

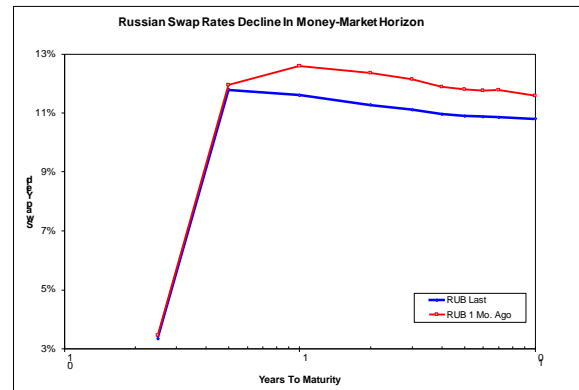
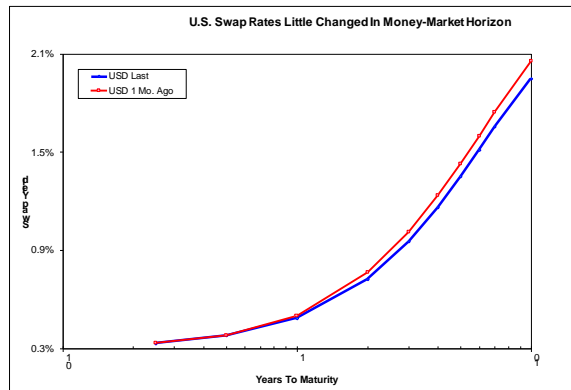
The RUB broke support at 64.1670 in its secondary uptrend. The move projects to 66.6835 followed by 69.3980.

Indicators are not strong in either direction for the RUB:

- Expected short-term interest rate differentials still favor the RUB;
- Relative asset prices are neutral for the RUB;
- Physical commodity prices are bearish for the RUB; and
- Volatility indications are neutral on balance for the RUB

