ukraine's pro-Russian president Yanukovich was ousted last week, Russia responded by stepping up military activity in the areas close to the Ukrainian border. Subsequently, special forces apparently liaised to Russia took over control in the Crimea, Ukraine's southern peninsula. Tensions have escalated further after Russia's Federation Council on 1 March approved president Putin's request to send troops to Ukraine. Meanwhile, the new authorities in Kiev have placed their military on high alert. The international community has strongly criticized the Russian moves and has stressed the importance to safeguard Ukraine's sovereignty and territorial integrity.

Some perspective

Sharp divisions between Ukraine's Europe-leaning north and west and its Russia-leaning east and south mean that political typically do not occur smoothly, but come with significant political turmoil. This was the case during the 2004 Orange Revolution and this has now happened again, although with much more force and violence. These sharp divisions have the potential to destabilize Ukraine, if not managed properly both in a domestic and international context. The Crimea is a very special case, given that the peninsula has an ethnic Russian majority and a longstanding Russian past (transferred to Ukraine in 1954) and hosts the Russian Black Sea Fleet. Moreover, Crimea's local authorities did not recognize the new government; they have planned a referendum on its status, which has been brought forward from 25 May to 30 March.

Tentative scenarios

While political events in Ukraine and Russia are still highly *in flux* and events are evolving rapidly, we try to give some guidance by developing a number of tentative, high-level scenarios. Obviously, given the complexity of geopolitical events, a number of other many scenarios could be thought of as well, but we stick ourselves to three plausible ones (see for more detail our report *Tensions in Ukraine* published today).

1. Baseline – Ukraine remains united (including Crimea)

Under this scenario, after a period of war mongering, we assume a normalization in the relations between Russia, the Ukraine and the West. This assumes a further 'federalisation' of the Ukraine, with more autonomy granted to the eastern regions including the Crimea.

2. Risk scenario 1 – Russia seizes Crimea

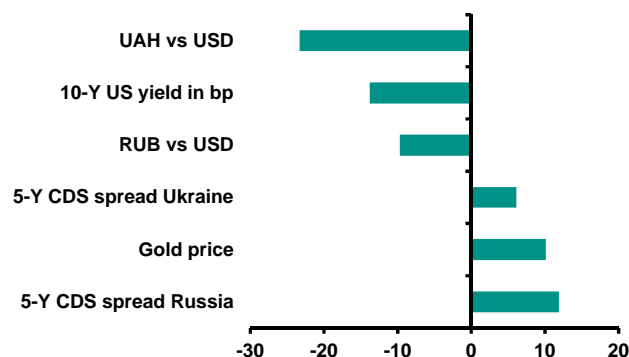
Under this scenario, Russia would gradually increase control over Crimea. This would result in a short military conflict between Russian and Ukraine and a re-escalation of 'Cold War' geopolitical tensions.

3. Risk scenario 2 – Ukraine breaks up.

This scenario assumes an escalation of protests and violence in eastern/southern Ukraine, making the country in its current form hardly governable and setting the scene for a split between the western/northern and the eastern/southern parts.

Market reaction since 29 November 2013

In %, except 10-Y yield in bp



Source: Bloomberg

Market reaction

Since late November, developments in the Ukraine have come more and more to the fore. Initially, weakness was mainly concentrated to the Ukrainian hryvnia and its sovereign CDS spreads widened. As the situation has escalated, market impact has broadened. For starters, the Russian ruble has fallen under heaven pressure, Russian sovereign CDS spread has widened, the 10-Y US Treasury yield has dropped and gold prices have risen (safe haven demand). In a move to support the Russian ruble and to fight inflationary pressures, the central bank increased rates by 150bp to 7%, adding that the rate hike is temporary. Going forward, in our base scenario we expect that Ukraine remains united and that there will be a normalization of relations. This will likely result in a recovery of the RUB, pressure on gold prices and higher 10-Y US yield. The faith of the UAH is more closely linked to a potential default of the Ukraine (which will occur in the absence of external support).

