ROSBANK

SOCIETE GENERALE GROUP

Café et Croissant

Thursday, May 05, 2022

Main Indicators

	Last	1wk	ytd
USD/RUB	66.3	-9.3%	-11.2%
EUR/RUB	70.4	-8.7%	-16.7%
EUR/USD	1.060	0.5%	-6.7%
DXY	102.9	-0.7%	7.5%
Brent, $/bbl	110.1	2.3%	41.6%
Gold, $/t oz	1 894	0.3%	3.5%

Russian Weekly

Foreign Currency Market

The non-stop strengthening of the RUB might be questioned. The April tax period is behind us, but the divergence of the Russian FX space persists. Obligatory sales of exporters' FX proceeds still outweigh the limited demand from importers. As a result, the USD/RUB and the EUR/RUB both dipped into the 65-70 range on the Moscow Exchange this week.

Last Friday, the Bank of Russia cut the key rate decisively by 300bp to 14.0% pa, which did not put massive pressure on the ruble. However, in the coming weeks correction of the RUB may follow, should the currency controls be softened or lifted. The CBR Governor E.Nabiullina announced the central bank was ready to cancel the requirement for non-commodity exporters to sell FX proceeds, and to reduce the sales ratio from 80% to 50% for commodity exporters. This decision should boost sensitivity of the Russian ruble to more fundamental factors (in particular, oil and gas prices) in 2Q22. With that said, the ruble appreciation might only be suspended should the government commission support the CBR's proposal. And this outcome is not guaranteed, since the geopolitical agenda stays tense.

This week and the next one are short in Russia due to May holidays. Lack of significant events and statistical indicators combined with decreased activity in the Russian FX market may help the USD/RUB and the EUR/RUB hover in the respective ranges of 67.0-72.0 and 72.0-75.0 in the nearest future.

	Last	1wk	ytd
$ UST'10, %	2.92	0.10	1.41
€ BUND'10, %	0.97	0.17	1.15
OFZ 5y (26207), %	10.38	0.31	1.97
OFZ 10y (26239), %	10.25	0.04	1.83
OFZ 15y (26233), %	10.09	0.07	1.68

Fixed Income

The OFZ segment somewhat lost steam after the CBR MPC meeting on April 29. The regulator did signal readiness to cut the key rate further, on par with our forecast (10% by year-end). However, this is a scenario the bond market had already priced in, with no significant bits of new dovish information to cheer upon.

As of noon (Moscow time) today, the fixed-rate yield curve stood at 10.39% - 10.25% - 10.25% - 10.14% for 2Y – 5Y – 10Y – 15Y tenors, respectively. There's pretty much no viable channels through which the local financial assets could be impacted by global factors (including the Fed tightening) these days. Hence, attention stays focused on the local ones, such as inflation prints and odds to see deflation, given massive appreciation of the ruble.

Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	16.56	0.31	8.43
₽ Mosprime'3m, %	14.50	-2.40	5.00

Russian Weekly

Money Market

Domestic banks comfortably passed the April tax period, in spite of combined payments worth RUB 1.79tn to the budget last week. In fact, almost identical amount came back into banks via deposits and repo operations with the Treasury (RUB 1.70tn). It's also noteworthy that inflows from population into the banking sector stayed healthy (RUB 71bn last week), even taking habitual seasonal demand for cash before the long May holidays in Russia into account.

Banks' reliance on short-term Treasury funding keeps growing. For instance, in auctions yesterday institutions raised RUB 872bn for 2 days and RUB 2.18tn for 7 days. For now, it's not worrisome – but market backdrop could get tight later in the year, once the MinFin needs the money, inter alia, to cover growing budgetary expenditures.

The local money market rates swiftly adjusted to the lower key rate (MosPrime 3M printed 14.5% yesterday), with no pronounced pricing of further rate cuts at this point.

Indicator	2Q22	3Q22	4Q22
Brent, $/bbl	120.0	105.0	95.0
USD/RUB	78.0	85.0	90.0
EUR/RUB	83.5	92.7	99.9
CPI, % yoy	19.9	20.2	19.5
Key rate, %	12.0	10.0	10.0
OFZ 10y, %	9.0	9.0	9.1

Macroeconomics

The CBR decided to maintain the fast pace of policy easing and cut the key rate by 300bp to 14.0% on April 29. Thus, in April the key rate was reduced by 600bp from its March peak.

Stabilization of ruble and inflation acted as the key grounds for the rate reduction, the regulator also acknowledged the challenges which the industries face due to the required structural transformation. This means that achievement of the inflation target temporarily became a secondary factor in decision-making. Real economic activity and the ability of enterprises to adapt to the new conditions (such as the search for alternative import routes, development of local production, and adaptation to weakened domestic demand) came to the fore.

Capital controls remain a strong support for softening interest rate policy. They take the standard processes of competitive capital flows due to changes in interest rates out of the equation. For this reason, estimation of secondary inflation effects from the implemented rate cuts may be the one and only field of CBR attention. Taking into account implementation of the expansionary fiscal policy in the coming quarters, such secondary effects may arise in 2H22. But before that, the CBR may bring the key rate all the way down to 10-11%. This level fits in with the regulator's forecast of an average key rate through the end of 2022, assuming intensive reduction (-100/-200bp) of the rate in June-July.

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Weekly – April 28 (eng)

Weekly – April 21 (eng)

Weekly – April 14 (eng)

Weekly – April 7 (eng)

Markets and economics

Russian forecast update – April 11 (eng)

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