ROSBANK
SOCIETE GENERALE GROUP

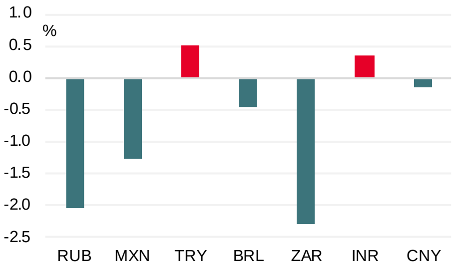
Café et Croissant

Monday, October 26, 2020

Main Indicators

	Last	1wk	ytd
USD/RUB	76.2	-2.0%	22.8%
EUR/RUB	90.3	-0.9%	29.7%
EUR/USD	1.19	1.2%	5.6%
DXY	92.8	-1.0%	-3.8%
Brent, $/bbl	41.8	-2.7%	-36.7%
Gold, $/t oz	1 902	0.1%	24.9%

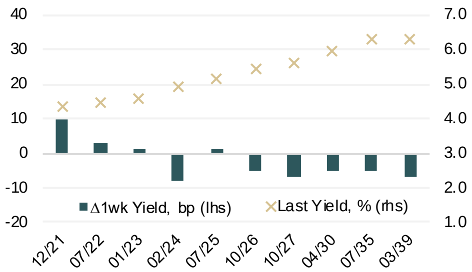
EM currencies over the week *



** '+' – depreciation, '-'- appreciation*

	Last	1wk	ytd
$ UST'10, %	0.84	0.10	-1.07
€ BUND'10, %	-0.57	0.05	-0.39
$ Russia'29, %	2.29	0.03	-0.65
OFZ 5y (26229), %	5.30	0.00	-0.85
OFZ 10y (26228), %	5.97	-0.05	-0.40
OFZ 15y (26225), %	6.28	-0.05	-0.23

OFZ curve flattened



Russian Weekly

Foreign Currency Markets

The RUB managed to appreciate along with EM peers, but tensions looming ahead. The local currency market was inspired by gradual improvement of the external sentiment driven by hopes for a new fiscal package in the US (which was mostly negative for the greenback) and helped by internal liquidity flows (dominated by corporate conversion ahead of quarterly tax payments on the week from 26 to 30 October).

The CBR improved the newsflow for the RUB on the turn of the week by raising mandatory FX sales through the year-end. Starting from 26 October, the regulator will sell FX equivalent to RUB 4.0bn/day instead of RUB 2.9bn/day because of some additional OTC transactions with the MinFin related to investing the NWF into local companies. Last week, the MinFin invested RUB 50bn into PJSC Aeroflot that according to the CBR rules should be reflected in the open market. Combined with the MinFin's FX sales aimed to fulfill the budget rule – RUB 5.8bn/day through the 5 November may be well reiterated in December owing to prevailing conditions in the oil market – the overall FX supply from the authorities should creep up to RUB 9.8bn/day (or $128 mn/day) from today.

In normal times, such drivers could be a perfect combination for the RUB to perform but market participants seemingly held their breath ahead of 3 November US elections. With the 'Blue wave' coming in the US, geopolitical risks for Russia should not be underestimated. Although this 'wave' may adopt a larger fiscal stimulus to provide a relief to the US economy it will hardly stop the pandemic itself. So far, additional pressure on oil from tightening of economic activities across Europe happend over the weekend is another point of concern for us.

Fixed Income

The OFZ curve demonstrated a positive twist last week. The handicap was made at the start of the week with a minor positive twist of the Govies curve beyond 5y maturity ahead of the CBR meeting. The 2y10y slope tightened by a 2bp margin to 145bp, though the 5y15y remained fairly flat at 105bp. Nonetheless, the monetary regulator did not promote optimism with much attention paid to overhang of short-term risks, so the curve traded devoid of ideas before the weekend.

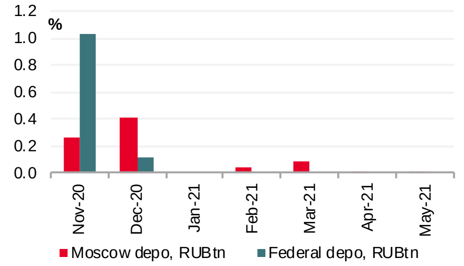
Another strong primary auction held by the MinFin with RUB 300+bn placement of the FRN also failed to inspire the market despite not that abundant (as usual) price concessions. Provided with RUB 1.3bn of the borrowing plan left through the year-end, the primary market should not reduce its impact on the curve unless the ministry isolated fixed-rate bonds from potential supply.

