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Russia Not Expected to Stand Up for Tanking Ruble Amid Sanctions

By Reuters

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Kirill Zykov / Moskva News Agency

A threat of more U.S. sanctions has sent the ruble tumbling to its weakest since mid-2016, but authorities are not expected to leap the currency's defense after weathering a similar storm in April, analysts said.

The ruble crashed to 67.67 versus the dollar on Friday, losing more than 6 percent of its value in just one week, as the United States said it would impose fresh sanctions against Moscow.

The ruble's slide was akin to its drop in April when, also battered by sanctions from Washington, it lost 12 percent in just a few days.

The lack of action by authorities back then is convincing market players now that they will not intervene this time either.

"When we think about what has happened in April, when sanctions were introduced and we saw a similar reaction in the ruble ... this is not a move in the ruble that would make policy makers extremely worried," said Tilmann Kolb, an emerging market analyst at UBS Global Wealth Management in Zurich.

Liza Ermolenko, an economist at Barclays in London, said that given the central bank refrained from intervening in the market in April, it is clear that a more sudden and deeper drop in the ruble would be required to make it step in now.

The authorities have made few public comments on the latest falls, which started on Wednesday, when the U.S. State Department announced a new round of sanctions that pushed the ruble to two-year lows and sparked a wider sell-off over fears Russia was locked in a spiral of never-ending sanctions.

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On Friday the central bank said it had tools to prevent risks to financial stability, without specifying what they were.

The central bank, which last intervened in the market and raised rates to save the ruble from tanking in 2014, described the ruble's drop upon news about more U.S. sanctions as a natural reaction.

As in April, the central bank has reduced its daily buying of foreign currency for state reserves this week to lift extra pressure from the ruble, which has fallen by around 15 percent versus the dollar so far this year.

"Authorities do not set a goal of avoiding a ruble drop at the moment. That's why they won't do anything," said Pyotr Milovanov, currency trader at Metallinvestbank in Moscow.

Analysts say the other possible option to support the ruble would be a hike to the key interest rate, now at 7.25 percent, but this also seems to be off the table for now.

"At this stage we don't expect policymakers to resort to rate hikes," Ermolenko from Barclays said.

Kolb from UBS said he would "expect a bigger reaction if we got perhaps towards 70 [rubles per dollar] but this also depends on how we get there, if at all".

"I wouldn't expect Russian policymakers to use their available tools to support the ruble at current levels," he said.

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