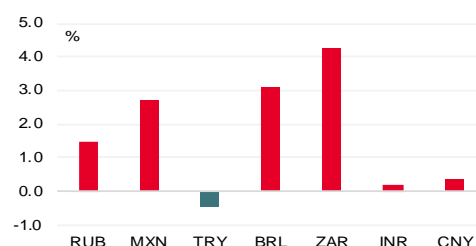


Main Indicators

	Last	1wk	ytd
USD/RUB	74.3	1.5%	0.1%
EUR/RUB	86.9	0.6%	-4.2%
EUR/USD	1.170	-0.8%	-4.3%
DXY	93.5	1.1%	4.0%
Brent, \$/bbl	65.2	-7.7%	25.8%
Gold, \$/t oz	1781	0.1%	-6.0%

EM currencies last week *



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

Russian Weekly

Foreign Currency Market

The ruble stepped back against USD. The USD/RUB currency pair closed at 74.3 level on Friday (+1.4% wow). Over week the Russian RUB weakened amidst of a prevailing risk-off sentiment, oil price correction and changing FX positions ahead of the US Fed signals regarding tapering prospects by the end of August.

Most EM currencies showed weekly declines against the US dollar (South African rand - 4.0%, Brazilian real -3.0%, Mexican peso -2.6%), but the ruble demonstrated better resilience thanks to forthcoming local tax payments and fruitful enough German-Russian negotiations.

In general, the start of the week looks moderately positive for risky assets and currencies, including the ruble. Meanwhile, the pressure on the Russian currency from the MinFin's FX purchases may be blurred. However, the focus will be on the Fed's Jackson Hole Symposium, where J.Powell may provide more information about when and how fast the regulator will taper its asset purchases. Any signals towards the rapid tapering could keep US dollar rally in motion.

Despite increased pressure on oil prices caused by vivid pandemic fears in Asia or current negotiations on gas supplies to Europe, the ruble may approach either 73.00 or 74.50 by the end of next week after J. Powell's speech. As for the EUR/RUB pair, the forecast range may narrow to 85.5-86.5, since the EUR/USD can dampen volatility and spikes.

	Last	1wk	ytd
\$ UST'10, %	1.26	-0.02	0.34
€ BUND'10, %	-0.50	-0.03	0.07
\$ Russia'29, %	2.28	-0.05	0.15
OFZ 5y (26229), %	6.83	-0.03	1.31
OFZ 10y (26228), %	6.94	-0.01	0.89
OFZ 15y (26225), %	7.20	0.03	0.76

Fixed Income

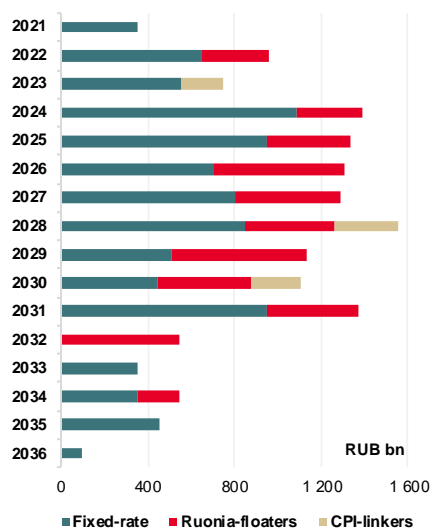
Moderate relief for the front end of the OFZ curve. Last week, we saw yields slide by 2-7bp for Russian sovereign local bonds maturing in under 10 years, and rise by 0-3bp for the longest papers on the curve (maturing in 14+ years). The move was at odds with dynamics of the US Treasuries over the period, i.e. +1bp/+2bp in 2-5 years and -2bp/-6bp for 10-30 years. However, it corresponded pretty well to the local drivers.

Right now, the biggest story for the OFZ segment is the Finance Ministry borrowing en masse each week (e.g. RUB 126bn last Wednesday, the largest single-day take-up since US sanctions kicked in on 14 June) and also granting a reasonable yield premium to make it happen (e.g. 3-5bp over the secondary market pre-auction last Wednesday). There are 5 bonds eligible for primary auctions – maturing in 09/25, 03/29, 07/31, 07/36 and 05/41 – but in reality the MinFin only picks the longest 4 securities for new debt placements. It's easy to see why, looking at OFZs maturity schedule (see on the left).

Over 2024-28, authorities are already facing more than RUB 1.2tn in annual local debt maturities; there's also a spike in 2031. Hence, by definition, the Finance Ministry has a larger propensity to issue bonds maturing in 2029-30, or in 2032 and beyond.

This also means the far end should stay under pressure from primary debt supply and the short end of the OFZ curve (maturing in 7- years) should outperform over the coming months. To see the move materialize, we just need to avoid new negative surprises from the CBR and/or the Fed. Today, the 10-year 26218 series is giving a very modest 17bp yield pick-up over the 2-year 26215 series.

