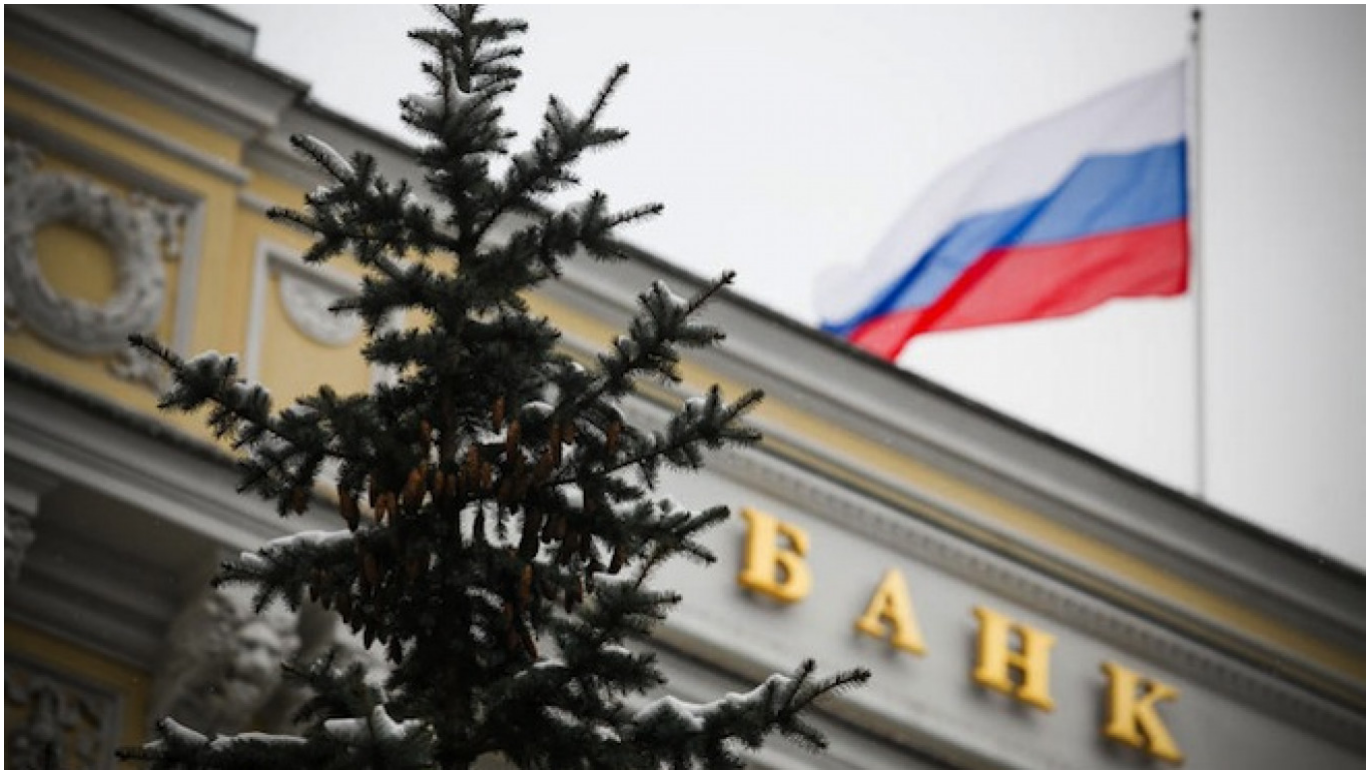
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Russia's Ruble Renews Fall After Unexpected Central Bank Rate Hike

By The Moscow Times

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A snow-covered tree in front of the Central Bank.

The ruble slumped around 3 percent against the dollar on Friday, giving back almost all its sharp gains of the previous session, even after the central bank hiked its key interest rate by more than the market had expected.

At 6 p.m in Moscow, the ruble was 3 percent weaker against the dollar at 42.96 and lost 2.5 percent to trade at 53.75 versus the euro.

That left the currency 2.7 percent weaker at 47.71 against the dollar-euro basket used by the Central Bank to gauge the ruble's nominal exchange rate.

The ruble was briefly buoyed by the 1.5 percent rate hike but resumed its fall after the bank said it had not altered its intervention policy.

There had been speculation the bank might use Friday's meeting to scrap the ruble's trading

band ahead of schedule or tweak policy to enable bigger interventions.

Coupled with talk of a large, one-off intervention by the bank and a possible deal between Russia and Ukraine over Crimea, such speculation had helped the ruble close up over 3 percent on Thursday.

"My concern is that the pressure on the ruble that we saw before this [rate meeting] was hardly the result of interest rates being too low," said VTB Capital economist Vladimir Kolychev.

"I very much want to believe that this [rate rise] will help the ruble. If not, then the Central Bank will have to change its exchange rate policy."

The ruble has lost around 20 percent of its value against the dollar this year. The currency has been weakened by falling oil prices, risk aversion towards Russia because of its role in the Ukraine conflict, and demand for foreign currency from Russian companies shut out of Western capital markets.

Applying further downwards pressure on Friday, the dollar strengthened against a basket of major currencies, while Brent crude fell more than a dollar to below $85 a barrel.

Oil is one of Russia's chief exports, and sales of oil and gas account for up to half of federal budget revenues.

Russia's Central Bank has intervened heavily to defend the ruble this month, spending at least $25 billion in reserves. Since the start of the year it has spent around $70 billion propping up the currency.

Analysts polled by Reuters this week had predicted the bank would raise its key lending rate by 0.5 percent on Friday.

Russian stock indexes were mixed. The dollar-denominated RTS index was down 1 percent at 1,088 points, dragged down by the weaker ruble.

In contrast the ruble-based MICEX rose 1.8 percent to 1,479 points, helped by a deal reached late on Thursday between Russia and Ukraine over winter gas supplies.

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