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Bank of Russia Halts Ruble Slide by Stopping FX Purchases

By Bloomberg

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Russia's central bank said it will suspend sales of rubles to purchase foreign exchange through the end of September in an effort to steady the currency, helping pull it back from the lowest level in two years.

The move was the most dramatic official step yet to stem the currency's declines, which have picked up in recent days amid growing fears of U.S. sanctions. Alarm over the impact of possible new restrictions being discussed in Washington has spread beyond financial markets, with the government saying Wednesday it will have to trim economic growth forecasts for this year because of the turmoil and surging outflows of capital.

The central bank's announcement was the first time the regulator has given a time frame for staying out of the market since the foreign-exchange-buying program began in early 2017.

“This decision was made in order to increase the predictability of monetary authorities’ actions and to reduce volatility on financial markets,” the central bank said in a statement Thursday. It said the decision to resume foreign-exchange purchases “would be made depending on the situation on financial markets over the course of September.”

Reserve buildup

The central bank sells rubles to buy foreign currency for the Finance Ministry to build up reserves under a fiscal rule aimed at insulating the economy from volatility in oil prices. The regulator had suspended its transactions for six days earlier this month when the ruble was falling, but resumed them on Aug. 17 in larger volumes. On Tuesday, the central bank sold 20.1 billion rubles ($293 million). The Finance Ministry said the pause wouldn’t affect its accumulation of reserves under the fiscal rule.

“The central bank had to step in as this was getting a bit too uncomfortable,” said Edwin Gutierrez, the London-based head of emerging-market sovereign debt at Aberdeen Standard Investments. “Now we need a better overall emerging-market environment for that to be enough to support the ruble.”

The ruble fell as far as 69.01 per dollar Thursday, the lowest since early 2016, but rebounded after the central bank’s announcement to trade as much as 0.9 percent stronger, making it the only major emerging-market currency to gain versus the dollar on Thursday. The ruble later trimmed the advance and was down 0.2 percent at 68.1850 as of 6:48 p.m. in Moscow.

“The central bank’s decision to put on hold foreign-currency purchases on behalf of the Finance Ministry will ease the selling pressure on the ruble,” Rabobank emerging-market currency strategist Piotr Matys said. “However, the prospect of the U.S. imposing far harsher sanctions that would have negative consequences for the Russian financial sector should keep the bias skewed toward further ruble depreciation in coming weeks.”

Forecast Cut

Sanctions are compounding the impact of turmoil in Turkey, Argentina and Brazil, putting the Russian economy on track to grow 1.8 percent in 2018, down from an earlier projection of 1.9 percent, Economy Minister Maxim Oreshkin told reporters in Sochi late Wednesday. “All of this is clearly affecting the Russian market,” he said.

Updated forecasts to be released next week will show a smaller gain in gross domestic product this year and a weaker ruble than anticipated, with outflows accelerating in the next 12 months, he said.

Investors have been fleeing Russian government bonds, as well, forcing the Finance Ministry to cancel its auction this week, the first time since April.

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