OFZ term structure



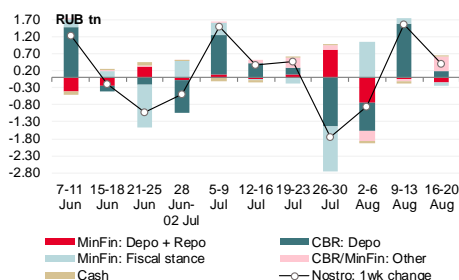
Sources: Ministry of Finance, PJSC Rosbank



Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	6.46	0.14	2.19
USD/RUB swap o/n, %	6.21	0.15	1.47
₽ Mosprime'3m, %	7.23	0.02	2.31
\$ Libor'3m, %	0.13	0.00	-0.11
USD/RUB Xccy 1y, %	6.76	0.00	2.53
USD/RUB basis 1y, bp	-90	2	-8

Liquidity factors are fairly balanced



Russian Weekly

Money Market

Funding rates priced some tensions again. Liquidity drivers preserved light positive sign over the last week, mostly helped by RUB 0.25tn repayment of public debt amidst of nearly balanced mix of other fiscal drivers. Net repayment of depo and repo facilities to the MinFin was cut to RUB -0.1tn. Nonetheless, with only a few days left until regular monthly tax payments, local funding rates faced some stress: the o/n Ruonia jumped to 6.70% on 17 August, but plateaued at 6.46-6.48% since then. This pushed some banks to reduce holdings of deposits with the CBR (by -RUB 0.2tn) and raise demand for refinancing facility (by RUB 0.2tn). However, the new week will settle new rules – the MinFin offered net surplus term facilities by RUB 0.5tn mostly build of 7 and 14 day deposits (versus potential collection of taxes at RUB 0.9-1.1tn), so some withdrawal of deposits from the CBR accounts or some additional refinancing may be inevitable.

As regards medium-term rates, the local bay did not exert caution about recent volatility in the FX space and tensions with respect to potential tapering by the Fed. Some expectations for minor tightening of monetary policy is left in the rates' pricing over 3 to 12 months, which could hardly be distinguished from a term premium. Nonetheless, flattish inflation printed by the Rosstat for the third week of August helped to resist hawkish calls though the end of 2021.

Indicator *	Last	Prior
Markit PMI Mfg	Jul 47.5	Jun 49.2
Markit PMI Services	Jul 53.5	Jun 56.5
Car Sales, % yoy	Jul -6.5	Jun 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	Jun 10.4	May 12.3
Retail Sales, % yoy	Jun 10.9	May 27.2
Unemployment Rate, %	Jun 4.8	May 4.9
Real Wages, % yoy	May 3.3	Apr 7.8
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, %	6.50	6.50	6.50
OFZ 10y, %	7.25	7.30	7.20

* recent updates highlighted with red

Macroeconomics

Some more spending should not derail fiscal and monetary normalization. The government announced additional social spending in 2021, which should address pensioners and military officers and may reach RUB 0.5tn (c. 0.4% of FY21 GDP) in total. There were not much of additional fiscal relief to ordinary people in 1H21 to help overcome consequences of the pandemic (mostly related to inflation spike), but the announced spending will be the second in 3Q21. The first package was estimated at RUB 0.4tn (0.3% of GDP) - it granted one-off payments per each children ahead of the school year and indexation of family allowance.

From the economic standpoint, the fiscal system is recovering faster in 2021 than projected, especially in terms of non-oil income (20.0% yoy in 1H21 vs -5.1% yoy budgeted for FY21). Coupled with sustainable oil income growth (both base and excess components) this additional income growth may bring RUB 1.0-2.0tn atop of the budget projections. However, the MinFin has to conduct countercyclical policies – according to the fiscal rule, a principle of neutrality should be met, so technically RUB 1.0-2.0tn became available for distribution in 2021.

We met two popular questions with respect to this topic: should additional spending cause some negative consequence for inflation and why not to reduce borrowing needs in FY21? The answer to the latter question is quite obvious, as long the budget rule is aimed at structural primary budget balance – it should converge to 0.0% of GDP in 2024 (from 1.3% of GDP planned for FY21) and rapid convergence will hurt the economy. The former question is not that easy as an abstract assumption on saving preferences should be adopted – in general one-off payments should be ignored by the CBR (especially, when the fiscal rule is met), but in fact some temporary effects may emerge. We do not see consequences for the upcoming monetary meetings and still expect the key rate to top at 6.5%, but we will hardly avoid scrutinizing swings in disposable income and the way they are utilized.

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Appendices

Date	Event	Forecast	Expected impact
27 August	J.Powell to present at Jackson Hole symposium	He may shed light on QE tapering scheme and terms	Should J.Powell prepare announcement of the tapering on 22 September FOMC meeting, the FX space might rush to buy dollar versus DM and GM – the EUR may plunge to 1.16, while the DXY to spike to 94.

Café et Croissant

Weekly – Aug 16 ([eng](#))

Weekly – Aug 9 ([eng](#))

Weekly – Aug 2 ([eng](#))

Weekly – Jul 26 ([eng](#))

Markets and economics

Forecast Update – Aug 4 ([eng](#))

OFZ Auction Alert – Aug 18 ([eng](#))

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