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Ruble Slowly Strengthens Due to Rising Oil Prices and Minsk Talks

By The Moscow Times

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A man walks under a board displaying currency exchange rates in Moscow.

The ruble was stronger on Friday and Russian shares rose, helped by a peace agreement to end the war in Ukraine and a rise in oil prices to over $60 per barrel.

The reaction of the ruble was relatively muted, however, reflecting the impact of a large foreign debt repayment by oil company Rosneft, and doubts about how soon Western sanctions against Russia will be lifted given continuing obstacles to peace in Ukraine.

By the end of trading on Friday, the ruble was 2.64 percent stronger against the dollar at 63.58 and 2.76 percent stronger at 74.03 versus the euro.

Russia's dollar-denominated RTS stock index was up 6 percent at 914 points, while the ruble-based MICEX was 1.96 percent higher at 1,838 points.

"Russian shares and bonds have shown a decent rally, but the currency market has reacted

cooly," ING economist Dmitry Polevoy said in a note, adding that the ruble's muted reaction may be linked to a large foreign debt repayment by oil company Rosneft.

Rosneft said on Thursday it had repaid a $7 billion loan and denied it had converted rubles to fund the repayment. However, Polevoy said that the resulting outflow of foreign currency from banks was fueling demand for dollars indirectly.

Some analysts said that the ruble's cool reaction showed doubts about how soon Western sanctions against Russia will be lifted — the main way in which developments in Ukraine impact Russia's financial markets.

Commenting on Thursday's agreement, reached after marathon overnight talks in Minsk, German Chancellor Angela Merkel said it "offered a glimmer of hope, nothing more, nothing less."

"It's obvious that investors, gradually thinking about the Minsk agreements on Ukraine, have come to the conclusion that one shouldn't count on a rapid lifting of sanctions," Sergei Kozlovsky, head analyst at Grand Capital, said in a note.

Analysts at Sberbank Investment Research said that the peace deal "represents tangible progress," but "the design of a credible roadmap for peace and its successful implementation are still lacking."

However, many analysts saw good prospects for the ruble and other Russian assets to continue strengthening, also helped by a rebound in the oil price.

On Friday morning Brent crude rose over $60 a barrel for the first time since December, up over 1 percent on the day. Oil is a key driver for all Russian assets since it is the country's chief export.

Brent has gained over 4 percent this week, supported by signs that deeper industry spending cuts may curb excess supply.

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