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Ruble Rally Short-Lived as Historic Falls Resume

By Howard Amos

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The Russian Central Bank confirmed Monday that it will offer $3.5 billion in foreign currency auctions on Oct. 29 and Oct. 30 in a bid to ease the demand for dollars.

Modest gains for Russia's beleaguered currency were rapidly reversed Monday as the ruble dropped to new record lows amid speculation that the Central Bank might abandon its policy of spending foreign reserves to slow the currency's decline.

The ruble dropped 34 kopeks against the U.S. dollar Monday, touching a bottom of 42.28 in the early evening in Moscow. The currency has lost more than 25 percent of its value against the greenback this year, and over 16 percent in the last three months alone.

A small bounce for the ruble following Standard & Poor's decision last week not to downgrade Russia's sovereign debt rating to junk status were quickly erased despite the monthly tax period when Russian companies are obliged to convert foreign currency into rubles.

"If ever the omens were right for a ruble recovery today was the day," said Tom Levinson, chief currency strategist at Sberbank CIB. "The fact that it has fallen very sharply is telling."

Expectations have been growing that the Russian Central Bank may scale back its support for the ruble, on which it has spent over $20 billion defending this month alone.

"The Central Bank is currently falling foul of a circular argument: It is intervening to smooth ruble losses but at the same time burning through reserves gives the market a reason to sell," Levinson said in written comments.

The regulator currently uses a 9-ruble-wide trading corridor as a guide for slowing the ruble's decline, but has said repeatedly it will implement a free floating currency in 2015. Foreign reserves are committed by the Central Bank when the ruble exceeds the corridor's limits, and for every $350 million spent the corridor is shifted by 5 kopeks.

"Despite its current weakness the ruble is still expensive and does not reflect the recent fall in oil prices and obligation to repay roughly $100bn of external debt by the private sector in 2015," said Alexei Pogorelov, chief economist at Credit Suisse in Moscow.

Squeezed out of U.S. and European Union capital markets after Western sanctions on Moscow, experts predict that Russian companies will struggle to refinance debts over the next eighteen months in a slow-motion credit crunch.

The Central Bank could hike interest rates and abandon its intervention mechanism, which would be a "big surprise" for the market, Credit Suisse said in a research note Monday.

The Central Bank is due to meet for its monthly policy meeting Friday.

Russian President Vladimir Putin said last week that Russia would not "unthinkingly burn through its [foreign currency] reserves."

Other pressures on the ruble Monday included Ukrainian parliamentary elections results in which pro-Western parties recorded a strong showing, prompting fears of a further deterioration in relations between Kiev and Moscow.

Oil prices, which have been volatile in recent weeks, dropped sharply Monday. United States crude oil prices fell below $80 a barrel for the first time in 28 months, while the Brent oil global benchmark sank to under $85 a barrel, approaching four year lows recorded earlier in October.

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The ruble's steady slide this year amid a falling oil price and tensions over Ukraine has so far failed to produce any sign of panic among Russian households, but a survey published Monday indicated there was rising concern over the issue.

The currency's dynamic is now worrying 45 percent of Russians, compared with 26 percent of the population 16 months earlier, according the independent pollster Levada Center. The survey had a 3.4 percent margin of error.

And there are few indications that an end to the ruble's weakness is in sight.

Without any serious oil price fluctuations, the Russian currency should find equilibrium between 43 and 45 rubles to the dollar, according to Credit Suisse estimates.

"Forty-two rubles against the dollar has already been achieved, and the 45 against the dollar level is now in the market's sights," Igor Zelentsov, a senior trader at Globex Bank, said in a note Monday.

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