The Bear Squeezes Back: Russian Ruble Rises against the Dollar

By Duncan Cameron
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Rabble

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The latest of a series of official Canadian verbal darts aimed at Russian President Vladimir Putin was published December 15 on BuzzFeed.

The content was propaganda or as BuzzFeed would have it, advertorial. It was part of a Department of Foreign Affairs, Trade and Development (DFATD) campaign surrounding Stephen Harper's announcement of new sanctions against Russia, which, no surprise, coincided with updated sanctions from Washington.

On December 16 headlines read "Ruble Routed." The impression re-enforced was that Russia faced severe financial problems, and that investor support for its economy was sliding. The ultimate U.S. objective of forcing regime change in Russia through economic sanctions aimed at limiting its influence in Ukraine seemed to be on track.

The Russian ruble had been falling in value against the U.S. dollar. It fell as much as 11 per cent on Dec. 16. Speculators borrowed rubles in the morning and sold them for dollars immediately. At the end of that day, the rubles were bought back for 11 per cent less, the loan repaid, and the speculators picks up an 11 per cent profit in one day, just short of 4,000 per cent if it could be sustained for a year.

Except that on December 17, the Russian Central Bank intervened in the foreign exchange market to support the value of the ruble. By selling from its deep U.S. dollar reserves, the Russians were able to drive up the value of the ruble, forcing speculators to take huge losses. The new headline was "Ruble Surges."

Later last week, and again to start the week of December 22, the ruble has been gaining ground against the dollar. The engineer of the turnaround is Ms. Elvira Nabiullina, Governor of the Bank of Russia, the first woman to head a G8 central bank, and formerly economic adviser to Putin.

By defeating attempts to drive its currency down, the Russian Central Bank had executed a procedure known as a "bear squeeze," the bears being those who believed the ruble would fall in value. Feeding this belief was major misinformation, and misunderstanding of the Russian economic and financial situation.

While an almost 50 per cent decline in the price of oil has hurt Russian export earnings, the even greater fall in the value of the ruble has meant that the ruble value of the oil exports has not declined.

Sanctions introduced by the West against Russia are a form of hot economic warfare. But the attack on the ruble resulted in a competitive currency devaluation for Russia, limiting its ability to import from the West (saving foreign currency), and protecting the value of its declining volume of exports by increasing the number of dollars it receives for each devalued ruble.

As Michael Hudson has explained, Putin has responded to the U.S.-led sanctions movement by diversifying oil and gas exports towards China and Turkey, and signing sales agreements in rubles or currencies other than the U.S. dollar. By abandoning the U.S. dollar as its trading currency, and accepting payments in Chinese yuan, for instance, Putin is signalling his desire to break the stranglehold the U.S. currency has enjoyed over oil and gas trade, and within the world economy.

On December 22, China announced its willingness to support the ruble through currency swaps from its $4-trillion reserves.

Russia has a favourable balance of trade and healthy foreign exchange reserves. Its overseas assets exceed its overseas debts. Contrary to reports from even American liberals such as Paul Krugman, Russia is well placed to meet its overseas payments, as French specialist Jacques Sapir has shown.

The Russian economy grew on average by nearly seven per cent per year from 1999-2008 (Putin took power in 2000) before it tanked in the world financial crisis of 2008. While U.S. and Eurozone (except Germany) economic growth remained about zero from 2008 until 2013, Russia grew slowly in that period.

Importantly, in 2014 the level of Russian government debt is small at 16 per cent of GDP, especially when compared to other industrial countries such as France or the U.K., where it is over 90 per cent.

Russian corporate debt especially in banking and in the oil and gas sector has grown and because these companies are tied to the Russian state their operations remains vulnerable to Western sanctions.

Russia is attempting to divert its purchases of foodstuffs to non-Western countries and wants to adopt an aggressive import substitution policy for manufacturing. Instead of importing manufacturing goods it wants foreign manufactures to re-locate to Russia and produce for the large domestic market.

Russia is a nuclear power. In another era, when Canada practiced diplomacy, the goal would have been to reduce tensions between the U.S. and the Russian bear. Today, as DFATD resorts to BuzzFeed, shows the Conservatives eschew foreign policy as such, preferring to promote themselves as pro-American or pro-Ukrainian with the voting public.

An experienced observer, Patrick Armstrong, former political counsellor at the Canadian Embassy in Moscow, has serious concerns with NATO policy, but foreign policy distinctions do not trouble Foreign Minister Baird or the Prime Minister. The oafs are in charge in Ottawa.

Duncan Cameron is the president of rabble.ca *and writes a weekly column on politics and current affairs.*

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