

## Main Indicators

	Last	1wk	ytd
USD/RUB	120.0	26.8%	60.7%
EUR/RUB	127.0	19.8%	50.3%
EUR/USD	1.109	-0.1%	-2.4%
DX	98.0	0.6%	2.4%
Brent, \$/bbl	111.1	-1.6%	42.9%
Gold, \$/t oz	1986	3.5%	8.5%

## Russian Weekly

### Foreign Currency Market

**The RUB is drifting down.** With sanctions imposed on a large part of the CBR reserves (access to c 45% of reserve assets according to data on 1 July 2021 was restricted), the RUB started drifting without any sight of fundamental value. The ruble market split into two segments – offshore and onshore – with the internal segment based on Moex trading platform being supported by a plenty of mandatory measures introduced by the CBR.

The major requirements addressed obligatory sale of 80% of export revenues obtained from 28 February (and sales of 80% of FX accounts accumulated with export proceeds from 1 January to 28 February) and limits on transferring FX out of the country. Repayment of capital dues to foreign investors were either re-nominated into roubles (for Eurobonds) or blocked for dissemination via Euroclear and Clearstream (dividends). Individuals were restricted to purchase FX on the stock market and restricted to withdraw FX cash from banking accounts.

Thinking about perspective of the RUB in forthcoming months, we rely on [scenarios](#) proposed by our SG colleagues:

a/ gradual de-escalation of the situation amidst sustainable inflows of export revenues and gradual lifting of capital restrictions (the RUB may find firm ground at 90 per USD by the end of 1H22)

b/ persistency of the conflict (the RUB may keep suffering volatility and depreciation through March-April to 130-140 per USD and revert back to 110 by the end of 1H22) and

c/ further escalation of the geopolitical context with further tightening of restrictions for the FX market (the USD/RUB may peak at for some time as the market will annihilate itself).

	Last	1wk	ytd
\$ UST'10, %	1.95	0.08	0.44
€ BUND'10, %	0.22	0.19	0.39
\$ Russia'29, %	24.77	19.33	21.98
OFZ 5y (26229), %	12.46		4.01
OFZ 10y (26228), %	12.94		4.50
OFZ 15y (26225), %	11.75		3.34

### Fixed Income

**All eyes on the Eurobond market as the OFZ segment stays closed.** Repayment of the Russian external debt – in particular, via Eurobonds – stays in the spotlight. According to the media, Rosneft and Gazprom both repaid debentures worth \$2bn and \$1.3bn, respectively, on March 6 and March 7. However, going forward, similar payments could become more complicated due to one of the recent regulations from the Bank of Russia (following Russian President's decree from March 5).

The Russian regulator decided to differentiate treatment of external debt payments, depending on the creditor's country of origin (i.e. Russia, countries not adhering to sanctions or countries adhering to sanctions). There's also division between the ability to settle debt in the original currency (in case a special permission is granted) or in rubles. As of today, there's no clear understanding on how payments for each specific Eurobond will be executed under this new regime and how they will be interpreted by the international investor community. In particular, coupon payment on the sovereign RUSSIA \$ 2023 and RUSSIA \$ 2043 papers due on March 16 will be scrutinized.

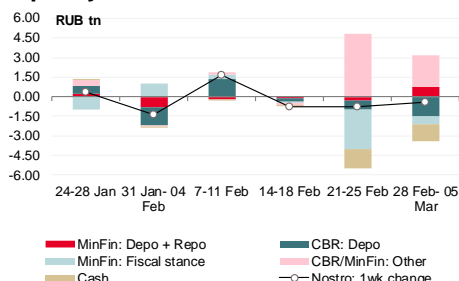
As far as the local debt market is concerned, no transactions have been taking place since the market close on February 25. Indeed, we can't imagine what the secondary market would have looked like in a situation when domestic banks are busy dealing with the financial stability concerns and holdings of foreign investors in the Russian depositaries are temporarily frozen.



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	Last	1wk	ytd
Ruonia o/n % (1-day lag)	20.44	0.44	12.31
USD/RUB swap o/n, %	8.50	-9.45	0.20
₽ Mosprime'3m, %	24.00	-0.05	14.50
\$ Libor'3m, %	0.70	0.19	0.49
USD/RUB Xccy 1y, %	38.88	7.62	29.75
USD/RUB basis 1y, bp	18	-33	129

## Liquidity stance switched into deficit



## Money Market

**The liquidity market suffered a tremendous stress, which is not yet over.** The stress was induced by a frenetic withdrawal of ruble cash from banks because of geopolitical uncertainty and harsh sanctions imposed on several state-owned banks. From 24 February till 5 March, RUB 2.8tn were withdrawn from banking accounts, of which RUB 1.5tn were taken before the CBR made a massive key rate hike to 20%. By the moment of writing, the CBR registered shy return of RUB liquidity back on accounts (+RUB 25bn compared with RUB 390-500bn/day withdrawal at the start of crisis) that indicated signs of stabilization of the situation.

Besides behavioral specifics of the stress, composition of liquidity drivers also changed because of reshuffling of funds in favor of the MinFin. Tax dates at the end of February absorbed c. RUB 4.0tn of banking liquidity and spurred demand for refinancing facilities at the CBR. The sum of REPO and refinancing facility collateralized with non-marketable credit peaked at RUB 8.3tn, so that the structural liquidity stance nosedived into deep deficit area (-RUB 4.5tn).

