ROSBANK

SOCIETE GENERALE GROUP

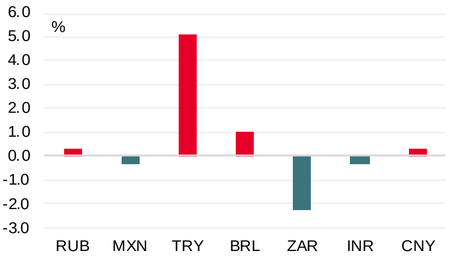
Café et Croissant

Monday, January 10, 2022

Main Indicators

	Last	1wk	ytd
USD/RUB	75.6	0.6%	0.6%
EUR/RUB	86.3	1.0%	1.0%
EUR/USD	1.136	-0.1%	-0.1%
DXY	95.7	0.1%	0.1%
Brent, $/bbl	81.8	5.1%	5.1%
Gold, $/t oz	1 797	-1.8%	-1.8%

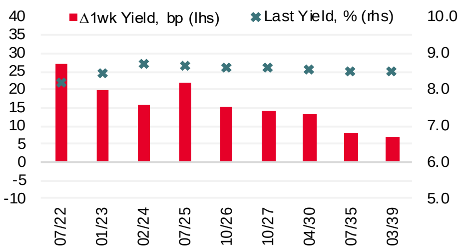
EM currencies last week *



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

	Last	1wk	ytd
$ UST'10, %	1.76	0.25	0.25
€ BUND'10, %	-0.04	0.13	0.13
$ Russia'29, %	2.94	0.16	0.16
OFZ 5y (26229), %	8.46	-0.01	0.00
OFZ 10y (26228), %	8.44	-0.02	0.00
OFZ 15y (26225), %	8.42	0.01	0.00

Russian local sovereign bonds last week



Russian Weekly

Foreign Currency Market

Geopolitical uncertainty spurred RUB volatility in early January. The year started with a rout of investors from the EM currencies to safe haven because of a more 'hawkish' FOMC statement presented last week. The tailwind for the ruble was strengthened by social unrest in Kazakhstan, which unexpectedly evolved into upheaval and political crisis. Consequently, the RUB lost 1.4% wow against the USD and 1.0% wow against the EUR, having updated annual peak levels at 77.3 and 87.5, respectively, and having shaved off most of the losses on Monday morning.

Surprisingly, the ruble was hardly disturbed by the OPEC+ decision to raise oil production by 400kbd from February. The market sentiment was well balanced by a sole cut of output by Saudi Arabia by 1mbd in February and March, which aimed at mitigating risks from the pandemic. Helped by this, the Brent barrel recovered to $80-82 in recent trading days. This might contribute a decent portion of revenues to local energy exporters, though will trigger higher demand for FX from the MinFin (RUB 500-550bn expected in January).

The last but not the least, the local market pinned its faith on the ongoing dialogue between Russia and the US to help resolve major security issues. These talks forestall the determining negotiations between Russia and the NATO block on 12 January and Russia and the OSCE organization on 13 January – both will lay the ground for a political de-escalation of the situation on East of Ukraine and strategic cooperation in other areas (weapons non-proliferation act, certification of the Nord Stream 2 and etc.).

With all potential quick wins and losses expected from geopolitical events, the market may prefer to keep the USD/RUB and the EUR/RUB may prefer to stay bound in respective ranges 75.0-76.0 and 85.0-86.0 in order to avoid taking excess risk.

Fixed Income

The surprising bond optimism of late 2021 is quick to dissipate. Over the second half of December, the OFZ curve experienced a pronounced bull-flattening (2y -30bp, 5y -27bp, 10y -16bp), driven by local players and hardly corresponding to fundamentals, if we were to judge. Thus, it makes no surprise that the move is quick to reverse itself in early 2022, looking at the yields evolution today (2y +16bp, 5y +17bp, 10y +13bp).

For the local bond market, the key topics of early 2022 are worrisome, which is indeed a strongly unappealing combo for the market bulls:

1/ higher global interest rates on Fed hawkishness,

2/ Russia / US / NATO geopolitical instability,

3/ risk of new tight signals from the CBR on the back on the 8.4% yoy full-year print for inflation in 2021,

4/ likely acceleration of Finance Ministry's borrowings pace after a very suave and gentile end to proceedings in 2021 (Q1 plan at RUB 700bn vs. Q4 actual at RUB 247bn).

For the week ahead, the outcome of multiple political negotiations is of paramount importance as a sentiment driver. Going forward, signals from the CBR will be gaining significance. At this stage, we don't feel there's a strong consensus with regards to the outcome of the 11 February MPC meeting (i.e. hold vs. hike).

Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	8.13	0.05	0.00
USD/RUB swap o/n, %	8.01	-0.29	-0.29
₽ Mosprime'3m, %	9.50	-0.01	0.00
$ Libor'3m,%	0.24	0.02	0.03
USD/RUB Xccy 1y, %	9.20	0.07	0.07
USD/RUB basis 1y, bp	-106	5	5

Indicator *	Last		Prior	
Markit PMI Mfg	Dec	51.6	Nov	51.7
Markit PMI Services	Dec	49.5	Nov	47.1
Car Sales, % yoy	Nov	-20.4	Oct	-18.1
CPI, % yoy	Dec	8.4	Nov	8.4
CBR Reserves, $bn	Nov	623	Oct	624
Trade Balance, $bn	Oct	19.8	Sep	19.8
Budget Balance, ytd ₽tn	Nov	2.3	Oct	2.3
Ind. production, % yoy	Nov	7.0	Oct	7.4
Retail Sales, % yoy	Nov	3.1	Oct	4.3
Unemployment Rate, %	Nov	4.3	Oct	4.3
Real Wages, % yoy	Oct	0.6	Sep	2.0
GDP, % yoy	2Q21	4.3	1Q21	10.5
CA Balance, $bn	3Q21	36.9	2Q21	18.3

Outlook

Indicator	1Q22	2Q22	3Q22
Brent, $/bbl	80.0	80.0	75.0
USD/RUB	72.0	72.5	73.0
EUR/RUB	82.1	81.2	80.3
GDP, % yoy	4.0	-0.1	2.7
CPI, % yoy	6.7	5.8	5.3
Key rate, %	8.25	8.25	7.75
OFZ 10y, %	8.10	7.95	7.50

** recent updates highlighted with red*

Russian Weekly

Money Market

Ruble liquidity is aplenty in 2022 at early doors, today in the morning the CBR reported RUB 2.69tn in banks' current accounts and RUB 2.80tn in deposits. Credit institutions moved through the year-end without stress thanks to traditional inflow of budgetary spending (RUB 1.61tn over December 28-30) as well as the fact that bulk of term facilities from the Federal Treasury were refinanced with current repayment in January-February 2022. Since the start of the December averaging period, banks have kept on average RUB 3.64tn on nostro accounts with the CBR (vs. RUB 3.30tn in November and RUB 3.31tn in October) which means the entrance to 2022 should be very comfortable.

On the off-shore market, ruble rates have been predominantly trending higher in the first trading sessions of January, +4/+8bp in IRS and +7/+9bp in XCCY. We put it down to uninspiring release of preliminary inflation for full-year 2021 in Russia and tougher signaling from the Fed, which pushed interest rates up globally. 1-year RUB IRS is kicking things off today from the 10.44% mark, 1-year RUB XCCY, from 9.34%.

Macroeconomics

Inflation in the spotlight, while GDP confirmed deceleration of the recovery trend. Preliminary data from the Rosstat showed that the CPI rate bounced back to 8.4% yoy at the end of 2021. Yet we are still awaiting for details of the monthly report and some fresh figures on the weekly CPI at the start of January (both releases are scheduled for 12 January), the general guidance remained intact. The price pressure persisted both in the food and non-food goods through the year-end that validated cautious stance of the CBR on its latest MPC meeting.

On the other side, domestic demand confirmed losing steam from 3Q21. According a detailed report on GDP composition by consumption, disaggregated contribution to added value reshuffled in favor of external trade (net export to 10.5% vs 8.4% in 2Q21), while consumption of households (to 47.9% vs 48.9% in 2Q21) and the government (to 17.4% vs 19.4% in 2Q21) contracted markedly and fixed asset investments gained a tiny margin (to 19.1% vs 18.0%).

In in terms of the dynamics, the fixed asset investment became the major drag for GDP growth (-3.9% qoq sa) that reversed a portion of 2Q21 achievements (7.7% qoq sa), while final consumption growth slowed down to 0.7% qoq sa (from 1.7% qoq sa in 2Q21) – it was helped by persistent private consumption (2.0% qoq sa both in 3Q21 and 2Q21) but hampered by tightening of public spending. Going forward, deceleration of final consumption will become a focal point because of persistent tightening of monetary conditions.

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Appendices

Date	Event	Forecast	Expected impact
12 January	CPI % yoy in the US	SGe: 6.9% CNS: 7.0% yoy	Persistency of inflation pressure might be a reason for tightening of Fed guidance on January MPC meeting – positive to USD and negative to MT and LT rates
12 January	Russia-NATO negotiations		The outcome may determine the way for political de-escalation of confrontation with Ukraine and EU on a number of issues. Might be positive to RUB and local assets.

Café et Croissant

Weekly – December 27 (eng)

Weekly – December 20 (eng)

Weekly – December 13 (eng)

Weekly – December 6 (eng)

Markets and economics

Russian forecasts update – December 13 (eng)

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Appendices

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