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Ruble's Slide Continues as Central Bank Mulls Options

By The Moscow Times

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Russian ruble and the U.S. dollar bank notes.

The ruble weakened further on Tuesday, hitting record lows for the fifth straight day against both the dollar and the euro and increasing pressure on the Central Bank to take decisive action at a rate meeting later in the week.

At 6 p.m. Moscow time, the ruble was 0.44 percent weaker against the dollar at 42.46 and lost 0.86 percent to trade at 54.13 versus the euro.

That left the currency 0.63 percent weaker at 47.71 against the dollar-euro basket that the Central Bank uses to gauge the ruble's nominal exchange rate.

The ruble has fallen over 20 percent against the dollar this year on falling oil prices, risk aversion towards Russia because of its role in the Ukraine crisis and demand for foreign currency from Russian firms shut out of Western capital markets.

Its slide has intensified since the start of October, prompting the Central Bank to spend some $20 billion of its forex reserves to curb its decline. There is growing speculation the bank may raise rates to support the ruble when it next meets on Oct. 31.

"The continued slide in the ruble over the past few weeks has raised the prospect that Russia is in the grip of a self-fulfilling currency crisis in which the mere anticipation of currency weakness spurs further capital outflows and pushes the ruble even lower," Neil Shearing, chief emerging markets economist at Capital Economics in London, said in a note.

"The Central Bank needs to regain the initiative. A first step would be to raise interest rates by more than the market expects at this week's board meeting," Shearing said.

On Wednesday the bank will launch a scheme to provide up to $50 billion to banks through repo loans, holding a 28-day dollar repo auction in an effort to support the ruble. But the scheme has done little to calm markets.

VTB Capital analysts said on Tuesday that the bank's interventions this month were comparable to the amount it had spent in March as the Ukraine crisis escalated.

"However, we highlight one difference: in March the Central Bank's participation in FX trading exceeded 20 percent only occasionally [during four sessions], while in October the regulator has been visibly present in the market during most trading days," they said.

The oil price, a major driver of Russian asset prices, was flat on Tuesday at just under $86 per barrel.

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