

Ruble makes historic recovery

by Global Intel Hub (JoeGelet), 2016

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Traders should be able to admit, when they're wrong. As we explain in great detail in [Splitting Pennies](#) – there's nothing worse than a trader who takes great effort to explain reasons why he was wrong or why it wasn't in fact his fault, it was the market! (or some such nonsense). Such severe psychological factors is the reason that many traders opt for algorithm development.

EES provides analysis of the markets in general, in addition to actual robot algorithms for clients to trade and use. We rarely will make a call on the market, but this situation in Russia was really unique. Anyway, we were wrong. The trade was right, but our timing was off. We suggested to sell USD/RUB pair in December, [here](#). We watched in surprise as the 70 level broke to 72, to 73, and higher. In Forex this move is unheard of in majors. The question in this trade is – is the Ruble a major – or an exotic? Finally, USD/RUB hit 86, before retreating to it's current level, around 64. We were stopped out around 74, with great pain (we had a huge position in relation to our account). Take a look at USD/RUB chart:



For those who do not actively trade Forex, the above chart is US Dollar vs. Ruble so that means if this chart is going up, dollar is up and ruble is down.

Investors who were short USD/RUB were squeezed out in January. There are a few differences about trading this pair that don't apply to other currencies. One, margin/leverage is a little different, a little lower. Depending on your bank/broker, it can be as low as 10:1, or 20:1 as opposed to other pairs that have much higher leverage. Two, you can only trade USD/RUB during certain times, there is a market window like the stock market. Trading outside this time will result in a 'market is closed' message. This can affect how stops & limit orders work.

For our trade, we learned an invaluable lesson about trading this pair. Like much of the Russian economy, this pair trades as if it is the 80s. If you look at this daily chart, and compare it with almost any Forex chart from the 80s, you'll see a similar pattern – pairs trade in long ranges, some days with big volatile spikes, and seasonal moves. That doesn't happen in Forex anymore, except with USD/RUB. So, traders now have a great trading plan for trading USD/RUB for 2016 and beyond.

Our reasoning at the time, Ruble was punished too much – Oil is a big part of the Russian economy but Russia is not like OPEC countries – they have many other sectors as well, [even cheese](#). The logic of the analysis was correct, and USD/RUB months later settled back down to 64 and probably will settle medium term around 60 handle. But it's unlikely any trader would have suffered the pain being short from 70 to 86 without having a medical condition. Anyway – many hedge funds have had the same thinking too:

Stuart Sclater-Booth, who oversees more than \$40 billion at Stone Harbor Investment Partners, told [Bloomberg](#) he expects the Russian currency to appreciate to 63 against the dollar.

“We think Russia will offer attractive return potential for the rest of the year. You have tremendous carry in the ruble, we think oil found a bottom earlier this year and the central bank, we think, is going to be successful in bringing inflation down,” he said.

This January, oil prices fell to \$27 per barrel, dragging down the Russian currency to its historic low of 86 rubles against the dollar. With Brent crude rallying to \$42 per barrel the ruble has strengthened to 67 against the dollar.

There are also derivative plays here, such as [mentioned by Fortress Capital](#):

Summary

Currencies trade in pairs – if something goes up, something else is going down.

There are many derivative plays offered by forex, which can be realized in the stock market.

Buying and selling foreign companies is one way to play the US dollar.

Many foreign companies are traded on US exchanges via ADRs.

Sberbank provides a great play on USDRUB carry trade.

The larger point of this historic recovery is that it signals the world that Russia is a world economic power, and Russia is open for Business. Udachi!

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The post [Ruble makes historic recovery](#) appeared first on [Forex IQ](#).