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Cross-Asset- and Strategy-Research

The strong ruble is not a sign of Russian strength

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Russia's export revenues boom while sanctions reduce imports

Many are rubbing their eyes in disbelief. Why on earth is the Russian ruble so strong? After the start of Putin's brutal war of aggression, the value of the Russian currency initially plummeted. Sanctions were adopted and implemented at an unprecedented scale and pace. The collapse of the Russian economy and an imminent default by Moscow appeared preordained.

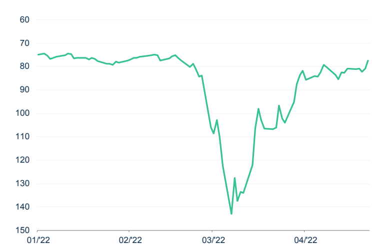
Indeed, these expectations seem to be coming true. The IMF now predicts an 8.5% contraction of the Russian economy in 2022 with inflation above 20%. Russia's sovereign debt has already defaulted in part.

Sanctions are making the ruble strong!

Nevertheless, the ruble has completely recovered the loss in value since the sanctions took effect (see chart). This does not mean that the sanctions imposed have been ineffective, much less that Russia is getting its way militarily. Rather, it is a result of supply and demand. These, to the surprise of many, have developed in favor of the ruble. This is due to several factors:

- There is no blanket embargo on Russian oil and gas. Therefore Russia continues to receive substantial foreign currency inflows from Europe through the sale of its natural resources. Estimates for the period since the beginning of the war put the figure at just under 40 billion euros!
- As commodity prices have recently risen on balance, Russia's export earnings are at record levels. The central bank is sanctioned and can't receive any foreign funds. Instead, Western payments find a home in accounts of the non-sanctioned Gazprombank. Initial reluctance among buyers of

Ruble/US dollar exchange rate since beginning of the year (inverted)



Source: Refinitiv

Despite a deep recession in Russia, the ruble has completely recovered!

Russian oil has faded. Oil tankers have been taking on record amounts of crude in Russian ports since mid-April. Most of them under the Greek flag!

- At the same time, Russia's imports have collapsed due to far-reaching sanctions and a resulting recession in the country. As a result, Russia's current account surplus will reach record levels this year (see chart).

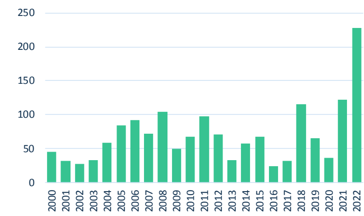
As long as Russia exports, the ruble will remain strong

Demand for hard currency is low because of foreign exchange controls and a desolate economy in Russia. Hardly a sign of Russian resilience or strength! Supply of dollars and euros, on the other hand, is plentiful: Both prices and supply volumes for Russia's exports are at historically high levels. As a result, this is giving the ruble a boost.

The EU's decision to stop buying coal from Russia in the future does not make a significant difference. Coal accounted for less than 4% of Russia's export revenues in 2019. Only a decision to put all Russian banks on the sanctions list and thus de facto cut off Russia's exports altogether would inflict lasting damage on the currency and the economy.

Such a more far-reaching step would have massive consequences for our own economy as well. That's what we'll be talking about in next week's edition of "To the point!".

Russia's current account surplus in billions of dollars



Source: IMF

Only a complete embargo would bring the ruble to its knees