The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Dollar Shortages Spread Amid Russian Ruble Collapse

By Howard Amos

November 07, 2014



An exchange rate board in Moscow blaring out the lastest record ruble lows this week.

Rising demand for foreign currency meant that U.S. dollars and euros were unavailable at some Russian banks and exchange points Friday as the ruble went into free fall during morning trading.

The Russian currency nosedived 3.8 percent against the dollar after markets opened, hitting a historical nadir of 48.64 against the greenback and shooting past 60 per euro for the first time.

Analysts warned that Russia was standing on the verge of a full-blown currency crisis amid signs of panic in the population, where memories of a plummeting ruble and runaway inflation during the 1998 default are never far away.

The dramatic rout meant that the ruble had lost over 10 percent against the dollar in the 48

hours after the Central Bank announced Wednesday that it was capping market interventions to defend the ruble at $350 million a day.

While the ruble later bounced back, gaining 6 percent by mid-afternoon on expectations that the Central Bank would be forced to act, the currency was still down 30 kopeks in the early evening, trading at just under 47 per dollar.

Physical Shortages

Russian retail banks reported a surge in demand for foreign currency on Thursday and Friday.

"The excess demand is 3-4 times more than the standard level of foreign currency purchased by individuals," VTB24, the retail arm of Russia's second-biggest banking group, told the TASS news agency on Friday.

Attempting to exchange rubles for dollars at a VTB24 in downtown Moscow around 2 p.m. on Friday, a Moscow Times reporter was told that the branch had run out of dollars but was expecting additional shipments the following day.

At a nearby Sberbank, dollars were still being sold, but the branch was flooded with so many customers looking to exchange currency that the ticket-based waiting system had stopped working.

Sberbank, the country's largest lender, said Friday that there had been "some increase in demand for foreign currency by the public in recent weeks," but said it was ready to provide additional supplies to meet the demand, TASS reported.

Shortages of currency at other Russian retail banks including Moscow Credit Bank, Otkritie Bank, Trust Bank, Investtorgbank and Baltika Bank were reported by TASS and another Russian news agency, RBC.

Smaller retail banks have reportedly been encouraging customers to make advance orders for foreign currency in order to ease the supply pressures.

Where Is the Central Bank?

Rumors of an emergency meeting of the Russian Central Bank eased selling pressure on the currency Friday afternoon, allowing it to strengthen as traders looked for a market intervention by the regulator to punish speculators betting on continued falls.

The Central Bank, however, apparently decided not to use the firepower of its foreign currency reserves and instead issued a statement promising that it was prepared to use all the means at its disposal to head off the threat to financial stability.

"In these conditions, the Bank of Russia is ready to increase foreign currency interventions at any moment and to use its other financial-market tools," the statement said.

The bank has sold over $70 billion worth of foreign currency this year and still has just over $420 billion still available.

Some experts appeared baffled by the position of the authorities.

“The Central Bank is still saying, 'Hey, look at our big gun, we used some bullets, we got plenty left, and we still have a bazooka in our back pocket,'” Timothy Ash, head of emerging market research at Standard Bank said Friday in a note to investors. “But the deterrent only really works if you are prepared to deploy it.”

Currency Crisis?

Several cashiers at exchange points in Moscow brushed off questions from a Moscow Times reporter about currency shortages, insisting that they were not seeing an increase in demand. Branch offices of Raiffeisen Bank and Rosbank on the central Tverskaya Ulitsa were willing to oblige a reporter's request to exchange 1 million rubles ($21,000) for dollars.

The extent of the ruble's decline — about 40 percent versus the dollar since January — would actually work as a brake against popular panic, said Oleg Kuzmin, chief economist at Renaissance Capital.

“For households, the dollar is very expensive,” he said. “It's too late. For psychological reasons it's very difficult to buy dollars at 45 or 47 [per dollar].”

But the rapid collapse in recent days has prompted some analysts to predict that a serious currency crisis, fueled by a run on the ruble, is just around the corner.

The ruble was “unhinged” and could soon breach the 50-to-the-dollar mark, Sberbank CIB's chief currency strategist Tom Levinson said in an e-mailed note to investors Friday.

“The longer the regulator waits, the harder it will be to find a solution able to stabilize the market,” Dmitry Polevoy, chief economist for ING Bank in Russia, said in a note Friday. “Panic among the population is difficult to stop.”

Contact the authors at h.amos@imedia.ru and bizreporter@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/11/07/dollar-shortages-spread-amid-russian-ruble-collapse-a41136