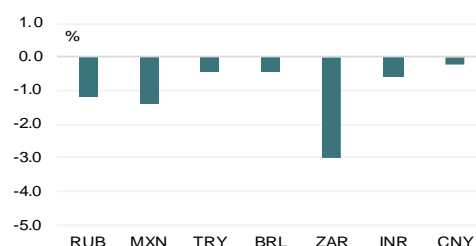


Main Indicators

	Last	1wk	ytd
USD/RUB	72.7	-1.2%	-2.0%
EUR/RUB	86.4	-0.4%	-4.7%
EUR/USD	1.189	0.8%	-2.7%
DXY	92.0	-0.7%	2.3%
Brent, \$/bbl	72.6	-0.1%	40.2%
Gold, \$/t oz	1828	0.6%	-3.5%

EM currencies last week *



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

Russian Weekly

Foreign Currency Market

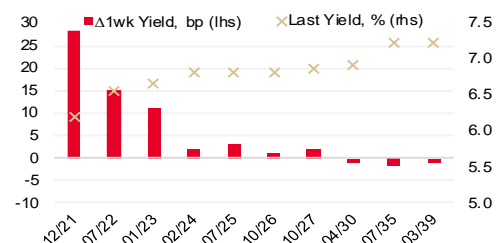
The CBR is ready, the RUB is steady. The USD weakening after unpleasant NFP surprise on Friday spiced up risk-on sentiment on FX markets. This background helped the Russian ruble to record weekly gains of +1.1% against the US dollar (USD/RUB closed at 72.7) and +0.1% against the euro (EUR/RUB hit 86.5 at market close). Among other EM currencies, the ruble showed an average result: ZAR took the lead (+2.9% wow against the US dollar) while TRY and BRL appreciated timidly by 0.2/0.3% wow.

This week may record a good story for the ruble as Brent oil price remained stable within the range of \$70-73/bbl due to structural support from the OPEC+ and its decision to gradually increase output by the year-end. Besides, the greenback will likely show no rush to recoup losses against the euro ahead of the ECB meeting (Thursday), given a 'hawkish' debate between its members following inflation spike in August.

Meanwhile, local drivers may be mixed because of planned higher purchases of FX by the Ministry of Finance (RUB 327 bn in September versus RUB 296 bn in July and RUB 316 bn in August). On the contrary, upcoming CBR meeting may be supportive in case if our baseline assumption for the key rate materialize (Rosbank: +50bp, to 7.0%). To sum up, we expect the dollar-ruble to stay in the range 72.50-73.50 and the euro-ruble to stabilize at the 86.0-87.0 interval.

	Last	1wk	ytd
\$UST'10, %	1.32	0.02	0.41
€BUND'10, %	-0.36	0.06	0.21
\$Russia'29, %	2.26	-0.05	0.13
OFZ 5y (26229), %	6.88	0.01	1.36
OFZ 10y (26228), %	6.99	0.01	0.94
OFZ 15y (26225), %	7.23	-0.02	0.79

Russian local sovereign bonds last week



Fixed Income

The MinFin is almost done with quarterly borrowing plan. Last week enabled the MinFin to improve its record of primary auctions with both 10y (07/31) and 20y (05/41) benchmarks placed at a lean premium of 17bp to off-the-run series. Demand in both series was pretty solid, so that RUB 67bn and RUB 24bn were contributed to the quarter-to-date borrowing and tiny RUB 35bn were left in the 3Q21 plan. Given such progress in August and early September, the residual annual plan was left short of RUB 0.5tn to be raised through the year-end. If demand persists only 5-6 auctions will be needed to close the gap unless the MinFin decides to switch into extremely tight pricing mode.

The secondary market once again demonstrated a knee-jerk reaction to the weekly inflation print. Another gain of 0.1% wow in couple with modestly hawkish guidance reiterated by the CBR Deputy A.Zabotkin flattened the OFZ yield curve along 2y10y horizon to 16bp (-10bp over the week). In the meantime, the 5y15y steepened to 49-50bp and should keep growing to 60-70bp against stronger foreign demand in the 5-7y maturity range and absence of medium-term bonds in the primary pipeline.

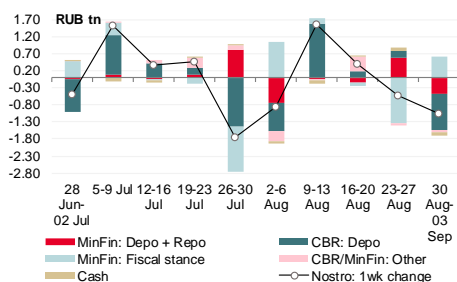
For the month ahead, the key topic to watch will be inflation and response of central banks to its pace. While in Russia, we are seeing high change for another hike (by 50bp to 7.0%), global regulators will have to adjust their measures to recent inflation spikes (Europe) and wages growth (US). So far, global inflation breakevens will be worth watching as well to decide on bidding for long-term risk.



Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	6.05	-0.43	1.78
USD/RUB swap o/n, %	6.04	-0.21	1.30
₽ Mosprime'3m, %	7.26	0.03	2.34
\$ Libor'3m, %	0.12	-0.01	-0.12
USD/RUB Xccy 1y, %	6.83	0.05	2.60
USD/RUB basis 1y, bp	-94	-2	-12

Regular end of the averaging month



Russian Weekly

Money Market

The CBR reinstated fine-tune deposits to soften pressure on funding rates. The close end of the averaging period (7 September) enabled banks with liquidity surplus to bid for off-schedule auction last week. RUB 0.9tn were absorbed by the CBR above the weekly volume, so that RUB 1.7tn were parked till Tuesday. Besides the regular weekly deposit facility to be held on Tuesday, another 1-day deposit auction should be expected as well. The overnight facility should help align all the settlements/withdrawal plans with at the start of the new averaging period.

Given some overhang of liquidity, the MinFin managed to roll back some of deposits and repo facilities – c. RUB 0.46tn were paid off last week funded from the RUB 0.67tn spend on a regular basis. Other than that, liquidity drivers remained modest and did not hamper downward correction in funding rates. The Ruonia o/n and o/n FX swap plateaued at 6.04-6.05% and should stay there until Wednesday.

Indicator *	Last	Prior
Markit PMI Mfg	Aug 46.5	Jul 47.5
Markit PMI Services	Aug 49.3	Jul 53.5
Car Sales, % yoy	Jul -17.0	Jul 28.7
CPI, % yoy	Jul 6.5	Jun 6.5
CBR Reserves, \$bn	Jul 601	Jun 592
Trade Balance, \$bn	Jun 18.3	May 10.2
Budget Balance, ytd ₽tn	Jul 0.9	Jun 0.6
Ind. production, % yoy	Jul 6.8	Jun 10.2
Retail Sales, % yoy	Jul 4.7	Jun 10.9
Unemployment Rate, %	Jul 4.5	Jun 4.8
Real Wages, % yoy	Jun 4.9	May 3.3
GDP, % yoy	2Q21 10.3	1Q21 -0.7
CA Balance, \$bn	2Q21 19.9	1Q21 23.2

Outlook

Indicator	3Q21	4Q21	1Q22
Brent, \$/bbl	65.0	62.5	60.0
USD/RUB	73.0	74.5	73.5
EUR/RUB	86.1	87.9	85.3
GDP, % yoy	2.7	2.2	4.0
CPI, % yoy	6.7	5.5	4.5
Key rate, %	7.00	7.00	7.00
OFZ 10y, %	7.25	7.30	7.20

* recent updates highlighted with red

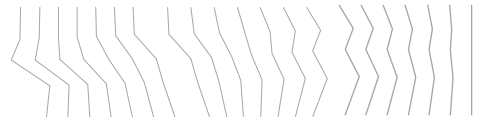
Macroeconomics

Key rate outlook updated. The upcoming meeting of the Bank of Russia is once again full of mystery with regards to the key rate trajectory. The headline questions here concern the risks of rising inflation at the end of August, the risks from intensive labor or market recovery and possible pro-inflationary character of the additional budget social expenditures.

Technically higher inflation in August (the annual inflation estimate approached 6.7% wow as of August 30) could signal an additional 25bp rate hike. However, the “pre-emptive” step of +50 bp (up to 7.0%) looks the most justified due to the Bank of Russia's intention to act ahead of the curve in the current inflationary cycle, especially given risks from additional fiscal spending and marked acceleration of real wages (more details in the CBR [preview](#)).

At the same time, the deterioration in business sentiment and the slowdown in the domestic demand may be a reason to put policy tightening on hold beyond September. Therefore, we believe that the key rate is close to its cyclical peak with the potential move on Friday able to create necessary 'safety margin' for a volatile period of tapering by the Fed. Moreover, we still consider the CBR to reverse policy to the lower bound of the 6-7% range from the middle of 2022.

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Appendices

Date	Event	Forecast	Expected impact
11 September	CBR to decide on the key rate	SG: +50bp, CNS: +50bp	Uncertainty about the move and guidance is quite high. Bold signals for progressive tightening should spook rate buyers. Dovish signals, on the contrary, may spur a rally in medium and long-term rates.

Café et Croissant

Weekly – Aug 30 ([eng](#))

Weekly – Aug 23 ([eng](#))

Weekly – Aug 16 ([eng](#))

Weekly – Aug 9 ([eng](#))

Markets and economics

Forecast Update – Aug 4 ([eng](#))

OFZ Auction Alert – Sep 1 ([eng](#))

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