The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russian Shares Dragged Down by Falling Oil Prices

By The Moscow Times

December 09, 2014

People walk along a street past a board showing currency exchange rates in Moscow.

The ruble declined further on Tuesday as global oil prices hovered close to five-year lows, with mounting expectations the Russian Central Bank will raise interest rates on Thursday.

At 7 p.m. in Moscow, the ruble was 0.9 percent weaker against the dollar at 54.24 and had lost 1.8 percent to stand at 67.41 versus the euro.

Global oil benchmark Brent fell to a five-year low of $65.29 earlier on Tuesday, extending Monday's steep decline. It saw a modest recovery to $66.54 in the afternoon, but this did little to help the ruble.

The Russian Central Bank said Tuesday that it had spent $1.93 billion in currency market interventions last Friday, bringing last week's total to $4.53 billion, despite its decision to float the ruble a month ago.

"The Central Bank simply is not doing enough to convince the market that it is serious, using a pea-shooter in terms of current piecemeal intervention," said Standard Bank analyst Tim Ash in a note. "It will need to hike rates significantly to defend the ruble, or let the ruble further weaken."

The Central Bank board is meeting on Thursday to consider interest rate policy. A trader at a large Russian bank said that the ruble could now stabilize close to present levels.

"It seems to me that driving the dollar higher [against the ruble] is senseless — the Central Bank could strike and corporates have clearly bought enough forex at the moment," he said.

He added, however: "There aren't people mad enough to bet on the ruble strengthening. ... There aren't hopes for an improvement in the economic situation or the abolition of sanctions and these aren't expected, nor is a significant rebound in the oil price."

Western sanctions imposed over Russia's actions in Ukraine are a major factor behind the financial turmoil. Investors are pessimistic that they will be lifted soon, despite new attempts to stop fighting between Ukrainian government forces and pro-Russian rebels in eastern Ukraine.

Russian stocks fell heavily in early trading in response to the low oil price, but later trimmed losses following the modest oil price rebound.

At 6:50 p.m., the dollar-based RTS Index was down 1.48 percent to 858 points, having earlier set a new five-year low of 847. The ruble-based MICEX Index was down 0.41 percent to 1,475 points.

"If earlier investors looked for defense of their savings from devaluation by buying shares, now we're seeing the effect of a capital outflow from securities," Veles Capital analyst Alexander Kosyukov said in a note.

"Such a 'flight' shows the extremely negative mood of investors, as a result of which we could see the RTS Index falling to 800 points in the next week or two," he said.

Original url:
https://www.themoscowtimes.com/2014/12/09/russian-shares-dragged-down-by-falling-oil-prices-a42102