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Russian Ruble Falls After Central Bank Cuts Key Interest Rate

By The Moscow Times

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The Central Bank jacked up the key rate in mid-December at an emergency meeting provoked by a run on the ruble, as sliding oil prices and Western sanctions linked to the Ukraine conflict sparked financial turmoil.

The Russian ruble fell Friday after the Central Bank unexpectedly cut its key interest rate, little more than a month after sharply increasing it to combat a crisis aggravated by low oil prices and Western sanctions over Ukraine.

The ruble fell as much as 4 percent against the dollar and euro from the previous close, before recovering slightly.

"The slide in the ruble shows that the rate cut has been badly received, but this is a Central Bank that is doomed if it does, doomed if it doesn't," said Nicholas Spiro, managing director of Spiro Sovereign Strategy in London.

"What was more worrying was that they hiked rates by 650 basis points (bps) in the first place."

At 11:50 GMT, the ruble was 2.5 percent weaker against the dollar at 70.47 and lost 3 percent to trade at 80.03 versus the euro.

Russia's Central Bank said in a statement it was reducing its one-week minimum auction repo rate by two points to 15 percent, adding that it saw conditions for lower inflation in the medium term.

A poll had predicted that the bank would hold the lending rate at 17 percent, even though the economy is likely to contract by 4.2 percent this year.

The Central Bank increased the key rate in mid-December by 650 bps at an emergency meeting provoked by a run on the ruble.

Global oil prices have since declined further, hitting six-year lows and putting renewed pressure on the ruble. Brent crude was trading 1 percent higher at around $49.70 a barrel on Friday, curbing ruble losses.

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