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Russian Ruble Rebounds; Traders Sense Central Bank Intervention

By Howard Amos

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Some observers say a falling ruble suits the Kremlin, as its boosts the state's revenues from oil export sales.

The Russian ruble strengthened sharply Wednesday following a drop of more than 1 percent in morning trading, fueling speculation that the Central Bank had intervened on currency markets for a second time in three days.

The ruble strengthened 3.8 percent to 52.7 against the U.S. dollar in a matter of minutes shortly before 1 p.m., after weakening about 1 percent in the morning to new historic lows against both the dollar and the euro, according to data from the Moscow Exchange.

Volatile afternoon trading saw the ruble climb back up to almost 54 against the dollar, before settling at about 53 versus the greenback and 65.5 against the euro by 9 p.m. in Moscow.

The last time the ruble strengthened so dramatically was on Monday, shortly after recording

its sharpest one-day fall for 16 years.

The Central Bank said Wednesday that it spent $700 million of its foreign currency reserves to reverse ruble declines on Monday — the first such intervention since the introduction of a fully free-floating ruble on Nov. 10.

The regulator releases information about currency market interventions with a two-day time lag.

The Central Bank, which has spent about $70 billion defending the ruble since January, said last month that now the ruble was free-floating, it would only intervene on currency markets if there was a threat to Russia's financial stability.

"Over the past 24 hours we have been seeing signs of contagion to other Russian markets — particularly credit, and it seems the Central Bank is worried that this could become vicious," Timothy Ash, an emerging market analyst at Standard Bank, said in an e-mailed note Wednesday.

Three currency traders said Wednesday that the Central Bank was selling foreign currency to support the ruble, Reuters news agency reported.

The likely intervention, and the ruble's strengthening, comes a day before President Vladimir Putin is due to give his annual state of the union address to lawmakers in the Kremlin.

Putin has said repeatedly that the Central Bank will not "mindlessly" burn through its reserves of foreign currency in bid to defend the ruble. Russia has about $420 of currency reserves left.

The ruble has dropped 3.7 percent against the greenback so far this week, extending months of weakness driven by a falling oil price, tanking economy and the effect of Western sanctions on Moscow.

Some experts have suggested that the Kremlin is happy to let the ruble fall as a way of maximizing revenues as the price of oil — on which Russia depends for half its budget revenues — plunges. A one ruble increase in the dollar's exchange rate boosts government revenues by about 200 billion rubles.

One of the world's worst performing currencies, the ruble has tumbles 40 percent against the dollar since January.

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