Rise of the Ruble during Unprecedented Times

Introduction

Foreign exchange reserves are a nation's backup funds in case of an emergency, such as a rapid devaluation of its currency. Countries use foreign currency reserves to keep a fixed rate value, maintain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors.The value of a country's currency is largely dependent on the value of its foreign reserves. Foreign reserves increase as the trade of a country increases and the value of the total exports is greater than the value of the total imports.

Countries with a floating exchange rate system use forex reserves to keep the value of their currency lower than the US Dollar. To maintain liquidity in case of an economic crisis. Several other factors can also influence the value of a currency. The factors are as follows:

- Inflation
- Interest Rates
- Public Debt
- Political Stability
- Economic Health
- Balance of Trade
- Current Account Deficit
- Confidence/ Speculation

The Russia Ukraine War

After the Soviet Union (USSR) dissolved in 1991, the newly independent republics of Ukraine and Russia maintained ties. Ukraine agreed in 1994 to sign the Nuclear Non-Proliferation Treaty and dismantle the nuclear weapons in Ukraine left by the USSR. In return, Russia, the United Kingdom (UK), and the United States (US) agreed in the Budapest Memorandum to uphold the territorial integrity of Ukraine.

In 1999, Russia signed the Charter for European Security, which "reaffirmed the inherent right of each and every participating state to be free to choose or change its security arrangements, including treaties of alliance". After the Soviet Union collapsed, several former Eastern Bloc countries joined NATO, partly due to regional security threats such as the 1993 Russian constitutional crisis, the War in Abkhazia (1992–1993) and the First Chechen War (1994–1996). Russian leaders claimed Western powers pledged that NATO would not expand eastward,

The invasion began on the morning of 24 February, when Putin announced a "special military operation" to "demilitarise and denazify" Ukraine. Minutes later, missiles and airstrikes hit across Ukraine, including the capital Kyiv. A large ground invasion followed from multiple directions.] Zelenskyy enacted martial law and a general mobilisation of all male Ukrainian citizens between 18 and 60, who were banned from leaving the country. Russian attacks were initially launched on a northern front from Belarus towards Kyiv, a north-eastern front towards Kharkiv, a southern front from Crimea, and a south-eastern front from Luhansk and Donetsk.

The war caused Europe's largest refugee crisis since World War II, with more than 8 million Ukrainians fleeing the country and a third of the population displaced. The war also caused global food shortages and rising prices of oil and natural gas. A global oil crisis has erupted within the world with Russia being one if the largest exporters of oil and natural gas.

Sanctions on Russia

After the announcement of the war, sanctions quickly followed. An import ban on Russian oil and natural gas within the US caused rising oil prices and inflation.

EU and USA

Up until now, EU states have been importing 2.2 million barrels per day (bpd) of crude oil from Russia and 1.2 million bpd of oil products.

Given the soaring price of oil, this has been earning Russia over $1bn (£800m) a day.
EU nations have agreed to stop importing any oil from Russia that comes in by sea, which rules out about two-thirds of the total.

They will continue, on a temporary basis, to import Russian oil by pipeline. This is to benefit countries such as Hungary and Slovakia, which are highly dependent on it.
However, Germany and Poland, which also import Russian oil by pipeline, say they will stop doing so by the end of this year.

The EU's president, Ursula von der Leyen, says this will effectively reduce the EU's oil imports from Russia to 10 or 11% of its current level.

The US is banning all Russian oil and gas imports and the UK will phase out Russian oil imports by the end of 2022.

Germany has frozen plans for the opening of the Nord Stream 2 gas pipeline from Russia.

The EU has also said it will halt Russian coal imports by August.

Financial Actions taken against Russia

Russia's central bank assets have been frozen to stop it using its $630bn (£470bn) of foreign currency reserves. This caused the rouble to fall 22% in value, pushing up the price of imported goods and leading Russia's inflation rate to rise to 14%. The rouble has since recovered, mainly due to measures by Moscow to prop it up, but inflation has risen above 17%. The United States has barred Russia from making debt payments using the $600m it holds in US banks, making it harder for Russia to repay its international loans. Major Russian banks have been removed from the international financial messaging system Swift, which will delay payments to Russia for energy exports. The UK has excluded key Russian banks **from the UK financial system**, frozen the assets of all Russian banks, barred Russian firms from borrowing money, and placed limits on deposits Russians can make at UK banks.

Oligarchs

The US, EU, UK and other countries have sanctioned more than 1,000 Russian individuals and businesses, including:

- Wealthy business leaders, so-called oligarchs, who are considered close to the Kremlin, including the former Chelsea FC owner Roman Abramovich
- Russian government officials and family members - including President Vladimir Putin's adult children and relatives of Foreign Minister Sergei Lavrov
- Assets belonging to President Putin and Foreign Minister Sergei Lavrov are being frozen in the US, EU, UK and Canada

The UK has also stopped the sale of "golden visas", which allowed wealthy Russians to get British residency rights.

