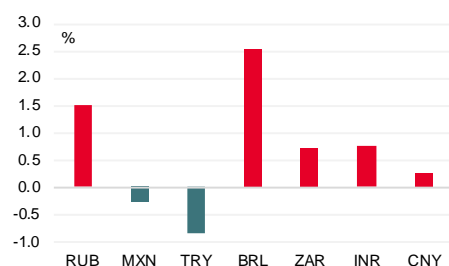


Main Indicators

	Last	1wk	ytd
USD/RUB	73.1	1.5%	-1.4%
EUR/RUB	86.8	0.7%	-4.3%
EUR/USD	1.187	-0.6%	-2.9%
DXY	92.2	0.4%	2.5%
Brent, \$/bbl	76.2	0.0%	47.0%
Gold, \$/t oz	1787	0.3%	-5.7%

EM currencies last week *



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

Russian Weekly

Foreign Currency Market

The ruble is drifting in the risk-off wind. Distribution of the Indian "delta" virus has returned investors towards the safe-haven currencies, forcing the RUB to show one of the worst results among its peers against the USD last week: the Brazilian real (-2.5%), the Russian ruble (-1.5%), the South African rand (-0.7 %), Turkish lira (+0.8%).

The sales of export revenues faded with the end of June tax period, and the RUB volatility rose again. It did not even react to rather hawkish signals from the CBR last Monday (which made us raise our key rate projection to 6.0%, +50 bp in 3Q21). During the course of the week, the USD/RUB headed to 73.80 (from 72.20 at the start of the week) and managed to return on track with only 'weak' labor market data in the US.

Stalling OPEC+ negotiations are driving momentum in oil prices. Some disagreements between UAE and other members may cause lasting consequences for the OPEC+ agreement through 2022 and imperil credibility of compliance rates. One can hardly elaborate strategic support for the ruble from this uncertainty, though oil prices keep rising (Brent is above \$76/bbl). Meanwhile, the MinFin raised daily FX purchases to RUB 13.5 bn for a month from July 7 to August 5, which may have a cumulative effect during midsummer «sleep» of the FX markets. So far, we expect hibernation regime for RUB in the range 73.0-73.7 against the USD and 86.5-87.7 against the EUR.

In the global FX space, the EUR/USD followed the downward trend and reached 1.1810 by the time the US labor market statistics was published, but later it squeezed to the 1.1850-1.1900 range. In fact, the data brought mixed results — the rise in the unemployment rate (5.9% vs the consensus of 5.6%) praised some dovishness from the Fed. Other than that, the record growth in the NFP (+850 k) confirmed rising momentum in the US labor market. Should it be a valid ground for update of the FOMC communication? Let us wait for some hints of June FOMC minutes (on Wednesday) and potential officials' comments ahead of 28 July meeting.

Fixed Income

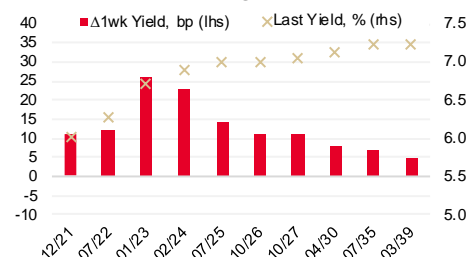
Hawkish comments from the CBR last Monday drove sentiment in the OFZ segment for the remainder of the week. Expectedly, the curve continued to bear-steepen, registering +11/+28bp on the front end and +5/+8bp for long-dated bonds. Primary auctions didn't disturb the sentiment much as the Finance Ministry could only place a tiny amount of new debt, RUB 8.5bn via the 26239 07/31 series, as auction in the 26240 07/36 bond was canceled.

The Ministry also disclosed the Q3 domestic borrowing target at RUB 700bn which looks somewhat aggressive against the remainder of funds due to be raised under the annual budget, at RUB 1.16tn over H2 21. As always, the guidance is indicative and doesn't force the authorities to print new debt at any price. We interpret it as a sign of readiness from the MinFin to borrow sooner rather than later, i.e. not looking forward to any specific positive surprises later down the road. If anything, so far the authorities have been quite tight in placement of new bond series after restrictions for US financial institutions kicked in on 14 June, with premium over the comparable 'old' off-the-run series of no more than 9-14bp.

For the week ahead, as most frequently the case, there's no clear-cut pipeline of specific events to monitor for the local bond market. The global – and local – inflation story with monetary policy implications is still at the front of everyone's priorities.

	Last	1wk	ytd
\$ UST'10, %	1.42	-0.10	0.51
€ BUND'10, %	-0.24	-0.08	0.33
\$ Russia'29, %	2.54	0.00	0.42
OFZ 5y (26229), %	7.00	0.10	1.48
OFZ 10y (26228), %	7.19	0.06	1.14
OFZ 15y (26225), %	7.22	0.07	0.78

Russian local sovereign bonds last week

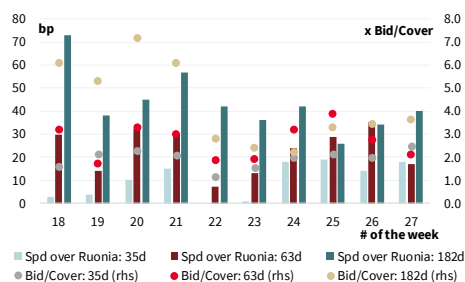




Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	5.06	-0.04	0.79
USD/RUB swap o/n, %	4.90	-0.15	0.16
₽ Mosprime'3m, %	6.49	0.11	1.57
\$ Libor'3m, %	0.14	-0.01	-0.10
USD/RUB Xccy 1y, %	6.74	0.38	2.51
USD/RUB basis 1y, bp	-92	-2	-10

