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Forget Dollars, Start Buying Rubles

By L. Todd Wood

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Both Russians and foreigners living in Russia have been hurt recently by the severe devaluation of the ruble as the Russian currency has lost 50 percent of its value over the last few years. The last few days have been especially brutal as ruble fell past 58 to the dollar on Friday. The free fall of the price of crude oil globally has pressured the Russian economy and is directly related to the ruble's fall.

Many Russians are worried that the ruble could hit 100 or even higher to the dollar and are changing their rubles to dollars or euros at every opportunity as panic sets in.

However, I believe there are signs in the market that at this point, this could be exactly the wrong strategy to save your wealth. Perhaps now is the time to begin easing back into the Russian currency.

First, we could be seeing a bottoming in the price of crude oil on the international market. Though the Brent oil global benchmark slid to $62 a barrel on Friday, many remain optimistic. Early last week in Kuwait City, Kuwait Petroleum Corporation's CEO Nizar Al-Adsani said: "I think oil prices will stay around the level of $65 for six or seven months until

OPEC changes its production policy, or recovery in world economic growth become more clear, or a geopolitical tension arises."

In addition, this week the U.S. Energy Information Agency (EIA) administrator Adam Sieminski said that the decline in prices would start to affect U.S. production next year.

The EIA also cut the estimated average price for West Texas Intermediate, or WTI, to $62.75 in 2015.

Oil futures are obviously a forward looking indicator so they will only start to rise when the market sees production slowing and begin to forecast tighter supply.

It will take a while for production to be taken offline as many of the exploration projects already started will take some time to complete. The point is that new drilling will slow. That is what will cause oil to bottom. We may be at that point or close to it for the U.S.

Although much of the shale oil projects in the U.S. can be profitable below $50, many weaker hands will be unprofitable and forced out of production.

Saudi Arabia has a much cheaper production cost and can wait out this pendulum swing in price. U.S. production is the key to watch as the Saudis are protecting market share.

Finally, Russia, as well as Europe, may both be looking for a way out of this diplomatic crisis. Europe is hurting economically.

The loss of the Russian market for many European goods obviously has not helped the fiscal situation in an already fragile Europe. Even Germany is starting to feel the pain of slowing growth.

The European Central Bank is now looking to start its own quantitative easing program to kick-start Europe and prevent deflation. Further sanctions or conflict are not in Russia's or Europe's interest. Perhaps there is a grand bargain that can be achieved to prevent further economic damage in the east or the west.

The point is to try and perceive the inflection point when the ruble will stop falling against other global currencies.

With oil possibly bottoming and world leaders searching for a diplomatic solution, perhaps we are near this shift. It could be time to start buying rubles instead of selling.

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