Financial markets	Close	Change 1 day	Change 5 days	Change YTD
Currency markets				
EUR/USD	1.3736	0.0000	-0.1163	-0.3844
USD/JPY	101.40	-0.0197	-0.7439	-3.6671
AUD/USD	0.8932	0.0560	-1.0743	0.0560
USD/CHF	0.8835	0.1247	-0.3497	-0.5739
NZD/USD	0.8368	0.0359	0.3357	1.5781
GBP/USD	1.6660	0.0300	-0.2276	0.5674
USD/SGD	1.2710	-0.0472	0.6254	0.6812
USD/CAD	1.1086	-0.1261	0.0361	4.3094
Bond markets				
2-year German Govt Bond yield	0.1060	-0.0220	-0.0210	-0.1070
10-year German Govt Bond yield	1.5510	-0.0730	-0.1290	-0.3780
Yield curve Germany	1.4450	-0.0510	-0.1080	-0.2710
2-year US Treasury Bond yield	0.3052	-0.0117	-0.0129	-0.0747
10-year US Treasury Bond yield	2.6012	-0.0464	-0.1370	-0.4270
Yield curve US	2.2960	-0.0347	-0.1241	-0.3523
US 2-year sw ap rate	0.4458	0.0008	0.0003	-0.0422
US 10-year sw ap rate	2.7235	-0.0028	-0.0735	-0.3465
US sw ap curve	2.2777	-0.0036	-0.0738	-0.3043
EU 2-year sw ap rate	0.4510	-0.0020	-0.0010	-0.0861
EU 10-year sw ap rate	1.8010	0.0015	-0.0775	-0.3570
EU sw ap curve	1.3500	0.0035	-0.0765	-0.2709
Euribor 3 Month ACT/360	0.2880	0.0020	0.0000	0.0010
ICE LIBOR USD 3 Month	0.2357	0.0000	0.0013	-0.0105
JPMorgan EMBI Plus Sovereign S	348.2800	-11.8000	-20.6100	14.0200
Equity markets				
Nikkei 225	14,652	-1.27	-1.25	-10.06
Hang Seng Index	22,501	-1.47	0.50	-3.46
Hang Seng China Enterprises Index	9,752	-1.41	-0.47	-9.84
Australian Stock Exchange S&P/ASX 200 Index	5,384	-0.38	-1.03	0.60
Singapore Straits Times Index	3,087	-0.75	-0.59	-2.52
Euro Stoxx 50 Index	3,054	-3.02	-3.27	-1.77
S&P 500 Index	1,846	-0.73	-0.09	-0.13
MSCI World Daily Total Return Gross USD	738	0.41	0.98	0.71
AEX Index	388	-2.60	-3.38	-3.38
Chicago Board Options Exchange Volatility Index	16	14.00	12.16	16.33
Commodity markets				
Reuters/Jefferies CRB Total Return	303	0.28	0.08	7.95
Gold spot USD/Oz	1,351	1.88	1.08	12.09
Generic first NYMEX Crude Light future	105	1.95	1.72	6.27
Generic first Brent Crude Oil future	111	1.71	0.27	0.13
LME Copper 3 Months Rolling Forward	6,968	-0.60	-1.54	-5.33
Generic first Wheat future Chicago Board of Trade	634	5.27	2.63	4.75

