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Russia's Ruble Falls as Hawkish Putin Dismays Investors

By Howard Amos

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A Russian one ruble coin sinking in a jar of water.

The Russian currency weakened sharply Thursday, reversing early gains as President Vladimir Putin gave a hawkish speech, disappointing hopes that he might signal a compromise over Ukraine or announce convincing measures to address Russia's economic troubles.

The ruble crumbled 2 percent against the U.S. dollar in the opening minutes of Putin's annual state of the nation address to Russian lawmakers and fell further through the day to trade at 54.5 in the early evening.

Falling crude prices also weighed on the Russian currency, with Brent oil slipping below $70 a barrel Thursday. Oil has fallen over 40 percent from highs of $115 in June.

The ruble had strengthened about 1 percent against the dollar ahead of Putin's speech after the Central Bank said Thursday morning that it was ready to boost market interventions. But

gains were erased as Putin took to the rostrum to criticize the West and defend Russia's actions in Ukraine.

Putin also called for strong measures to be taken against “speculators” that he said were contributing to the Russian currency's falls.

“I am asking the Central Bank and the government to take harsh, coordinated action to fight off the desire of so-called speculators to play on the volatile exchange rate of the Russian currency,” Putin told assembled dignitaries.

“The authorities know who these speculators are, and there are instruments of influence to use against them, the time has come to use those instruments.”

The Central Bank said later that it would request an investigation if it saw signs of market manipulation but that it was not planning to take any new administrative steps, according to the Interfax news agency.

Finance Minister Anton Siluanov told reporters after Putin's speech that the government would work together with exporters to manage their presence on the currency market, the Vedomosti business daily reported.

“Evidently, investors not impressed by Putin's speech,” said Timothy Ash, an emerging markets analyst at Standard Bank in an e-mailed note.

“Perhaps those comments about punishing speculators made those thinking of exiting that they better head to the exits as soon as possible, rather than wait for the Russian authorities to close the doors completely.”

The ruble has tumbled almost 40 percent against the dollar this year, but falls have intensified in recent weeks, with the currency recording its biggest drop in 16 years on Monday. Lower oil prices, Western sanctions on Moscow and an economy that is teetering on the brink of recession are all weighing heavily on the currency.

The Central Bank allowed the ruble to fully free-float on Nov. 10 after burning through about $70 billion of dollars since January in an effort to prop up the currency.

But sharp ruble falls this week have brought the regulator back to the market.

The Central Bank said that it spent $700 million of its foreign currency reserves Monday to defend the ruble and experts and traders said that it intervened again Wednesday.

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

"We are currently witnessing a ruble exchange rate, including loss-making volatility, that is creating the premise for risks to financial stability," the Central Bank said in a statement Thursday morning.

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