Like at the apogee of 2014 crisis, such massive changes indicated malfunction money market and shrank it to overnight regime only. Moreover, persistent stress with dollar funding caused a divergence between ruble-only and swap facilities. The o/n Ruonia rate leveled at 20.4%, while deficit of dollar funding pulled o/n implied swap rate to 6.0-8.50% or 40-45% for dollars. The offshore funding collapsed as well, so the 1-year IRS spiked to 40-42% showing a high probability for further tightening of monetary conditions.

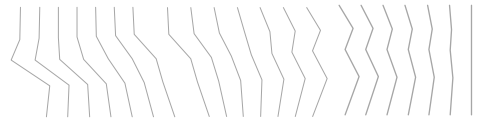
Indicator*	Last	Prior
Markit PMI Mfg	Feb 48.6	Jan 51.8
Markit PMI Services	Feb 52.1	Jan 49.8
Car Sales, % yoy	Feb -4.8	Jan -3.7
CPI, % yoy	Feb 9.2	Jan 8.7
CBR Reserves, \$bn	Jan 630	Dec 631
Trade Balance, \$bn	Dec 26.7	Nov 21.1
Budget Balance, ytd ₽tn	Jan 0.1	Dec 0.5
Ind. production, % yoy	Jan 8.6	Dec 6.1
Retail Sales, % yoy	Jan 3.6	Dec 5.4
Unemployment Rate, %	Jan 4.4	Dec 4.3
Real Wages, % yoy	Dec 3.6	Nov 3.4
GDP, % yoy	3Q21 4.3	2Q21 10.5
CA Balance, \$bn	4Q21 41.8	2Q21 36.9

## Macroeconomics

**Expecting pole-vaulting inflation and antistress measures by the government.** The domestic inflation and growth will become a focal point when geopolitical context finds firm ground and all the external conditions of trade settle down. At the moment, we keep seeing a chained reaction of foreign dealers and producers aimed to reduce presence or halt activity for some time in Russia. Such conditions will definitely reflect in higher unemployment rate, decrease in disposable income and cause reshuffling of savings of households. Moreover, inflation expectations faced an idiosyncratic shock which may result in strong primary and secondary inflation spikes. First estimates dated back to 4 March demonstrated a spike in durable goods (electronic equipment and cars) by 10-18%, but revision of prices will remain in close dependence with valuation of the ruble. The current inflation estimate shifted to 10.5% yoy, while further repricing of goods and services may push it to 20-25% yoy over coming months.

The government introduced antistress measures, which resemble packages seen on the rise of the Covid pandemic. The first package will reduce administrative pressure on SMEs and allow parallel imports. It will also enable public companies to spend liquidity of buybacks, ease access of construction sector to reserve funds and escrow accounts and relax regulatory requirements with respect to financial institutions (CBR did this, but the legislation will formalize such measures). Credit holidays will be offered to borrowers who faced employment restrictions and plunge of income. Finally, the MinFin will be granted rights to reshuffle budget in favor of social spending and rely on excess oil and gas income (i.e. budget rule will be suspended).

The second package is also on the way. It is calling to introduce special rules for introducing external management in foreign companies who suspended production in Russia. Also some VAT and income tax deductions may be outlined for 2022. The more packaged to come, as some industries are facing abrupt shocks in terms of supplies of goods and services.



## Appendices

### Café et Croissant

### Markets and economics

**Weekly – February 21** ([eng](#))

**Weekly – February 14** ([eng](#))

**Weekly – February 7** ([eng](#))

**Weekly – January 31** ([eng](#))

### Capital Markets & Investment Banking

#### Pavel Vintin

[Pavel.Vintin@rosbank.ru](mailto:Pavel.Vintin@rosbank.ru)

+7 (495) 662-13-00, ext. 15-356

#### Financial Institutions Sales

##### Pavel Malyavkin

[PMalyavkin@rosbank.ru](mailto:PMalyavkin@rosbank.ru)

+7 (495) 725-57-13

#### Debt Capital Markets

##### Tatyana Ambrozhevich

[TVAmbrozhevich@rosbank.ru](mailto:TVAmbrozhevich@rosbank.ru)

+7 (495) 956-67-14

#### Brokerage

##### Timur Mukhametshin

[Timur.Mukhametshin@rosbank.ru](mailto:Timur.Mukhametshin@rosbank.ru)

+7 (495) 234-36-52

#### Corporate Sales

##### Yury Dranovskiy

[Yuriy.Dranovskiy@rosbank.ru](mailto:Yuriy.Dranovskiy@rosbank.ru)

+7 (495) 725-57-44

#### FX & Rates Solutions

##### Alexandre Koutcherov

[Alexandre.Koutcherov@rosbank.ru](mailto:Alexandre.Koutcherov@rosbank.ru)

+7 (495) 725-57-44

#### Research

##### Yury Tulinov, CFA

[Yury.Tulinov@rosbank.ru](mailto:Yury.Tulinov@rosbank.ru)

+7 (495) 662-13-00, ext. 14-836

##### Evgeny Koshelev, CFA

[Evgeny.Koshelev@rosbank.ru](mailto:Evgeny.Koshelev@rosbank.ru)

+7 (495) 662-13-00, ext. 14-838

##### Anna Zaigrina

[Anna.Zaigrina@rosbank.ru](mailto:Anna.Zaigrina@rosbank.ru)

+7 (495) 662-13-00, ext. 14-837

##### Ekaterina Korchagina

[Ekaterina.Korchagina@rosbank.ru](mailto:Ekaterina.Korchagina@rosbank.ru)

+7 (495) 662-13-00, ext. 15-354

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