Source: Bloomberg

Day	Date	Time	Country	Market indicator	Period	Latest outcome	ABN AMRO	Expectation consensus
Saturday	01/03/2014	02:00:00	CN	PMI manufacturing - index (official)	Feb	50.5		50.1
Monday	03/03/2014	00:50:00	JP	Capital investment excl software - % yoy	4Q	2.3		5.4
Monday	03/03/2014	02:00:00	CN	PMI services - index (official)	Feb	53.4		
Monday	03/03/2014	02:45:00	CN	PMI manufacturing - index (HSBC)	Feb	49.5		48.5
Monday	03/03/2014	09:30:00	NL	PMI manufacturing - index	Feb	54.8	54.0	
Monday	03/03/2014	10:00:00	EC	PMI manufacturing - index	Feb F	53.0	53.0	53.0
Monday	03/03/2014	10:30:00	GB	BoE mortgage approvals - thousands	Jan	71.6	75.0	73.6
Monday	03/03/2014	10:30:00	GB	PMI manufacturing - index	Feb	56.7	56.3	57.0
Monday	03/03/2014	12:59:00	US	Auto sales total - millions annualised	Feb	15.2		15.4
Monday	03/03/2014	13:59:00	GB	Halfax house price index - % mom	Feb	1.1		0.7
Monday	03/03/2014	14:30:00	US	Consumer spending - % mom	Jan	0.4		0.1
Monday	03/03/2014	14:30:00	SG	PMI manufacturing - index	Feb	50.5		
Monday	03/03/2014	14:58:00	US	Markit - Flash PMI - final	Feb	56.7	56.7	
Monday	03/03/2014	16:00:00	US	Construction spending - % mom	Jan	0.1	0.1	-0.5
Monday	03/03/2014	16:00:00	US	ISM manufacturing - index	Feb	51.3	52.0	52.1
Tuesday	04/03/2014	01:30:00	AU	BOP current account - AUD mln	4Q	-12700		
Tuesday	04/03/2014	04:30:00	AU	Policy rate - %	Mar 4	2.5	2.5	2.5
Wednesday	05/03/2014	01:30:00	AU	GDP - % qoq	4Q	0.6		
Wednesday	05/03/2014	02:45:00	CN	PMI services - index (HSBC)	Feb	50.7		
Wednesday	05/03/2014	09:30:00	SE	Industrial production - % mom	Jan	-1.0		
Wednesday	05/03/2014	10:00:00	EC	Composite PMI output	Feb F	52.7	52.7	52.7
Wednesday	05/03/2014	10:00:00	EC	PMI services - index	Feb F	51.7	51.7	51.7
Wednesday	05/03/2014	10:30:00	GB	PMI services - index	Feb	58.3	58	58.2
Wednesday	05/03/2014	11:00:00	EC	Retail sales - % mom	Jan	-1.6	0.6	
Wednesday	05/03/2014	11:00:00	EC	GDP - % qoq	4Q P	0.3	0.3	0.3
Wednesday	05/03/2014	14:15:00	US	ADP nat. employment report - thousands	Feb	175.4	150.0	155.6
Wednesday	05/03/2014	15:00:00	BE	GDP - % qoq	4Q F	0.4		
Wednesday	05/03/2014	16:00:00	CA	Policy rate - %	Mar 5	1.0	1.0	1.0
Wednesday	05/03/2014	16:00:00	US	ISM non-manufacturing, index	Feb	54.0	53.5	53.7
Thursday	06/03/2014	01:30:00	AU	Trade balance - AUD mln	Jan	468.0		
Thursday	06/03/2014	01:30:00	AU	Retail sales - % yoy	Jan	0.50		
Thursday	06/03/2014	09:30:00	NL	CPI - % yoy	Feb	1.4	1.4	
Thursday	06/03/2014	12:00:00	DE	Manufacturing orders - % mom	Jan	-0.5	1.3	0.7
Thursday	06/03/2014	13:00:00	GB	BoE size of asset purchase programme - GBP bn	Mar	375.0	375.0	375.0
Thursday	06/03/2014	13:00:00	GB	Policy rate - %	Mar 6	0.5	0.5	0.5
Thursday	06/03/2014	13:45:00	EC	ECB Deposit rate - %	Mar 6	0.0	0.0	0.0
Thursday	06/03/2014	13:45:00	EC	Policy rate - %	Mar 6	0.25	0.25	0.25
Thursday	06/03/2014	14:30:00	US	Output per hour nonfarm business sector - % qoq	4Q F	3.2	2.6	2.5
Thursday	06/03/2014	16:00:00	CA	PMI manufacturing - index	Feb	56.8		
Friday	07/03/2014	07:45:00	CH	Unemployment - %	Feb	3.2		
Friday	07/03/2014	09:00:00	CH	Foreign currency reserves - CHF mln	Feb	437707		
Friday	07/03/2014	09:15:00	CH	CPI - % yoy	Feb	0.1		
Friday	07/03/2014	12:00:00	DE	Industrial production - % mom	Jan	-0.6	1.0	0.6
Friday	07/03/2014	14:30:00	CA	Unemployment - %	Feb	7.0		7.0
Friday	07/03/2014	14:30:00	US	Change in employment private employment - thousands	Feb	142.0	160.0	155.0
Friday	07/03/2014	14:30:00	US	Change in employment total - thousands	Feb	113.0	150.0	152.9
Friday	07/03/2014	14:30:00	US	Unemployment - %	Feb	6.6	6.5	6.6
Friday	07/03/2014	14:30:00	US	Trade balance - USD bn	Jan	-38.7	-36.0	-38.8
Friday	07/03/2014	21:00:00	US	Fed Reserve consumer credit - USD bn	Jan	18.8	13.4	13.4

Source: Bloomberg, Reuters, ABN Amro Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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