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Ruble Weakens Past 40 Per Dollar on Oil Price Falls and Ukraine Skirmishes

By Howard Amos

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This year the ruble has repeatedly struck record lows amid heightened international tensions over Ukraine and Western sanctions on Moscow.

Russia's ruble continued to shed value on Monday, passing the psychologically important mark of 40 rubles to the U.S. dollar for the first time since the currency was restructured after the 1998 default.

Shortly after trading got under way in Moscow the ruble dropped to 40.046 against the greenback, a historic low.

This year the ruble has repeatedly struck record lows amid heightened international tensions over Ukraine and Western sanctions on Moscow. Nineteen months ago, the currency was at 30 to the dollar.

The squeeze on the ruble intensified last month as the effect of the Ukraine crisis was

compounded by slipping oil prices and jitters over Russia's investment climate following the arrest of billionaire Vladimir Yevtushenkov.

“The falling oil price is the main factor exerting pressure on the ruble,” said Mikhail Kuzmin, a financial analyst at Investcafe. Going forward, "a lot will depend on oil.”

Against the background of a strong dollar and a global glut in supply, Brent crude oil sank 5 percent last week, its biggest drop since April 2013, and was briefly trading below $92 a barrel Monday morning, according to data from Reuters. In early September, Brent crude was trading above $103 dollars a barrel.

The ruble's weakness may also be driven by an uptick in fighting in eastern Ukraine, where separatist fighters are battling to dislodge Ukrainian troops from Donetsk's strategically important airport.

“The threat of ... new sanctions against Russia if the rebels of the Donetsk People's Republic seize the airport of Donetsk placed pressure on the ruble,” analysts at the UFS Investment Company said in a research note Monday.

The Russian Central Bank said last week that it spent $17 million on Oct. 1 to prop up the currency after it breached the upper limit of its proscribed trading corridor.

Two days later the Central Bank lifted the upper limit of the corridor by 10 kopeks to 44.5 rubles, the first time it has taken such a move since May.

The ruble weakened beyond the new corridor boundary Monday, briefly touching the 44.59 ruble mark, meaning that another round of Central Bank intervention was likely to have taken place to reverse the falls.

The ruble pared early losses on Monday afternoon, hovering around 39.9 rubles against the dollar.

“Speculative strategies are dominating the market,” Vladimir Yevstifeyev, an analyst at Zenit Bank, said in a note published by the Prime economic news agency.

The Russian currency's precipitous decline has accelerated in the second half of this year, and analysts predict that it is unlikely to stop as crude prices continue to slip and fighting simmers in eastern Ukraine.

The ruble dropped 14.9 percent between July and September — faster then during the 2008 financial crisis and its worst quarterly performance since 1999.

While breaching the 40-ruble mark against the dollar is unimportant for investors, Investcafe's Kuzmin said it was likely to have an impact on ordinary people.

“Part of the population will go out and buy dollars,” he said.

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