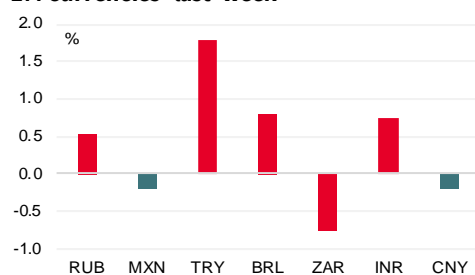


Main Indicators

	Last	1wk	ytd
USD/RUB	73.1	0.5%	-1.5%
EUR/RUB	86.4	-0.1%	-4.8%
EUR/USD	1.182	-0.6%	-3.3%
DXY	92.6	0.6%	2.9%
Brent, \$/bbl	72.9	0.4%	40.8%
Gold, \$/t oz	1788	-2.2%	-5.6%

EM currencies last week *



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

Russian Weekly

Foreign Currency Market

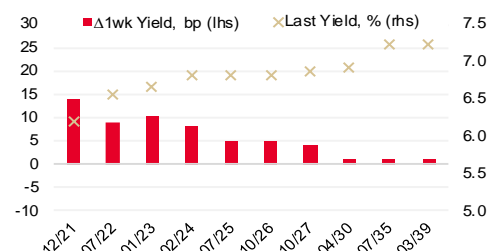
The ruble loosened its grip after the CBR meeting. The risk-off sentiment spread over the global FX market by the end of last week, so the RUB partially trimmed its Friday gains ignoring the key rate hike by the CBR (+25 bp to 6.75%). The rhetoric occurred overly tight that confused local players. On the one hand, it enhanced carry trade opportunities in the near future, on the other hand, it raised the question mark over the terminal rate and more attractive entry points. Consequently, the ruble lost steam against the USD (-0.6% wow to 73.2), while managed to preserve position against the euro (86.4, -0.1% wow).

In the EM currency league table, the RUB was positioned right in the middle with the ZAR (+0.7% wow) wearing yellow jersey for the second week in a row. The BRL was weaker than the Russian ruble (-1.0% wow), and the TRY was the outsider this time (-1.7% wow).

The 'flight to the dollar' factor amidst of the Fed officials' signals should not worsen positioning in the ruble as geopolitical backdrop headed to normalization following completion of the Nord Stream 2 gas pipeline. Moreover, oil market backdrop remained supportive (Brent keeps within a range of \$72-74/bbl) ahead of looming corporate tax payments in late September. So, the RUB's beta should remain lower compared with EM peers and should pertain the USD/RUB in the range 72.50-73.30 and the EUR/RUB - 85.5-86.7.

	Last	1wk	ytd
\$ UST'10, %	1.34	0.02	0.43
€ BUND'10, %	-0.33	0.03	0.24
\$ Russia'29, %	2.24	-0.02	0.11
OFZ 5y (26229), %	6.93	0.05	1.41
OFZ 10y (26228), %	7.00	0.01	0.95
OFZ 15y (26225), %	7.24	0.01	0.80

Russian local sovereign bonds last week



Fixed Income

The OFZ curve continued to flatten ahead of the CBR MPC meeting on 10 September.

Last week, yields for bonds maturing in less than 2 years rose by +6bp/+14bp. At the same time, yields for bonds maturing in more than 10 years changed within -2bp/+1bp. The outcome of the CBR meeting hardly added much clarity to the trend, as investors are now torn between a relatively dovish decision (actual cut by 25bp vs. consensus of 50bp) and a relatively hawkish guidance ('Russia may need more than one rate hike [in the future]').

Activity on the primary OFZ market subsided as the Finance Ministry reached 97% fulfilment of the RUB 700bn quarterly borrowing target. Last Wednesday, we saw a very modest take-up of RUB 11.8bn in the 26240 07/36 fixed-rate series and a canceled auction in the new 52004 03/32 CPI-linker. Meanwhile, the MinFin is also running at 83% execution of the RUB 2.79tn local borrowing plan, implying authorities can clearly afford an episode of selective approach to new debt placements.

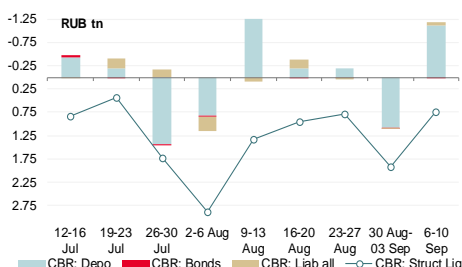
For the coming days and weeks, key drivers for the local debt segment are pretty much the same as over the recent months, i.e. weekly CPI prints and Fed guidance ahead of the regular meeting (22 September). Outcome of the German Bundestag election (26 September) is also to be monitored.



Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	6.51	0.46	2.24
USD/RUB swap o/n, %	6.51	0.47	1.77
₽ Mosprime'3m, %	7.43	0.17	2.51
\$ Libor'3m, %	0.12	0.00	-0.12
USD/RUB Xccy 1y, %	6.86	0.03	2.63
USD/RUB basis 1y, bp	-93	1	-11

Liquidity surplus slumped again



Indicator *	Last	Prior
Markit PMI Mfg	Aug 46.5	Jul 47.5
Markit PMI Services	Aug 49.3	Jul 53.5
Car Sales, % yoy	Aug -17.0	Jul -6.5
CPI, % yoy	Aug 6.7	Jul 6.5
CBR Reserves, \$bn	Aug 618	Jul 601
Trade Balance, \$bn	Jul 23.2	Jun 18.3
Budget Balance, ytd ₺tn	Aug 0.9	Jul 0.9
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	4Q21	1Q22	2Q22
Brent, \$/bbl	70.0	67.5	65.0
USD/RUB	74.5	73.5	75.5
EUR/RUB	87.9	85.3	86.1
GDP, % yoy	2.2	4.0	0.5
CPI, % yoy	5.5	4.5	3.7
Key rate, %	7.00	7.00	6.75
OFZ 10y, %	7.30	7.20	7.10

* recent updates highlighted with red

Russian Weekly

Money Market

Structural liquidity surplus back to stationary level, again. The structural liquidity surplus contracted to RUB 0.8tn on the last week as local banks reduced supply of ruble deposits (RUB 0.76tn, -RUB 1.3tn over the week) and demanded some refinancing facilities from the CBR (RUB 0.17tn to RUB 0.47tn overnight). The current surplus is close to what we have seen in the end of July and in the end of August, but unlike the regular 'tax week' effect (when all the available funding sources are utilized) the current case is likely related to a tuning of positions ahead of the CBR tightening step. Arguably, the 25bp rate hike should have mild impact on the market compared to the 1pp we had in July, so volatility of funding rates should decline much faster as well. Moreover, autonomous liquidity drivers follow ordinary trends with some more funds taken from the MinFin as term repo (RUB 0.35tn).

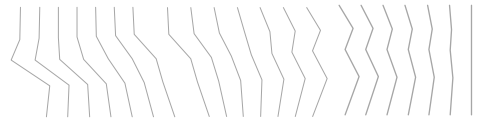
Other than that, we did not discern any structural impact of the hawkish CBR guidance on the medium-term rates. Both the 3m Mosprime and the FRA 3x6 keep pricing at least two hikes by 25bp each over the next half a year. Meanwhile, forward rates – over 6 to 12 horizon – preserved minor inversion of the curve with a message of potential rate decrease over 2022. We have pretty similar suggestion with respect to the key rate over 4Q21 and 2022 – some further tightening is still probable, but substantial policy easing could be opted against expected inflation deceleration.

Macroeconomics

The Bank of Russia slowed down tightening cycle despite inflation concerns. Last Friday the CBR increased the key rate by 25 bp to 6.75%. At a first glance, it was supposed to be an optimal target to curb inflationary risks amidst of inflation coming back to a balanced economic growth trajectory. The same feeling was related to a change of the guidance to a more open-end option for key rate movements, with the CBR holding 'open the prospect of further key rate rises' instead of considering 'the necessity of further key rate increases'. Such communication signaled (though did not commit) slower adjustment of the key rate, including a pause option in the cycle of monetary policy tightening.

At the same time, some details looked as alarm bells. Precisely, the CBR stated 'significant' rise of pro-inflationary risks, which implied higher attention to inflationary trajectory in September and early October. Any upward deviations from the expected CPI range could 'fire up' another rate hike scenario, e.g. an August 'surprise' by 0.2-0.3 pp above the seasonally adjusted minimum levels was enough to push the key rate higher in September. At the moment we see low probability of such a scenario, but with all potential shocks to the global and domestic economy, we assume the key rate to reach 7.0% by the end of 2021.

According to E. Nabiullina, the guidance remained hawkish as long as 'more than one' hike may be needed to bring the CPI back on track to the target level. Nonetheless, the regulator is ready to take 'standard steps' (i.e. 25bp) to tune up economic processes, so far the next stop could (but not committed) be at 7.0% p.a.



Appendices

Café et Croissant

Weekly – Sep 6 ([eng](#))

Weekly – Aug 30 ([eng](#))

Weekly – Aug 23 ([eng](#))

Weekly – Aug 16 ([eng](#))

Markets and economics

OFZ Auction Alert – Sep 8 ([eng](#))

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