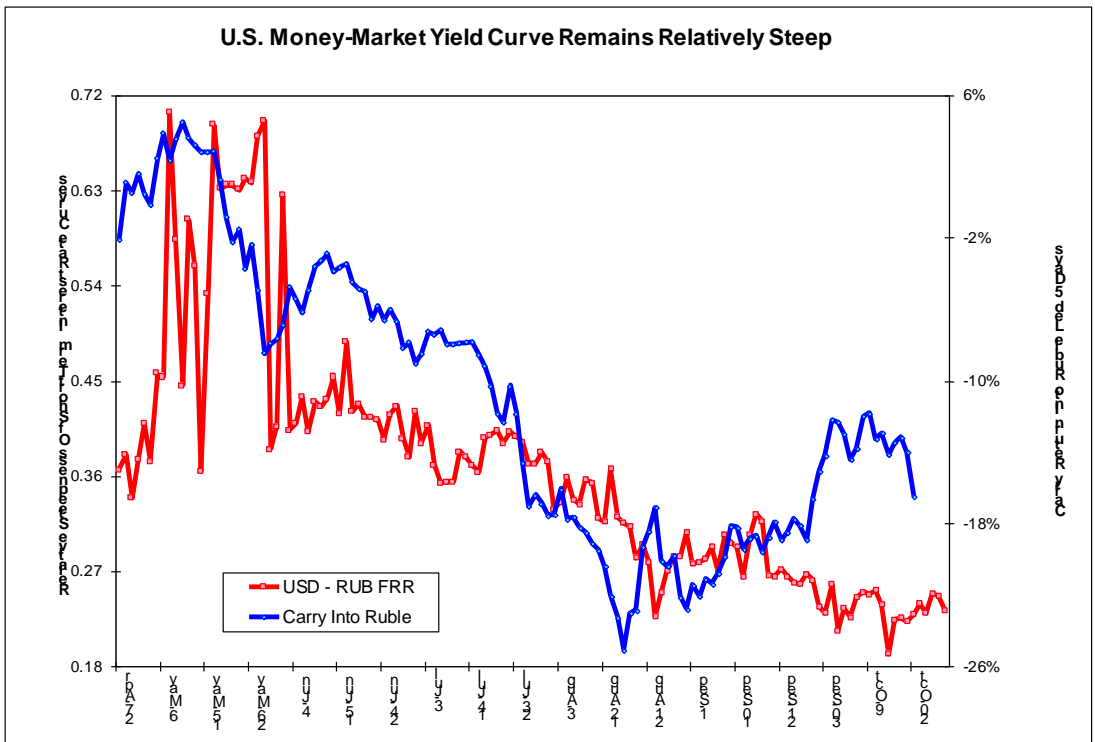
Interest Rate Indications

While the USD swap curve is flattening bullishly, RUB swap rates remain at the high levels emplaced earlier in the year to make the RUB expensive to borrow despite declines over the past month. The absolute rate gap supports the RUB.



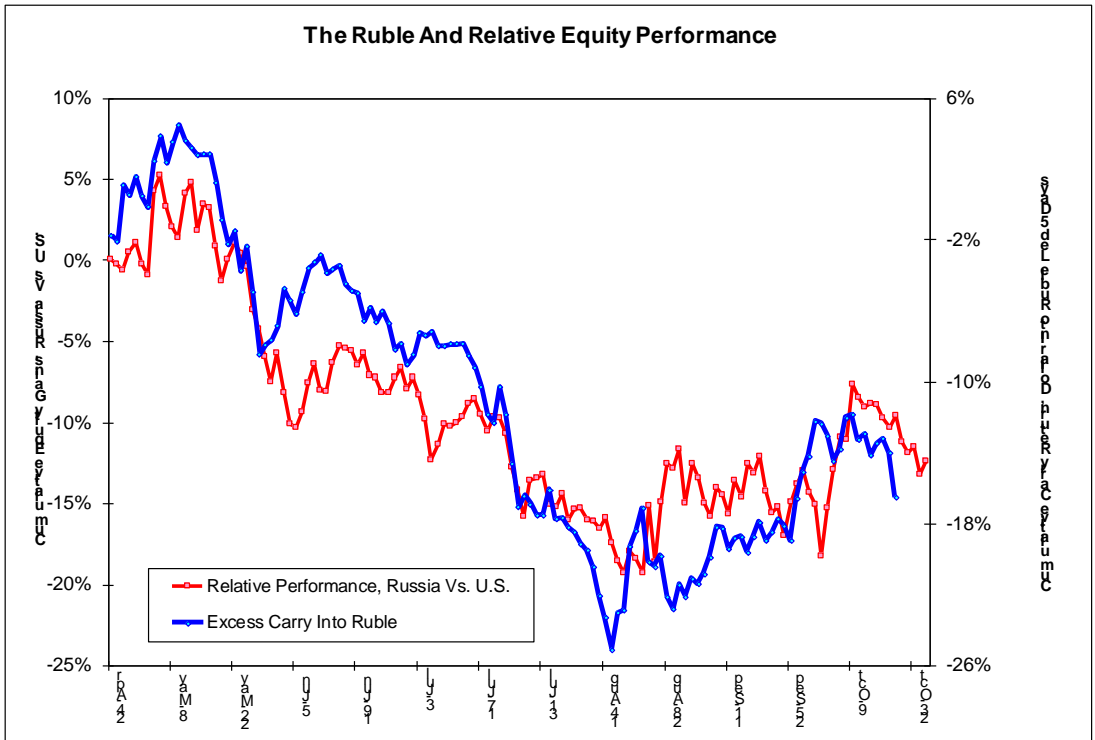
Expected short-term interest rate movements as measured by the difference in forward rate ratios between six and nine months ($FRR_{6,9}$) still favor the RUB. These are the rates at which borrowing can be locked in for three months starting six months from now divided by the nine-month rate itself. The steeper the yield curve, the more the $FRR_{6,9}$ exceeds 1.00. An inverted yield curve has an $FRR_{6,9}$ less than 1.00.

The USD $FRR_{6,9}$ remains steep relative to the RUB $FRR_{6,9}$. This means U.S. short-term interest rates will “roll down” the yield curve more over the next three months when the time to roll a non-deliverable ruble forward arrives. This effect is minor compared to the absolute rate gap. The chart below depicts this expected interest rate differential leading the dollar’s excess carry into the ruble, effectively the same thing as a continuous ruble future, by five days.



