

Subject: Re: Oil discussion and ruble weakness.... [C]

From: Richard Kahn <[REDACTED]>

Date: Fri, 21 Mar 2014 09:33:58 -0400

To: Tazia Smith <[REDACTED]>

Cc: Paul Morris <[REDACTED]> ,

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thank you for update

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On Mar 20, 2014, at 6:31 PM, Tazia Smith <[REDACTED]> wrote:

Classification: Confidential

Hi Rich -

I'm sure you've seen plenty on the US sanctions vs. Russia. Good Bloomberg overview included below; note S&P cut its outlook for Russia to negative, affirmed its BBB credit rating). See this article in the FT from a couple days ago: <http://www.ft.com/intl/cms/s/0/35d6ae10-ab9a-11e3-90af-00144feab7de.html#axzz2wXg7CCtv>.

The article is another advocacy for the US to sell Strategic Petroleum Reserves (SPR). It goes over one thesis of economic impact, suggesting that a sale of 500-750k barrels a day could increase supply and reduce oil prices by \$10-12 dollars. A \$10/bbl drop in crude prices could have a \$40bn impact to Russia's export income, according to this author (Paul Verleger, Jr, former director of the Office of Energy Policy at the US Treasury during the Carter administration). Things that could offset the SPR supply's impact on prices include Saudi Arabia reducing supplies, as well as Congress approval delaying the process.

This thesis ties closely to Jeffrey's outlook on near-term oil prices, and indirectly to a weak-ruble thesis as Russia's economy would be negatively impacted. We know Jeffrey thinks the SPR supply will not bring prices down

in the very near-term (<1mo), and that stems (among several other things, I suspect) from offsets like those mentioned in the article being likely - not to be shrugged off.

I found the article to be a good little summary and I liked the quantitative assessments; I thought you might find it of interest. Spot crude was actually down ~\$1/bbl today. The chart below is of the June14 contract (matures/expires in May as discussed) price action. As you know, Jeffrey's strike on his call is at 101.

Have a good night!  
Tazia

June14 Crude Contract - 1-month price history  
<Mail Attachment.gif>  
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----- Forwarded by Tazia Smith/db/dbcom on 03/20/2014 05:59 PM -----  
From: "Tazia Smith (DEUTSCHE ASSET MANAG)" <tsmith170@bloomberg.net>  
To: undisclosed-recipients:;,  
Date: 03/20/2014 05:57 PM  
Subject: (BN) Obama Expands Sanctions on Russian Officials to Press Putin

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(BN) Obama Expands Sanctions on Russian Officials to Press Putin  
(3)

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Obama Expands Sanctions on Russian Officials to Press Putin (3)  
2014-03-20 21:03:23.138 GMT

(Updates with market reaction, lawyer's comment, Hagel call to Russian defense minister beginning in eighth paragraph. For more on the conflict in Ukraine, go to EXT2.)

By Roger Runningen and James G. Neuger

March 20 (Bloomberg) -- President Barack Obama expanded U.S. financial sanctions to 20 more Russian officials, businessmen and a bank and authorized potential future penalties that would directly target sectors of the Russian economy.

"We're imposing sanctions on more senior officials of the Russian government," Obama said on the South Lawn of the White House. "In addition, we are today sanctioning a number of other individuals with substantial resources and influence who provide material support to the Russian leadership, as well as a bank that provides material support to these individuals."

With Russia poised to annex Crimea and its troops massing near Ukraine's border to the east and south, the U.S. and the European Union are moving to coordinate ramped up economic pressure on Russian President Vladimir Putin and his allies. Obama is set to travel next week to Europe to consult with EU leaders, who were meeting today to work on a unified position.

Today's action is against 20 individuals, members of the Russian government and business leaders who the U.S. says have ties to Putin, and adds to the seven Russian officials and four people from Ukraine who already were subjected to sanctions. It also includes Bank Rossiya in St. Petersburg, which U.S. officials said has \$10 billion in assets and is the 17th largest bank in Russia.

### Sanctions Targets

Those targeted in the latest round include: Evgeni Viktorovich Bushmin, deputy speaker of the Federation Council of the Russian Federation; Andrei Fursenko, an aide to Putin; Vladimir Yakunin, chief executive officer of OAO Russian Railways; billionaire Gennady Timchenko, a co-founder of oil trader Gunvor Group Ltd; businessman Arkady Rotenberg, a former judo partner of Putin whose companies won more than \$7 billion of contracts for the 2014 Winter Olympics in Sochi, and his brother, Boris, and Yuri Kovalchuk, a partner at Bank Rossiya, according to a list released by the Treasury Department.

Eight of the 20 were previously designated by the EU.

The sanctions, based on an executive order issued March 17, ban the individuals' entry, freeze any personal assets they may have in the U.S. and bar them from doing business with any U.S. company or financial institution.

