ROSBANK

SOCIETE GENERALE GROUP

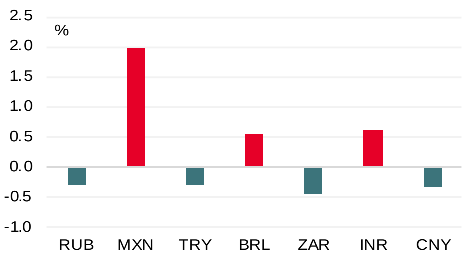
# Café et Croissant

Monday, October 04, 2021

## Main Indicators

| | Last | 1wk | ytd |
|---|---|---|---|
| USD/RUB | 72.7 | -0.3% | -1.8% |
| EUR/RUB | 84.3 | -1.3% | -7.0% |
| EUR/USD | 1.160 | -1.1% | -5.1% |
| DXY | 94.0 | 0.8% | 4.6% |
| Brent, $/bbl | 79.3 | 1.5% | 53.1% |
| Gold, $/t oz | 1 761 | 0.6% | -7.2% |

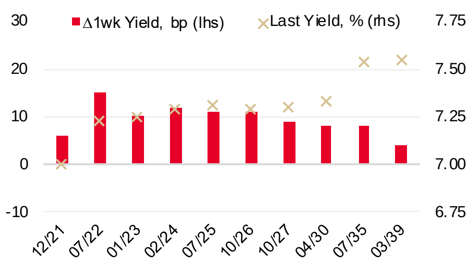
**EM currencies last week ***




** '+' = depreciation, '-' = appreciation*

| | Last | 1wk | ytd |
|---|---|---|---|
| $ UST'10, % | 1.46 | 0.01 | 0.55 |
| € BUND'10, % | -0.22 | 0.00 | 0.35 |
| $ Russia'29, % | 2.41 | 0.11 | 0.29 |
| OFZ 5y (26229), % | 7.28 | 0.09 | 1.76 |
| OFZ 10y (26228), % | 7.35 | 0.06 | 1.32 |
| OFZ 15y (26225), % | 7.54 | 0.08 | 1.10 |

**Russian local sovereign bonds last week**




## Russian Weekly

### Foreign Currency Market

**The Russian ruble may avoid EM's fate in the run-up to QE tapering in the US.** The ruble showed resilience in early October, with USD/RUB stuck to 72.7 watermark (0.0% wow) and EUR/RUB fixed at 84.3 level (+1.0% wow). The support came from rising commodities (Brent oil prices soared above $78-80/bbl, TTF gas futures hit a record high of €99.7 MWh) amidst of quiet geopolitical background. Among other EM currencies, only ZAR (+0.5% wow), TRY (+0.3% wow) and CNY (+0.3%) had similar 'risk-on' sentiment.

The FX markets have a busy week ahead. On Monday, the OPEC+ decision may affect the current oil price dynamics, as countries are setting an output target for November. Gradual increase of oil production (by 400 kbd) may also ricochet and hit the energy crisis in Europe. On Thursday, the minutes of the ECB meeting will be published. The more pronounced 'hawkish' signals may help euro take a revenge against USD. It would hardly last long, as markets are looking forward to US labor market data on Friday. SG analysts expect a strong NFP report (+470k workers in September vs. +235k in August), and further EUR/USD attempts to break the lower bound of 1.160-1.170 interval.

From global FX space, risk sentiment will be critical for EM currencies, except for the RUB. The reason in expectedly intensive tax payment period in October which might be multiplied by intensive economic activity and sky-rocketing commodity prices in 3Q21. It may easily shade potential increase of FX purchases by the MinFIn (to RUB 350-400bn vs RUB 327bn in the previous month) and keep the RUB in the range 72.2-73.5 against the USD and 84.1-86.0 against the EUR.

### Fixed Income

**The OFZ curve under 10 years is almost flat now, the inverse shape could be around the corner.** The Russian sovereign local yield curve keeps evolving in a situation when all key drivers are playing to a negative tune. The front-end yields are trending higher due to shocking domestic inflation prints and uncertainty about the hawkishness of the CBR stance over the coming months. The long-end yields are following in the footsteps of long US Treasuries, amplified by risks of yield premium granted at primary OFZ auctions.

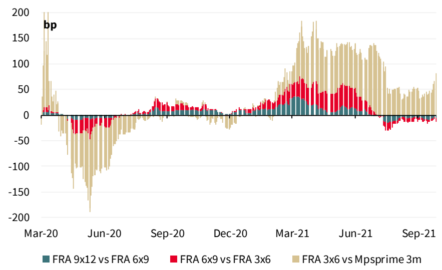
In the end, the pre-sanction (i.e. off-the-run) OFZ curve is almost flat now under 10 years – ytm 7.31% in 2y, 7.35% in 5y, 7.41% in 10y. And this 'lose-lose' tug-of-war between negative drivers will decide whether it gets inverted or not in the nearest future.

The Finance Ministry published draft 2022-24 federal budget last week, targeting RUB 3.26tn in gross borrowings in 2022, RUB 3.44tn in 2023 and RUB 4.12tn in 2024 – up from RUB 2.79tn in 2021. Expectations of a gradual uptick in new debt supply are yet another negative factor to bear in mind, but hardly essential for evolution of yields in the short-term. Primary auctions got canceled last week amid unfavorable market environment, this week the situation will likely repeat itself.

