



Ruble Outlook – Medium Term

Low crude prices to keep pressure

Russia's central bank has kept rates at 10.5% after a rate cut last month which was done after almost one year. Any further cut at this moment may lead to risk of inflation rising above the target.

This action also indicated independence of central bank as Putin had expressed concerns over strengthening ruble in times of oil prices declining and there was pressure on central bank for rate cut. But no rate cut was logical as inflation is still above 7%, budget policies are uncertain, and ruble is weakening.

- **Crude expected to remain depressed**
- **Europe growth fragile**
- **BREXIT contagion**
- **China slowing down**

After a 20% crash in 2015 against dollar, ruble is this year up more than 10%. With economy near ending of recession, Bank of Russia is again focusing on inflation control. Inflation jumped in June as the nominal wages rose faster than prices. Inflationary expectations increased for the first time since January this year. The last few weeks have seen cautious approach by government over inflation as household incomes rebounded after having been hit for two years by economic crisis. Policy makers will watch inflation as the key factor for deciding rates. Expectations of rate cut will be negative for ruble.

In contrast to domestic inflation, oil price decline is a bearish factor for ruble as persistent low oil prices would dent export income unless ruble depreciates further. There are several reasons for continued low oil prices – fragile Europe growth, China slowing down, supply threat from shale oil, and Brexit contagion causing weak growth in EU. This scenario is not favorable for ruble appreciating.

It was expected by several experts that Russia would see start of a rate cutting cycle and there would be a second rate cut in July, but now they are losing hope as inflation keeps creeping up. It has already reached near double the expected level of 4%.

Technical View and System Signals

For RUBINR, 1.05 is a crucial 161.8% Fibonacci resistance in medium term. The Gann fan is indicating a strong support near 0.90-0.93. On weekly chart, RUBINR is in a technical downtrend making lower lows and lower highs. If next low is above 0.79 (the previous low made in January this year), there may be chances of a trend reversal, and Gann support indicates a higher probability of a higher low, but it may take several months.



Out Trend Algorithm is indicating a medium term down trend beginning this July and may last for next 6-8 months.

Weekly RUBINR chart



Hedging RUBINR

Ruble would be overbought near 1.01 – 1.05 range. Best strategy would be to short hedge near these levels for medium term (say six months) in case of Indian exporters. Importers need not hedge now and should wait till downtrend ends, which may take six-eight months.

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