ROSBANK
SOCIETE GENERALE GROUP

December 13, 2021

Eco Analysis – CBR preview

Russia

Checklist

Rate decision

A hike of 75bp to 8.25%

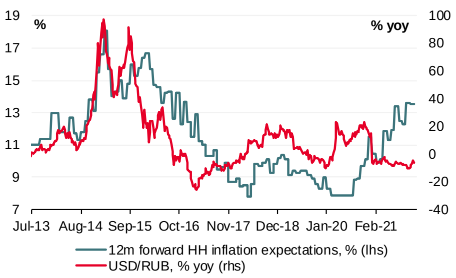
Rate guidance

We expect the CBR to adopt a middle option in a relevant range (50-100bp), but to preserve moderately tight guidance for the future (until monthly inflation prints edge down to target levels). Actually, the recent inflation data might be treated in favour of a slower hike, however elevated inflation expectations remained the major threat. Finally, the outlook for economic growth in 2022 look rather constrained which is a point to avoid the most radical measures.

Economic assessment

Economic momentum started to fade in the last few months headed with slower private consumption growth and milder expansion of production activity. The most vivid was a decrease in seasonally adjusted series of the retail trade and services consumption. The labour market remained in a good shape with the unemployment rate coming back to pre-pandemic level (4.4%). At the same time, real wages stagnated in July-September (1.5-2.2% yoy) and may pull back owing to inflation in subsequent months because of tighter fiscal and monetary stance, thus, cutting the risk of a price-wage spiral.

Expectations struggle to decrease



Source: Bloomberg, Bank of Russia, SG Cross Asset Research/Economics

Persistency of expectations is the only reason for a 75bp hike

Friday, 17 December 2021	GMT	Previous	SG Forecast	Consensus
Key rate (%)	11:30	7.50	**8.25**	8.50

We have deeply divided feelings regarding the potential for a key rate move on 17 December, when the CBR will meet for the last time in 2021. The CBR provided a wide guidance range of 0bp to 100bp and has repeated the guidance multiple times since the last meeting on 22 October. We think any move will definitely be in the upper part of the range. The lower part – from 0 to 25bp – has no supportive arguments, as the tide of inflation keeps rising. The upper part of the range can be separated into 50bp, 75bp and 100bp options, and each has its pros and cons. Besides the quantitative move, a qualitative signal is an open question too, given that the tightening cycle has been sprawling since March and has almost doubled the key rate (7.50%, +325bp YTD at the moment).

We have been considering a 50bp hike as a baseline scenario for a long time, while waiting for some new pieces of inflation data since the CBR meeting in October. Unfortunately, the last week of November shuffled all the cards with a massive acceleration of price growth in select sectors. The headline CPI rate reached 8.4% yoy by the end of November, partly driven by overseas travelling costs owing to a mismatch between narrow supply and intense demand. It contributed c.0.2pp mom (out of 1.0% mom of the headline growth) and has already reversed gradually in early December according to weekly inflation data.

According to orthodox theory, CBR policy should not address such a blip unless the projected impact on inflation expectations and secondary inflation effects down the road are seen as meaningful. However, household inflation expectations for a year ahead remain poorly anchored (13.5pp) despite the recent tightening cycle, so central bankers have kept stressing the need to improve the time value of savings compared with outright consumption (or even dissaving, if consumption is financed by credit). In this respect, a 50bp option might not find support among CBR officials, as some other components of the consumer basket keep steadily rising (especially light vehicles, gasoline and some food staples).

The latter option – a 100bp hike – looks inefficient to us as well. The reason is that the price setting pattern likely suffered a change this year, with more concentrated revisions in the past few months. Arguably, a combination of jerky demand and elevated inflation expectations among producers enabled them to pass major price shocks along in a shorter time frame, which distorted seasonally adjusted inflation readings and caused high headline CPI rate volatility in recent weeks. However, the persistency of private demand may become a point of concern next year, given that the consensus, including SG (2.6% vs 9.0% in 2021) and the CBR (1.0-2.0% vs 9.0-10.0% in 2021), expects private consumption and economic growth to nosedive in 2022 amidst a tightening of fiscal and monetary conditions. The CBR has not voiced such concerns yet but frictions with the government may intensify following such intensive monetary tightening over the year.

The middle option – a 75bp hike – looks like an optimal choice not only by process of elimination, but also based on some technical arguments. The first is inflation expectations – which are elevated but stagnant. Second, we still see a high chance of headline inflation winding up closer to the CBR baseline projection at the year-end (7.4-7.9%). Deceleration of weekly inflation at the start of December drove the annual inflation back to 8.2% yoy (7.57% YTD). So, if our suggestion of the 'concentrated price revision in the past' is correct, the last three weekly prints and base effects could bring the headline CPI back below 8.0% yoy (which is a watermark for avoiding the radical measures). Third and last, inflation gains decelerated in November to 0.85% mom sa (vs 1.07% mom sa in October), or 0.7% mom sa excluding a spike in overseas tourism. Putting it another way, an 'incremental' price shock was less substantial compared with the one ahead of the October meeting. The CBR may also combine such a 'mild' hike with hawkish guidance, which might not necessarily materialise but would help secure the regulator's credibility.

Evgeny Koshelev, CFA
Evgeny.Koshelev@rosbank.ru
+7 (495) 662-1300, ext. 14838

Team

Research	Financial Institutions Sales	Corporate Sales	Debt Capital Markets	Brokerage
Yury Tulinov, CFA Yury.Tulinov@rosbank.ru +7 (495) 662-13-00, ext. 14-836	**Pavel Malyavkin** PVMalyavkin@rosbank.ru +7 (495) 725-57-13	**Vladimir Matsko** Vladimir.Matsko@socgen.com +7 (495) 725-57-44	**Tatyana Ambrozhevich** TVAmbrozhevich@rosbank.ru +7 (495) 956-67-14	**Aleksandr Ten** Aleksandr.Ten@rosbank.ru +7 (495) 234-36-52
Evgeny Koshelev, CFA Evgeny.Koshelev@rosbank.ru +7 (495) 662-13-00, ext. 14-838		**Alexandre Koutcherov** Alexandre.Koutcherov@rosbank.ru +7 (495) 725-57-44	**Nikita Reuk** Nikita.Reuk@rosbank.ru +7 (495) 662-13-00, ext. 13-120	**Timur Mukhametshin** Timur.Mukhametshin@rosbank.ru +7 (495) 234-36-52
Anna Zaigrina Anna.Zaigrina@rosbank.ru +7 (495) 662-13-00, ext. 14-837		**Evgeny Kurochkin** Evgeniy.Kurochkin@socgen.com +7 (495) 725-57-44	**Yuriy Sukhinin** Yuriy.Sukhinin@rosbank.ru +7 (495) 662-13-00, доб. 15-898	**Sergey Tsoy** Sergey.Tsoy@rosbank.ru +7 (495) 234-36-52
Ekaterina Korchagina Ekaterina.Korchagina@rosbank.ru +7 (495) 662-13-00, ext. 15-354		**Andrey Galkin** AAGalkin@rosbank.ru +7 (495) 725-57-44		