MinFin deposits remain well bid



Indicator*	Last	Prior
Markit PMI Mfg	Jun 49.2	May 51.9
Markit PMI Services	Jun 56.5	May 57.5
Car Sales, % yoy	May 133	Apr 290
CPI, % yoy	May 6.0	Apr 5.5
CBR Reserves, \$bn	May 605	Apr 590
Trade Balance, \$bn	Apr 10.6	Mar 10.3
Budget Balance, ytd \$tn	May 0.3	Apr 0.3
Ind. production, % yoy	May 11.8	Apr 7.6
Retail Sales, % yoy	May 27.2	Apr 35.1
Unemployment Rate, %	May 4.9	Apr 5.2
Real Wages, % yoy	Apr 7.8	Mar 1.8
GDP, % yoy	1Q21 -1.0	4Q20 -1.8
CA Balance, \$bn	1Q21 16.8	4Q20 7.1

Outlook

Indicator	3Q21	4Q21	1Q22
Brent, \$/bbl	65.0	62.5	60.0
USD/RUB	73.0	72.0	72.0
EUR/RUB	91.3	91.4	90.0
GDP, % yoy	2.7	2.2	4.0
CPI, % yoy	6.2	5.0	4.1
Key rate, %	6.00	6.00	6.00
OFZ 10y, %	7.30	7.10	7.00

* recent updates highlighted with red

Russian Weekly

Money Market

Comfortable overnight funding does not prevent hunger for medium-term funds. The last week of the averaging period is following a usual scenario. A portion of the taxes transferred through banks in the late June (+RUB 482bn) occurred a tad higher than we initially suggested. This pushed banks to park a jumbo deposit with the CBR over the weekend (+RUB 939tn) and helped the RUB structural liquidity surplus to nest at the RUB 2.4tn level for a couple of days. So far, the spree with excess liquidity drove o/n Ruonia and USD/RUB implied swap rate, respectively, to 5.11% and 5.02%.

Such bliss will likely last until 7 July when a new averaging period will start and push demand for nostro accounts back to above the RUB 3.0tn. As a consequence, banks will likely cut a decent portion of supply to the CBR deposits (RUB 2.23tn at the moment) and the wheel of liquidity market cycle will be triggered in a starting position.

Against this backdrop, supply of medium-term funding from the MinFin will remain a focal point of the market. In the last few weeks, banks have been raising premiums (above the o/n Ruonia) across all the available span of 35-63-182 day deposits amidst of sustainable bid/cover ratio (in the range from 2x to 4x) and fairly stable deposit limits. This case was likely driven by a close deadline for reporting the LCR ratio by the leading banks, so tensions should dissipate at least until September.

This made the 'liquidity premium' for the 3 month Mosprime take a back seat, leaving the stage only for speculation about the trajectory of the key rate. The Mosprime benchmark widened to 95-99bp versus the key rate following the hawkish signal from the CBR last week, which implied a key rate in the range 6.00-6.25% over the next 3 months. Some more alarm bells from inflation may push estimates to the upper range (or higher) with a clearer signal to be received versus the key rate as we still see hawkish risks overpriced.

Macroeconomics

Macroeconomics: The GDP was driven mostly by inventories, economic momentum faded in June. According to the Rosstat, household consumption preserved negative dynamics in 1Q21 (-2.8% yoy vs -5.7% yoy in 4Q20) with a negative contribution of 1.6pp to the final -0.7% yoy quarterly GDP estimate. Net exports also had some negative contribution (-0.2pp) that was preserved owing to export restrictions in the oil segment and quite intensive recovery in imports (+15.2% yoy). The government consumption contributed a positive margin to GDP (0.1pp), though annual growth was tiny (0.3% yoy) compared with 4.6% yoy in 4Q20. The only strong contribution to domestic product was registered on the side of inventories (+1.1pp) – they outperformed the fixed-asset investments (-0.1pp, -0.4% yoy versus -2.1% yoy in 4Q20), which were cherished by the government policies most of all.

The estimate of the GDP by consumption provided with some opposing signals about domestic consumption at the start of the year, but demonstrated quite reasonable reliance on imports of goods. Growth of inventories raised our concerns on the GDP drivers, though we do not exclude that ending of harvest season and construction cycle may rebalance inventories in favor of consumption in forthcoming quarters. At the same time, overhang of statistical noise in the data should mount – we expect a spike of GDP by 8.9% yoy in 2Q21 coupled with deceleration of momentum back to 2.2-2.7% yoy in 2H21. All this should secure annual GDP performance at 3.0% yoy.

Forward looking indicators signaled the yellow light in June. The well-known **PMI survey in manufacturing** industries plunged unexpectedly down below the 50.0 watermark to 49.2 (51.9 in May). Coupled with a gradual decrease in the services segment PMI (56.5 vs 57.5 in May), one can suggest that the pandemic-related tensions are secondary to the producer prices inflation. The issue with producer prices has already caused some constructive critics of the government, including introduction of export duties for metal and mining companies for August-December. Nonetheless, price dynamics remained erratic amidst of commodity cycle that may preserve higher pressure on consumer prices (and the CBR, as well) implying lower momentum for the private demand in forthcoming months.

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Appendices

Café et Croissant

Weekly – Jun 28 ([eng](#))
Weekly – Jun 21 ([eng](#))
Weekly – Jun 15 ([eng](#))
Weekly – Jun 7 ([eng](#))
Weekly – May 31 ([eng](#))

Markets and economics

Russian macro update – 4Q'20 ([eng](#))
OFZ Auction Alert – June 30 ([eng](#))
Russian forecasts update – May'21 ([eng](#))

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