A U.S. official, who briefed reporters on condition of anonymity to discuss the details, said the individuals won't have access to any U.S. financial services and will have difficulty conducting transactions in dollars. Bank Rossiya also will be frozen out of dollar transactions.

### Russian Economy

Obama also signed a new executive order, his third in response to the Ukraine crisis, authorizing though not implementing economic sanctions affecting parts of the Russian economy. They included financial services, energy, metals and mining, defense and engineering.

"This is not our preferred outcome," he said. "These sanctions would not only have a significant impact on the Russian economy, but also could be disruptive to the global economy."

Russian stocks traded in New York fell the most in more than two weeks after Obama's announcement. The Bloomberg Russia-U.S. Equity index of the most-traded Russian shares in the U.S. dropped 3.3 percent to 80.10 at 4 p.m. in New York.

Standard & Poor's cut its outlook for Russia to negative because of the risks posed by the conflict, affirming Russia's credit rated at BBB, the second-lowest investment grade.

### Russia's Reaction

Kremlin spokesman Dmitry Peskov said Russia was surprised by some of the names on today's list, and considers the use of sanctions unacceptable. It's not true that Putin is an investor in Gunvor as the U.S. alleges, he said.

In retaliation for the new U.S. sanctions, the Russian government barred entry of nine U.S. officials, including House Speaker John Boehner of Ohio and Senate Foreign Relations Committee Chairman Robert Menendez of New Jersey.

"The speaker is proud to be included on a list of those willing to stand against Putin's aggression," Boehner's spokesman, Michael Steel, said in an e-mail.

Edward J. Krauland, a partner at the law firm Steptoe & Johnson who's a specialist on international sanctions, said targeting individuals probably won't have a big an impact on Russia's actions. Hitting Russian economic sectors would.

"I don't even think if they targeted Putin it would bring Mr. Putin to the table," Krauland said. "If you can isolate particular sectors of a country's economy that are significant, disproportionate parts of the economy, you're going to impose a hurt on that country."

### EU Debate

The EU, with closer economic ties to Russia, hasn't gone as

far as the U.S. The 28-nation bloc saddled 21 Russian and Crimean officials with asset freezes and visa bans on March 17, and may widen that list to include close Putin associates at a summit in Brussels today and tomorrow.

Chancellor Angela Merkel of Germany, Russia's biggest EU trading partner, said it's too early to start economic retaliation. "We will make very clear that in the case of further escalation we will be ready to introduce economic sanctions," Merkel told reporters before the EU summit.

Sanctions require the agreement of all EU governments, a consensus-building process that can't match Putin's speed in mobilizing troops in Crimea, staging the secession referendum and moving toward annexation.

### Ukraine Tensions

Tensions continue to rise in the region. The government in Kiev said yesterday it plans to reinforce its eastern border with Russia and withdraw troops from Crimea, ceding control of the Black Sea peninsula. Obama said Russia's continuing military movements carry "dangerous risks of escalation."

U.S. Defense Secretary Chuck Hagel spoke by phone today with Russian Defense Minister Sergei Shoigu to clarify Russia's intentions for its troops amassed along the border with Ukraine, Rear Admiral John Kirby, Hagel's spokesman, said at a news conference.

Shoigu told Hagel that Russian troops are arrayed along the border only for military exercises, Kirby said. Russian troops won't cross the border into Ukraine and "would take no aggressive action," Kirby said Hagel was told.

"It was a lengthy call, lasting about an hour, and I think it's fair to say that at times it was direct," Kirby said of the exchange.

### NATO Allies

Obama said that while in Europe, he will reinforce the U.S. commitment to the North Atlantic Treaty Organization and the defense of any member that comes under attack. Those allies include several on the front lines of the confrontation, such as former Soviet satellite states Poland and Lithuania, which got visits by Vice President Joe Biden earlier this week.

Obama has emphasized that there are no plans to confront Russia militarily.

"We do not need to trigger an actual war with Russia," Obama said in an interview with St. Louis television station KSDK recorded at the White House yesterday. "The Ukrainians don't want that, nobody would want that."

In his remarks today, Obama again urged the U.S. Congress to finish work on an aid package for Ukraine, which includes \$1 billion in loan guarantees.

The aid has been tied up by opposition from House Republicans to a provision that would transfer funds to boost the U.S. share at the International Monetary Fund. The administration argues that the funding would help the IMF assist Ukraine.

"Expressions of support are not enough," Obama said. "We need action."

### Loan Guarantee

The European Commission, the EU's executive arm, yesterday proposed adding 1 billion euros (\$1.4 billion) to a previously approved 610 million euros in budget support for Ukraine. The European aid would accompany an IMF package that's being negotiated.

"The most urgent thing to do is to make all our efforts to sustain a credible, stable, viable, democratic, prosperous Ukraine," the commission's president, Jose Barroso, said today. EU leaders will also sign the political provisions of a trade accord with Ukraine tomorrow.

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