ROSBANK
SOCIETE GENERALE GROUP

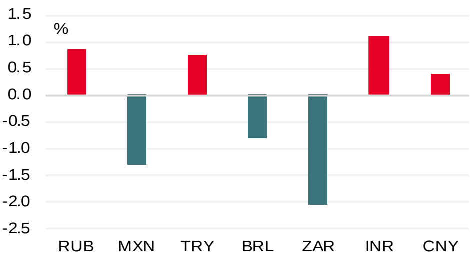
Café et Croissant

Monday, April 05, 2021

Main Indicators

	Last	1wk	ytd
USD/RUB	76.3	0.9%	2.8%
EUR/RUB	89.8	0.4%	-1.0%
EUR/USD	1.176	-0.3%	-3.8%
DXY	93.0	0.3%	3.4%
Brent, $/bbl	64.9	4.7%	25.2%
Gold, $/t oz	1 729	-0.2%	-8.7%

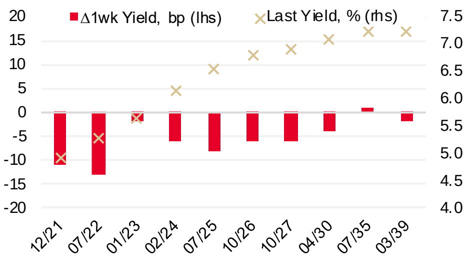
EM currencies last week *



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

	Last	1wk	ytd
$ UST'10, %	1.72	0.05	0.81
€ BUND'10, %	-0.33	0.02	0.24
$ Russia'29, %	3.03	0.09	0.90
OFZ 5y (26229), %	6.62	0.03	1.27
OFZ 10y (26228), %	7.08	0.09	1.17
OFZ 15y (26225), %	7.20	0.08	0.84

Russian local sovereign bonds last week



Russian Weekly

Foreign Currency Market

The rub continued losing ground as the geopolitics deteriorated. Unlike some EM currencies (MXN and ZAR gained 1.3-2.1% wow against the USD), the RUB (-1.2%) did not benefit from the rising oil prices after the OPEC + countries decided to taper quotas cuts very gradually from May till July. One can suggest that the major drag for national currency was shaped by the geopolitical news flow, including escalation of the conflict in the East of Ukraine and intensified verbal attacks by US officials against the Nord Stream 2 pipeline.

Going forward, the RUB will be also challenged by raised plans of the MinFin to purchase FX under the budget rule: during the month from 8 April to 7 May, the excess oil and gas income expected at RUB 185bn (vs RUB 148bn in March). This volume will hardly trigger a trend correction, but will definitely reduce sensitivity to tiny positive news (if emerge) on the global surface. Thus, 76.0-77.3 for the USD/RUB and 89.5-91.0 for the EUR/RUB are our baseline suggestion for the week.

Globally, all the eyes were turned to the US infrastructure plan ($2.25 tn for 8 years) proposed by J.Biden. This plan was called to bolster recovery of the economy and may strengthen momentum of the greenback (EUR -0.3%, Swiss franc -0.3%, Japanese yen -0.9%), though the impact will depend on final composition of the plan (due to be agreed by policy makers). Strength of the economic momentum was confirmed last Friday by a decent print of the non-farm payroll data in the US (+916k vs +660k expected by consensus). This fact may hamper recovery of the EUR and keep it in the range 1.1700-1.1750 for the upcoming weeks unless Eurozone catches up with the US in terms of economic optimism.

Fixed Income

Primary market patch won't fix the secondary market sentiment. Last week, the Finance Ministry shocked the world by raising RUB 355bn in new debt over a single auction day. To compare, over the previous 10 auction days since the start of 2021, the tally has totaled RUB 419bn. But even if the development did seem a break-through at first sight, its positive impact on the secondary market dynamics didn't last longer than half the trading session on Wednesday.

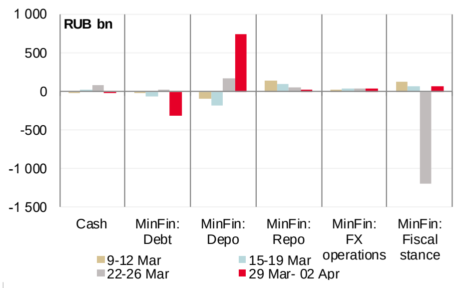
The largest bids at auctions totaled as much as RUB 75bn which indicates that placement of new bonds was well supported by a handful of anchor accounts. This approach may solve the task of reaching the domestic borrowing targets but it doesn't give much transparency to investors: one week auctions are canceled, next week the all-time high volume of fixed-rate debt placement is registered. On top of that, there are multiple lingering concerns on investors' minds beyond issuance of new debt, all of the usual suspects (global rates trending higher, domestic inflation seemingly out of control, uncertain geopolitics). It will take more than one overwhelmingly successful auction day to reverse the market sentiment.

This week, the focus will stay on primary auctions (Wednesday afternoon) and inflation prints (Wednesday evening). Evolution of the agenda in the Eastern part of Ukraine will also be monitored closely, but the timing of specific headlines is impossible to predict.

Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	4.45	0.04	0.18
USD/RUB swap o/n, %	4.34	-0.25	-0.40
₽ Mosprime'3m, %	5.34	0.11	0.42
$ Libor'3m,%	0.20	0.01	-0.04
USD/RUB Xccy 1y, %	5.47	0.15	1.24
USD/RUB basis 1y, bp	-81	-5	2

Fiscal flows were the most volatile



Indicator *	Last		Prior	
Markit PMI Mfg	Mar	51.1	Feb	51.5
Markit PMI Services	Mar	55.8	Feb	52.2
Car Sales, % yoy	Feb	0.8	Jan	-4.2
CPI, % yoy	Feb	5.7	Jan	5.2
CBR Reserves, $bn	Feb	586	Jan	591
Trade Balance, $bn	Jan	8.9	Dec	10.3
Budget Balance, ytd ₽tn	Feb	-0.6	Jan	-0.1
Ind. production, % yoy	Feb	-3.7	Jan	-1.9
Retail Sales, % yoy	Feb	-1.3	Jan	-0.1
Unemployment Rate, %	Feb	5.7	Jan	5.8
Real Wages, % yoy	Jan	0.1	Dec	4.6
GDP, % yoy	FY20	-3.1	3Q20	-3.4
CA Balance, $bn	4Q20	5.5	3Q20	3.5

Outlook

Indicator	2Q21	3Q21	4Q21
Brent, $/bbl	67.5	65.0	65.0
USD/RUB	70.0	69.0	68.0
EUR/RUB	86.1	86.3	86.4
GDP, % yoy	5.4	2.7	3.7
CPI, % yoy	4.6	4.2	3.8
Key rate, %	4.75	4.75	4.75
OFZ 10y, %	6.70	6.50	6.50

** recent updates highlighted with red*

Russian Weekly

Money Market

The averaging period triggered a short-term fuss. The plot of the drama was, obviously, shaped by the mixture of fiscal flows. Following a massive tax collection over the last two weeks , the MinFin did not rush to spend cash –only RUB 71bn of fresh budget spending re-emerged last week. Meanwhile, massive end-of-quarter borrowing of the ministry via printing new OFZ bonds withdrew c. RUB 0.31tn from banks just in one settlement day.

To overcome a stir with short-term funding, the ministry intensified issuance of medium-term deposits, which brought c. RUB 0.75tn of cash back onto bank accounts. The bulk of deposits was concentrated over 35 and 63 days ranges and was priced at floating rates with a decent premium. The largest premium paid last week was 53bp above the effective Ruonia o/n for the 63-day deposit maturing in early June. Such a large spike in funding costs ahead of deadline for averaging period on 6 April!

Provided with massive issuance of deposits, the banking sector, finally, managed to gain comfortable shape at the start of this week. The average month-to-date amount of the nostro accounts reached RUB 2.9tn which is pretty close to the volume, which we suggest as optimal for meeting reserve requirements. Thus far, o/n Ruonia may bounce back from the level seen last week (4.45-4.48%). Moreover, banks may prefer storing decent volumes of cash on weekly deposits over 7 to 14 April and purchase some CBR bonds (RUB 258 on the offer) on tomorrow auction.

Macroeconomics

Much stronger resilience of GDP confirmed. The Second GDP estimate upgraded to -3.0% yoy helped by quite strong GDP performance in 4Q20 (-1.8% yoy). In terms of production activities, both annual and quarterly performance were driven by real estate (1.2% yoy annual; 0.5% yoy in 4Q21), manufacturing (0.0% yoy; 2.0% yoy) and public services (both 2.3% yoy annual and quarterly). Meanwhile, healthcare system (-0.2% yoy; 0.7% yoy), IT communications (0.2% yoy; 0.5% yoy) and construction (0.0%, +2.1% yoy) demonstrated sustainable performance throughout the year. Finally, only mining (-9.5% yoy; -11.4% yoy) and transportation services (-11.6%; -8.3% yoy) dragged the headline figure down.

Meanwhile, **the recent series of PMI indicators** confirmed a strong momentum in the service segment of the economy. The manufacturing PMI was printed at 51.1 (vs 51.5 in March), while the services PMI jumped to 55.8 (from 52.2 in March). The latter component might be indicative of some reshuffle of economic drivers in forthcoming months, as long as anti-covid restrictions are getting softer. This might also become an important point for domestic inflation forces as long as higher resilience of demand for services may prompt prices (especially those, highly relied on food and import supplies) to catch up with other goods and services. This might keep services inflation in the spotlight ahead of the upcoming CBR meeting on 23 April, when the regulator may highly likely decide to raise the key rate one more time to 4.75%.

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Appendices

Café et Croissant

Weekly – March 29 (eng)

Weekly – March 22 (eng)

Weekly – March 15 (eng)

Weekly – March 9 (eng)

Markets and economics

Russian macro update – 4Q'20 (eng **)**

OFZ Auction Alert – March 31 (eng **)**

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