International Companies

More than 1,000 international companies have either suspended trading in Russia, or withdrawn altogether - including McDonalds, Coca-Cola, Starbucks, and Marks & Spencer.

McDonald's is leaving Russia and selling off its 850 restaurants, 30 years after setting up there. Food giant Nestle has withdrawn some of its brands including KitKat and Nesquik, but will still sell "essential foods". However, some brands including Burger King, and hotel groups Marriott and Accor say they can't pull out because their businesses operate under complex franchise deals.

Russian Oil

Despite all the international sanctions, many European Nations have continued to import oil and natural gas from Russia. Many nations within the Asian Region have also continued to import oil from Russia without any sort of hindrance. Nations such as Sri Lanka and India have signed agreements with the Russian Federation, agreeing to purchase oil and oil based products at 30% cheaper prices. The EU relies on Russia for more than 40% of its oil needs. Many pipelines have also been constructed between Russia and Eu nations, such as Germany, which further reduce the possibility of imposing a complete ban on Russian imports.

China's crude oil imports from Russia soared 55% from a year earlier to a record level in May, displacing Saudi Arabia as the top supplier, as refiners cashed in on discounted supplies amid sanctions on Moscow over its invasion of Ukraine.Imports of Russian oil, including supplies pumped via the East Siberia Pacific Ocean pipeline and seaborne shipments from Russia's European and Far Eastern ports, totalled nearly 8.42 million tonnes, according to data from the Chinese General Administration of Customs.

And while China's overall crude oil demand has been dampened by COVID-19 curbs and a slowing economy, leading importers, including refining giant Sinopec and trader Zhenhua Oil, have stepped up buying cheaper Russian oil on top of sanctioned supplies from Iran and Venezuela that allows them to scale back competing supplies from West Africa and Brazil. Despite all of the efforts of the West to financially isolate Russia, the Federation has emerged as the world's top supplier of oil during these unprecedented times. It has successfully overtaken Saudi Arabia after a 19 month gap

The most important fact to note however is, despite the cheaper prices all transactions of oil between Russia and other countries are taking place in **Rubles** and not dollars.

Rise of the Ruble

Russia's ruble hit 52.3 to the dollar on Wednesday, its strongest level since May 2015. On Thursday afternoon in Moscow, the currency was trading at 54.2 to the greenback, slightly weaker but still near seven-year highs. That's a world away from its plunge to 139 to the dollar in early March, when the U.S. and European Union started rolling out unprecedented sanctions on Moscow in response to its invasion of Ukraine. The ruble's stunning surge in the following months is being cited by the Kremlin as "proof" that Western sanctions aren't working. "The idea was clear: crush the Russian economy violently," Russian President Vladimir Putin said last week during the annual St. Petersburg International Economic Forum. "They did not succeed. Obviously, that didn't happen." In late February, following the ruble's initial tumble and four days after the invasion of Ukraine began on Feb 24, Russia more than doubled the country's key interest rate to a whopping 20% from a prior 9.5%. Since then, the currency's value has improved to the point that it's lowered the interest rate three times to reach 11% in late May. The ruble has actually gotten so strong that Russia's central bank is actively taking measures to try to weaken it, fearing that this will make the country's exports less competitive.

In the Russia-Ukraine war's first 100 days, the Russian Federation raked in $98 billion in revenue from fossil fuel exports, according to the Centre for Research on Energy and Clean Air, a research organization based in Finland. More than half of those earnings came from the EU, at about $60 billion. And while many EU countries are intent on cutting their reliance on Russian energy imports, this process could take years – in 2020, the bloc relied on Russia for 41% of its gas imports and 36% of its oil imports, according to Eurostat. Russia's current account surplus from January to May of this year was just over $110 billion, according to Russia's central bank – more than 3.5 times the amount of that period last year.

Conclusion

Despite the meteoric rise of the Ruble, many experts believe that the Ruble can not be considered an indicator of the Russian Economy as the Russian government cannot import many of the essential items its population requires.

Because Russia is now cut off from the SWIFT international banking system and blockedi from trading internationally in dollars and euros, it's been left to essentially trade with itself, Hess said. That means that while Russia's built up a formidable volume of foreign reserves that bolster its currency at home, it can't use those reserves to serve its import needs, thanks to sanctions.

The ruble's exchange rate "is really a Potemkin rate, because sending money from Russia abroad given the sanctions — both on Russian individuals and Russian banks — is incredibly difficult, not to mention Russia's own capital controls," Hess said.

In politics and economics, Potemkin refers to fake villages that were purportedly constructed to provide an illusion of prosperity to Russian Empress Catherine the Great.

"So yes, the ruble on paper is quite a bit stronger, but that's the result of crashing imports, and what's the point of building up forex reserves, but to go and buy things from abroad that you need for your economy? And Russia can't do that."