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Ruble Weakens Day After Central Bank Decision to Allow Free Float

By The Moscow Times

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An employee counts Russian Rouble banknotes.

The ruble resumed its dramatic slide on Tuesday, a day after the Central Bank floated the currency, which has been driven sharply lower by falling oil prices and economic sanctions imposed over Russia's policy in Ukraine.

On Tuesday, the ruble lost around 1.1 percent against the dollar by evening, falling to 46.4 rubles per dollar after gains in the previous two sessions. It lost 1.5 percent to trade at 57.7 versus the euro.

The currency has lost a third of its value against the dollar so far this year, most of that in the last three months as sanctions made it harder for banks and companies to refinance debts and tumbling oil prices hurt government revenue.

Larger earlier losses were trimmed on Tuesday after German Chancellor Angela Merkel said

there were no plans at present for further economic sanctions on Russia, and the Central Bank said it would impose a new daily limit of the equivalent of $2 billion on the amount of rubles it would lend short-term to banks for currency swaps.

The Central Bank's measure could support the ruble by restricting funds used to buy dollars. Banks have usually sought less than $2 billion per day through the facility in the past. The Central Bank said the limit would remain until the end of the month.

The currency was still stronger than the record 48.65 to the dollar set during wild swings on Friday, with traders now cautious about testing the bank's firepower, especially after President Putin promised to avert a crash.

"The ruble gained yesterday on verbal interventions from officials including President Vladimir Putin, but those words have to be followed up by action. The market still expects more from the Central Bank," said Yury Tulinov, head of research for capital markets and investment banking at Rosbank.

On Monday the Central Bank officially set the ruble currency free to float, saying it would now target inflation rather than the exchange rate, a step it had planned anyway by the end of the year.

Although regular interventions will stop, the bank said it would keep the market in check and punish those betting against the ruble by carrying out large, ad hoc interventions.

The Central Bank, Putin and Prime Minister Dmitry Medvedev have all spoken in support of the ruble in recent days, blaming speculation by private banks for its slide.

Medvedev told a government meeting on Tuesday there were no fundamental reasons for the ruble to weaken further and ruled out restrictions on foreign currency sales.

Stability for the currency is one of the main achievements of President Vladimir Putin's 14-year rule, and its slide has revived memories of the currency collapse that shut banks and wiped out the savings of Russians a year before he took power.

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