



The roar of the Ruble

Western sanctions have had the opposite effect: Russia's currency is stronger than it has been for a long time.

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The purpose of the West's sanctions was to bring Russia to its knees. One of the toughest sanctions was Russia's exclusion from the Swift system in order to destroy the rouble. To the surprise of many, things turned out quite differently - the rouble is soaring. As quickly as it crashed - by 41 per cent - it recovered. On 6 April, one euro cost 89 roubles again, just like before the invasion.

This rapid recovery to the starting point can be explained by the quick intervention of the Russian Central Bank, which led to immediate calming of the public, for example by raising the key interest rate from 8.5 per cent to 20 per cent. A bank

run was thus prevented and the population was rewarded with a savings interest rate that was far above inflation. Since then, the Russian central bank has already lowered the key interest rate again in two steps to 14 percent.

This can explain the ruble's recovery to pre-conflict levels.

Since then, however, the rouble has strengthened to its highest level in over five years, much to the shock of the West. On 16 May, one euro still fetched 66 roubles. In other words, the rouble has appreciated 33 per cent against the euro since the Ukraine crisis began. Bloomberg reports that the rouble is the best performing currency worldwide since the beginning of the year. A huge jump. How can this be explained? There are two primary reasons:

Reason 1 - After the West froze Russia's foreign currency reserves and thus payments for natural gas in euros were automatically tapped by the West, the Russian government declared that it would only accept payments in roubles from April. Although the EU initially refused to accept this, the Russians achieved their goal. Gas buyers in the EU must now open a rouble account in addition to a euro account at Gazprombank. The euro payments are automatically converted into roubles. This means that the EU makes all payments for gas in roubles. The EU imports about 22 billion euros worth of oil and gas from Russia every month.

Countries that refuse to pay in roubles no longer receive gas - Poland, for example. The price of a currency is subject to the law of supply and demand. Given the oil and gas purchases for 22 billion euros a month, it is logical that the rouble will become more expensive against the euro.

Reason 2 - In March, the Russian Central Bank announced unlimited gold purchases at 5000 roubles per gram until the end of June. This was a first step towards backing the rouble with gold - albeit only an intermediate step, as only the buy side was covered, not the sell side.

However, this plan to buy gold at this fixed price was discarded by the Russian central bank, as even it was surprised by the extent of the rouble rally: According to this model, it would pay around 73 euros for a gram today. The official gold price, however, currently stands at 56 euros per gram.

On 26 April, the Russians came up with a new surprise: in an interview with *Rossiskaya Gazeta*, the secretary of the Russian Security Council, Nikolai Patrushev, stated that Russia was working on a plan to back the rouble with gold

and other commodities. Although the president of the Russian central bank was sceptical at the beginning, it can be assumed that the trend towards a gold-commodity rouble is predetermined.

This first signal from Russia towards a currency that embodies real value should give the rouble a further boost.

What I said earlier seems to be coming true: When sanctions were imposed on Russia, the West trumpeted that the bear only had the gross national product of Italy and could therefore be easily defeated. A fatal error in thinking. Russia is the largest country in the world, is net debt-free, has by far the largest reserves of raw materials and is probably the only country in the world that is actually self-sufficient.

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