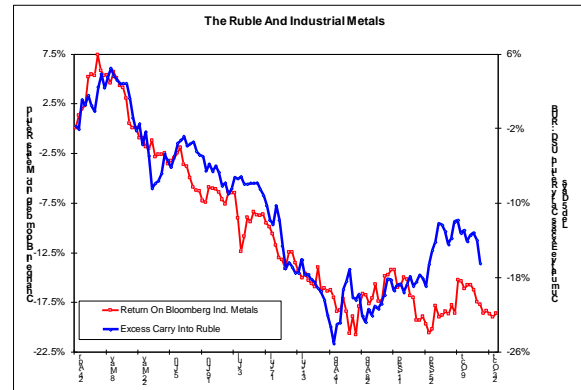
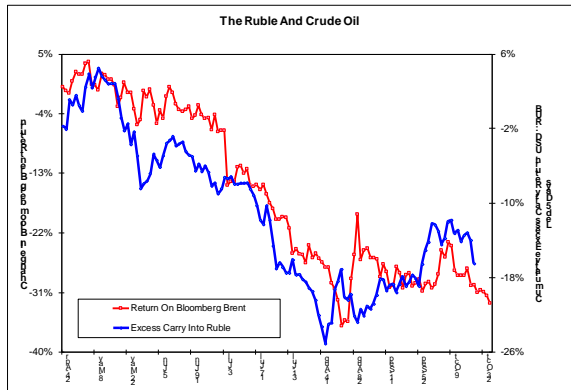
Equity Indications

Capital inflows into Russian stocks necessitate the purchase of rubles. The relative total return of Russian stocks relative to their U.S. counterparts has hit resistance in its post-August uptrend, but is not yet in a new downtrend. The chart below depicts this relative performance leading the dollar's carry into the ruble by five days.



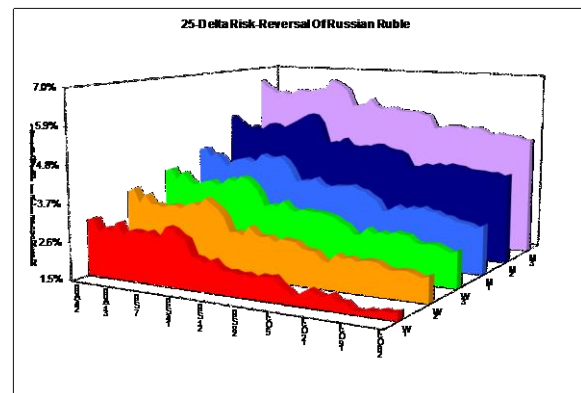
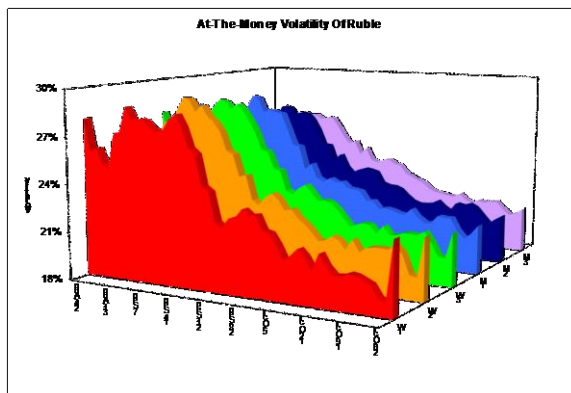
Key Commodity Indications

Crude oil and industrial metals are amongst Russia’s largest sources of foreign exchange earnings. Both market sectors are in downtrends, crude oil especially, and will slow dollar inflows into Russia. The chart below depicts these relationships with five-day lead-times.



Volatility Indications

The volatility of ruble forwards tends to rise when traders get nervous about the currency weakening. The implied volatilities of RUB forwards are starting to rise. The risk reversals, or differences between 25-delta call and put option volatilities on RUB forwards, remain stable. The net effect is weakly bearish for the RUB.



The excess volatility of the USD for a RUB holder, or the ratio of its implied volatility to its realized volatility, minus 1.00, is increasingly negative levels (inverse scale). RUB-domiciled investors are building USD-bullish hedges.

Excess Volatility And The Ruble

