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Central Bank Acts to Rein In Russia's Ruble Rally

By The Moscow Times

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The Russian ruble fell sharply on Thursday after the Central Bank announced it was buying foreign currency worth $100-200 million daily to replenish its reserves, a sign it thinks the ruble has strengthened enough.

At 8 p.m., the ruble was around 1.4 percent weaker against the dollar at 49.96 and down 1.7 percent at 56.85 versus the euro.

The Central Bank's announcement that it is buying foreign currency comes a day after the ruble hit its strongest levels since November last year, reaching 48.83 against the dollar.

Some analysts had said the dollar-ruble rate was unlikely to remain below 50 as the Central Bank would intervene to prevent excessive ruble appreciation.

In a statement, the Central Bank said its decision to purchase forex "was taken considering the normalization of the situation on the internal currency market and isn't directed at

supporting a particular level of the exchange rate."

The bank's move to buy forex represents a reversal from its actions last year, when the bank expended reserves to defend the ruble, which fell on slumping oil prices and Western sanctions linked to the Ukraine conflict.

Over recent months the ruble has staged a strong recovery since hitting a low of 80 to the dollar in December, helped by a partial rebound in oil prices and February's peace deal in eastern Ukraine.

The ruble's rise has prompted a series of Central Bank policy steps, including higher rates on its forex loans and cuts in its main ruble lending rate, but the rally continued.

"Today's announcement by the CBR ... serves as a warning shot over further currency gains, not a game changer," analysts at Sberbank CIB said in a note.

"While we believe that the ruble's appreciation has overshot, the CBR is seeking to lean against further gains without challenging the broad market trend."

Renaissance Capital economist Oleg Kouzmin described the interventions as a "soft measure to address ruble strength," predicting that the impact on the ruble would be only slightly negative given the relatively small size of daily interventions.

"In general, we keep the view that ruble recovery since the start of the year has more pros than cons for the CBR and the economy in general, including better inflation," he said. "However, our estimates suggest that the ruble could have been overvalued by approximately 5-10 percent starting from mid-April."

Analysts also emphasized the desirability of replenishing the Central Bank's reserves, which have plummeted from $509.6 billion at the start of 2014 to $358.5 billion today.

The reserves continued to fall earlier this year as the Central Bank lent foreign currency to banks, but they have stabilized over recent weeks and risen since hitting a low of $350.5 billion in April.

Russian stock indexes were also weaker on Thursday, with the main losses concentrated in the dollar-based RTS index that is negatively impacted by a weaker ruble.

The RTS closed down 2.5 percent at 1,055 points while the ruble-based MICEX fell 0.3 percent to 1,678 points.

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