

Checklist

Rate decision

Unchanged at 4.25%

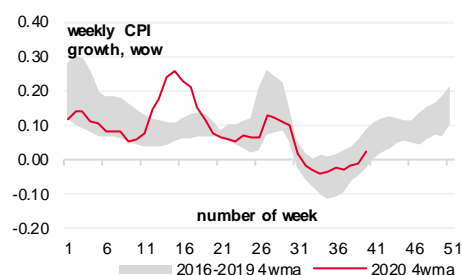
Rate guidance

The mantra of ‘assessing the need for policy easing on further meetings’ is becoming less relevant amid rising pressure on inflation from the supply side. We expect the CBR to maintain its view on disinflationary risks to the economy in 2021 but to be less dovish on the risks to the economy posed by geopolitical uncertainties. This may give the key rate a floor of 4.25% until 2H21 when ‘normalisation’ may start.

Economic assessment

Both inflation and inflation expectations entered 4Q20 at a high level (3.8% yoy a 9.4pp, respectively). This means that the risk of exceeding the 4.0% inflation target during 1Q21 remains, with a modest reversal expected thereafter. Meanwhile, the economic recovery may accelerate in 2H21 terms of industrial production and GDP despite the second wave of the pandemic which may stimulate a quicker rebuilding of household and enterprise balances.

Inflation edged up in 4Q20



Source: Bank of Russia, Rosbank

25bp policy-tuning cut likely to follow in July

Friday, 23 October 2020	GMT	Previous	SG Forecast	Consensus
Key rate (%)	11:30	4.25	4.25	4.25

We expect the CBR’s policy meeting on 23 October to be a non-event in terms of key rate changes (SGe: unchanged, 4.25%), although verbal guidance and forecasts could be updated, potentially shedding some light on the rate’s forward trajectory. The forecast trajectory for the key rate is not expected to be released until the year-end, according to recent comments by Alexey Zabotkin, who is responsible for monetary policy at the CBR. However, the overhang of risks to inflation and the economic trajectory following the recent underperformance of the ruble and escalation of geopolitical risks should prompt some re-writing of the central bank mantra of ‘assessing the need to soften policy on the forthcoming meetings’ in its last three press-releases.

The recent speech by Alexey Zabotkin was not accompanied by any hint of preferred options or the scope of available alternatives for the upcoming meeting. This downplays the meeting as a cornerstone event, which could be due to prevailing uncertainties regarding the near future. The US presidential election on 3 November is a wild card that could undermine any sophisticated choice of the regulator except for a wait-and-see mode. That is how we interpret all comments by Alexey Zabotkin on the regime-switching optionality, which is already built into a range of economic scenarios presented by the Monetary Policy Guidance for 2021-2023.

As regards the baseline strategy for medium-term monetary policy in Russia, we believe the key rate has reached a bottom at 4.25% and may be gradually increased during the ‘normalisation phase’ in 2H21 to 4.5%. Along with the pros and cons of promoting a lean monetary policy to help the economy overcome the impact of the pandemic, the CBR has to deal with supply-side pressure pushing up consumer inflation due to the recent USD/RUB underperformance (+9.5% from 1 July). Inflation polls released by the CBR in August and September demonstrated producers’ limited capacity to withstand the ruble’s depreciation and the elevated inflation expectations of households (12-month outlook at 9.4pp in September). Meanwhile, inflation continues to creep up, having entered the CBR forecast range for the year-end (3.7-4.2%) at a pretty high level in October (at 3.8% yoy on the week to 12 October).

The last – but not the least – point to consider is related to assessment of the transmission mechanism. In his speech, Alexey Zabotkin reiterated the view that full transmission is expected to last from three to six quarters. If measured from the period of significant easing in the summer, the peak impact of policy easing should come in 1Q21-4Q21. With ‘acceptable’ steepness of the sovereign yield curve remaining behind the general rate setting mechanism, options for fine-tuning monetary instruments may be considered to be abundant. A subtle nod was given to the proxy QE seen over the last couple of primary debt auctions held by the Ministry of Finance (with a record placement of RUB 718bn since 1 October) instead of the more transparent mechanism discussed by us (see the [OOM](#)).

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