## Main Indicators

| | Last | 1wk | ytd |
|---|---|---|---|
| Ruonia o/n % (1-day lag) | 6.64 | 0.08 | 2.37 |
| USD/RUB swap o/n, % | 6.62 | 0.22 | 1.88 |
| ₽ Mosprime'3m, % | 7.57 | 0.10 | 2.65 |
| $ Libor'3m,% | 0.13 | 0.00 | -0.11 |
| USD/RUB Xccy 1y, % | 7.28 | 0.20 | 3.05 |
| USD/RUB basis 1y, bp | -96 | -5 | -14 |

**Forward rates signal more hawkish outlook by the market**




| Indicator * | Last | | Prior | |
|---|---|---|---|---|
| Markit PMI Mfg | Sep | 49.8 | Aug | 46.5 |
| Markit PMI Services | Aug | 49.3 | Jul | 53.5 |
| Car Sales, % yoy | Aug | -17.0 | Jul | -6.5 |
| CPI, % yoy | Aug | 6.7 | Jul | 6.5 |
| CBR Reserves, $bn | Aug | 618 | Jul | 601 |
| Trade Balance, $bn | Jul | 23.2 | Jun | 18.2 |
| Budget Balance, ytd ₽tn | Aug | 0.9 | Jul | 1.0 |
| Ind. production, % yoy | Aug | 4.7 | Jul | 7.2 |
| Retail Sales, % yoy | Aug | 5.3 | Jul | 5.1 |
| Unemployment Rate, % | Aug | 4.4 | Jul | 4.5 |
| Real Wages, % yoy | Jul | 2.2 | Jun | 4.9 |
| GDP, % yoy | 2Q21 | 10.5 | 1Q21 | -0.7 |
| CA Balance, $bn | 2Q21 | 19.9 | 1Q21 | 23.3 |

### Outlook

| Indicator | 4Q21 | 1Q22 | 2Q22 |
|---|---|---|---|
| Brent, $/bbl | 70.0 | 67.5 | 65.0 |
| USD/RUB | 74.5 | 73.5 | 75.5 |

## Russian Weekly

### Money Market

**The banking sector will likely pile up CBR weekly deposits on 5 October.** The sectors finds itself on the final week of averaging season with a plenty of spare cash – the average of nostro accounts over the reporting period is RUB 3.3tn, so that current holdings of RUB 3.0-3.1tn might be comfortable rebalanced in favor of CBR absorbing facilities. The auction on Tuesday is worth watching – we expect a limit of RUB 1.2tn (vs RUB 0.78tn last week) to be the minimal volume to be offered by the CBR. Otherwise, overnight funding rates might keep sliding down (o/n FX swap was printed at 6.45% today and the Ruonia o/n at 6.64% on Friday) that might challenge CBR operative goals to keep overnights in line with the key rate level.

In terms of liquidity provision facilities – the MinFin's deposit and repo facilities will be scarcer over the week. In total, RUB 0.355tn of deposits are due to be repaid to the MinFin on the net basis with the major redemption expected on Friday (-RUB 0.57tn). In terms of the repo, RUB -0.2tn of outflows are expected though some portion of liquidity is provided by the overnight repo (which is a bit random factor over the end of averaging period).

Rates outlook became a critical argument for medium-term funding conditions in the recent days. The 3x6 FRAs started to steepen versus the 3m Mosprime indicating a hawkish view on the upcoming winter season: despite 50bp priced into the 3-month funding rate, the 3 to 6 month forward rate showed a 83bp premium (+39bp over the week). So far, inflation fears (locally and globally) will keep the market in a 'paid' position at least until the CBR clarifies its signal.

### Macroeconomics

**Inflation on the march.** The final print of weekly inflation in September looked odious amidst of expectations for a gradual deceleration of price growth at the end of 3Q21. The weekly gain was 0.29% wow that pushed the annual estimate to 7.3% yoy, so the headline CPI rate once again updated its annual peak and spurred speculation about the forthcoming CBR MPC meeting (22 October). Yet, we will get three more weekly inflation prints and detailed release of monthly statistics for September, a hiking option will be biased in favor of a 50bp.

In September, we suggested moderation of the CBR steps to 25bp and only minor room for policy adjustment through the end of 2021 (Rosbank: 7.0% key rate). It was backed by projection of inflation deceleration in the aftermath of local harvest season. Nonetheless, underlying inflation drivers resonated – one-off payments to children and later to pensioners have likely passed on some durable goods, while imbalances on external commodity markets have once again challenged domestic food prices. Therefore, potential terminal levels for the key rate and inflation stretched by 50-75bp above 4Q21 projections from current levels (to 6.2-6.4% yoy in inflation and 7.25% in the key rate).

The only counterbalance for onwards monetary tightening could be a scenario of stagflation (looming both for global and domestic economies). Reportedly, the domestic economy started to nosedive from the 'expansionary' 2Q21 according to the Rosstat. The retail sales turnover demonstrated mixed background in August in the food (-0.6% mom sa) and non-food segments (+0.5% yoy sa). The real wages geared down to 2.2% yoy in July (the data lags retail data by one month) from 4.9% yoy in June, though some indexation to public wages (6.8% in nominal terms) due to be disseminated from 1 October.

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## Appendices

| Date | Event | Forecast | Expected impact |
|---|---|---|---|
| **October 8** | Non-farm payrolls (US) | SG: 470k<br>Consensus: 488k | A large surprise versus the consensus (upside or downside) might challenge the DXY position (upside or downside), so both EM and DM currencies will hardly avoid excess volatility. |

### Café et Croissant

**Weekly – September 27** ( eng )

**Weekly – September 20** ( eng )

**Weekly – September 13** ( eng )

**Weekly – September 6** ( eng )

### Markets and economics

**Russian forecasts update – September'21** ( eng )

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