Ruble Slide to Record on Oil Rout Spurs Russia Intervention Bets

By Ksenia Galouchko and Vladimir Kuznetsov - Dec 12, 2014

The ruble tumbled to a record low for a second day, spurring speculation the central bank intervened to stem the rout as oil’s retreat below $65 a barrel worsens the outlook for an economy verging on recession.

The currency slid as much as 2.7 percent to 57.9860, leading the central bank to sell foreign exchange, according to BCS Financial Group and OAO Bank Otkritie. The ruble traded 1.5 percent weaker at 57.30 by 11:55 a.m. in Moscow, accelerating declines since yesterday’s 100 basis-point interest-rate increase failed to offset pressure from falling oil prices. The 10-year government bond yield neared a five-year high.

Russia’s currency is on course for its worst year since the nation’s 1998 default after getting battered as sanctions over the conflict in Ukraine blocked companies from western debt markets and oil dropped into a bear market. Five interest-rate increases by the central bank failed to alter the ruble’s course, while exacerbating inflation at a three-year high and further choking economic growth.

“Oil is a priority for investors in Russian assets and it’s quickly approaching $60, such speed of declines is very troubling,” Anvar Gilyazitdinov, who manages $10 million at Rye, Man & Gor in Moscow, said by phone. “Falling oil and the risk of recession at the start of next year are pressuring the ruble.”

The central bank sold at least $600 million to support the ruble today, Luis Saenz, the head of equity sales and trading in London for Moscow-based BCS Financial Group, said in an e-mailed note. The intervention was at least $1 billion in size, according to Sergey Fishgoyt, the deputy head of foreign-exchange at OAO Bank Otkritie.

Currency Interventions

The government said for the first time last week that the economy will probably contract 0.8 percent in 2015, the worst performance since it shrank 7.8 percent in 2009. Oil and natural gas make up about 50 percent of Russia’s budget revenue and gross domestic product. Brent crude tumbled as much as 1.2 percent to $62.90 today, the lowest since July 2009.

Russian stocks also retreated today, with the dollar-denominated RTS Index sliding 3 percent to a
five-year low. OAO Sberbank fell for a second day as JPMorgan Chase & Co. cut the net-income forecast for Russia’s largest bank by 7 percent for 2014 and 29 percent for 2015, citing a deteriorating economic environment, the ruble’s decline and risks from Ukraine exposure.

Three-month implied volatility on the ruble against the dollar headed for 35 percent today, the highest since at least 2005. Price swings increased after the central bank accelerated plans for a freely floating exchange rate last month, abandoning an intervention policy that led it to drain more than $80 billion from its foreign-currency reserves this year.

Policy makers resumed interventions this month, spending at least $5.5 billion.

“All Russian assets are following oil and oil is falling to $60 a barrel,” Dmitriy Gritskevich, an analyst at OAO Promsvyazbank in Moscow, said in e-mailed comments.

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