

Rouble sell-off slows, dollar resumes rise as Ukraine crisis buffets trade

The rouble tried to regain some stability on Tuesday after its crash to an all-time low, while the U.S. dollar resumed its rise against major peers as traders paused for breath amid the fast-moving Ukraine crisis.

A modicum of calm has returned to currency markets since officials from Russia and Ukraine held an initial round of ceasefire talks overnight, four days after Russia invaded its neighbor, allowing some of the big moves from the start of the week to retrace after many positions were cleared out, said Shinichiro Kadota, senior FX strategist at Barclays (LON:BARC) in Tokyo.

"Who knows what happens next: Russia might become more aggressive, or they might agree on something, although what that could be is very difficult to predict," said Kadota.

"People are just watching the headlines, but we're at a point where unless there's some obvious negative news, the market is trying to stabilize a little."

The safe haven yen and Swiss franc pulled back after their biggest rallies in almost seven weeks against the dollar on Monday.

The rouble started the week in dramatic circumstance, plunging as much as 30% to a record 120 per dollar after Western countries and their allies slapped Russia with new sanctions including cutting off some banks from the SWIFT financial network. The currency recovered somewhat after an emergency rate hike and other urgent measures adopted by the Russian central bank, and last traded flat at 101.

The currency was helped by a tick up in U.S. benchmark 10-year yields in Tokyo trading on Tuesday, after they dropped to an almost one-month low overnight as investors sought the safety of Treasuries, even with the Federal Reserve seen certain to raise interest rates at its policy meeting next month. [US/]

The Ukraine crisis has seen traders pare bets for a 50 basis-point rate hike on March 16, with current odds at 11.4%, according to CME's Fed watch tool.

Atlanta Fed President Raphael Bostic said on Monday that he's not ruling out a half point move, although he favors a quarter point increase, in the first comments by a Fed official since the conflict.

"The bottom line: do not write off a 50bp increase," Commonwealth Bank of Australia (OTC:CMWAY) strategist Joseph Capurso wrote in a client note, saying market pricing had gotten too low.



"The near-term trends in the USD will be dominated by the war, but the medium-term trends in the USD will be determined by the economic data."

Still, outside of the rouble the FX market reaction has been relatively stable, market participants said.

"There is clearly weakness in east European currencies even outside of the rouble... but at the same time they are not really weakening to new record lows or anything like that," said Brad Bechtel, global head of FX at Jefferies, in New York.

"It's a very subdued reaction," he said.

Officials from Russia and Ukraine ended peace talks on Monday and will return to their respective capitals for further consultations before a second round of negotiations, RIA news agency quoted Ukrainian presidential adviser Mykhailo Podolyak as saying.

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