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Ruble Hits 15-Month High After Rates Hike

By The Moscow Times

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Boosted by high oil prices, the ruble logged its strongest level versus the dollar since November 2009 on Friday after the Central Bank raised all of its key interest rates to fight accelerating inflation.

The bank increased its key deposit, repo and refinancing rates by 25 basis points to 3, 5.25 and 8 percent, respectively. It also raised reserve requirements.

The extent of monetary tightening caught the market by surprise as the majority of players had been expecting the Central Bank to raise only the deposit rate.

The move came a day after Finance Minister Alexei Kudrin said it was time to raise rates to tame high inflation.

"The Central Bank's determination in fighting inflation ... makes the Russian currency more attractive for investors," said Igor Zelentsov, chief trader at Globex bank.

Concerned by the prospect that strong oil prices and higher interest rates will fuel speculative capital inflows into Russian assets, the Central Bank also increased reserve requirements for liabilities to non-residents by 100 basis points.

But the market focused on the higher rates, which increase the ruble's yields, propping up demand for Russian assets.

"The market had not foreseen such a decision and the ruble has immediately firmed," said Anton Nikitin, an analyst with Renaissance Capital.

Versus the dollar, the ruble appreciated 7 kopeks to 28.94 after briefly touching its strongest level since November 2009 at 28.90. Against the euro, the ruble firmed 16 kopeks to 39.81.

Against the euro-dollar basket, used by the Central Bank to monitor exchange rates, the ruble added 11 kopeks to 33.83.

Oil prices supported the ruble, surging in the wake of the turmoil in oil-producing Libya, with Brent futures trading around $111 per barrel on Friday.

Russia's first ruble eurobond issued this week also boosted capital inflows and underpinned the ruble.

But the ruble's rally was slowed down by the Central Bank, which kept on purchasing foreign currencies to avoid excessive firming of the Russian unit, dealers said.

"The Central Bank's interventions of around $350 million a day were not enough to absorb the amount of foreign currencies that was sold [Thursday] after the eurobond placement," said Denis Korshilov, chief dealer at Citibank in Moscow.

Additionally, tax payments coming due at the end of the month helped the ruble hover near multimonth highs as export-focused companies were seen converting dollars to meet local liabilities, Korshilov said.

Analysts at Trust bank forecast that mineral tax and excise duty payments due by Monday will total up to 190 billion rubles ($6.57 billion).