The coming week should raise sensitivity to external news flow related to US elections and RUB dynamics as a litmus test of sentiment of those who would like to meet November unhedged. The regular auction day will unlikely surprise with a composition of selected bonds: a 7y-10y FRN could be combined with a 7y+ fixed-rate bond on the offer.

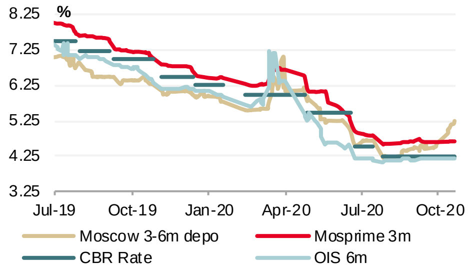
Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	4.23	-0.01	-2.00
USD/RUB swap o/n, %	3.59	-0.35	-2.95
₽ Mosprime'3m, %	4.65	0.00	-1.80
$ Libor'3m,%	0.22	0.00	-1.69
USD/RUB Xccy 1y, %	3.93	-0.11	-2.17
USD/RUB basis 1y, bp	-76	-6	-32

Redemption schedule is heavy



Lack of depo supply pushed rates



Indicator*	Last		Prior	
Markit PMI Mfg	Sep	48.9	Aug	51.1
Markit PMI Services	Sep	53.7	Aug	58.2
Car Sales, % yoy	Sep	3.4	Aug	-0.5
CPI, % yoy	Sep	3.7	Aug	3.6
CBR Reserves, $bn	Sep	583	Aug	594
Trade Balance, $bn	Aug	3.7	Jul	4.8
Budget Balance, ytd ₽tn	Sep	-1.8	Aug	-1.6
Ind. production, % yoy	Sep	-5.0	Aug	-4.2
Retail Sales, % yoy	Sep	-3.0	Aug	-2.7
Unemployment Rate, %	Sep	6.3	Aug	6.4
Real Wages, % yoy	Aug	0.1	Jul	2.9
GDP, % yoy	2Q20	-8.0	1Q20	1.6
CA Balance, $bn	3Q20	2.5	2Q20	-0.5

Outlook

Indicator	4Q20	1Q20	2Q21
Brent, $/bbl	40.0	42.5	45.0
USD/RUB	76.0	72.0	69.0
EUR/RUB	89.7	86.4	84.2
GDP, % yoy	-2.1	-0.7	0.7
CPI, % yoy	4.3	4.3	4.1
Key rate, %	4.25	4.25	4.25
OFZ 10y, %	5.20	5.00	5.20

** recent updates highlighted with red*

Money Market

All the eyes turned on RUB liquidity deposits from the MinFin and the DepFin of Moscow. Summing up all the available data on both liquidity providers, one can resume that the market has all the reasons to exert tensions with medium-term funding. Despite the fact that the MinFin provided RUB 2.37tn of deposit that led to net issuance of RUB 0.8tn of additional liquidity all the funds were short-term and did not stretch into 2021. The DepFin of Moscow was less generous having absorbed c. RUB 0.56tn and issued c. RUB 0.3tn (as of today) of which only c. 20% were rolled into 2021.

Banks have to repay RUB 1.8tn more to the MinFin and the DepFin combined through the rest of the year. Except for some short-term liquidity gaps, it should not be a technical issue for the banking system (owing to available collateral and CBR refinancing instruments) to redeem so huge liabilities as long as the consolidated budget should spend this liquidity through the end of the fiscal year or renew deposits.

However, assessment of structural impact of such liquidity turnaround may have a critical point. Banks usually rely on the budget deposits to fulfil regulatory requirements of the CBR – namely, the LCR ration which is highly sensitive to the term (and conditions) of attracted funds. Should the MinFin and the DepFin reduce supply of deposits maturing in 2021 and shorted the duration, which we suggest a probable scenario, banks will have to seek funding in the corporate segment and pay decent premium for 30 to 90 days deposits. The retail segment is seen as less preferred option, especially given persistent outflow of funds owing to low deposit rates.

Macroeconomics

The CBR left the key rate unchanged (4.25) and more than that the guidance for the next couple of meetings. However, a number of inflation risks were pulled in the top paragraph that indicated concerns of the regulator with respect to current inflation trajectory. The CBR Governor suggested in her speech that recent FX devaluation may contribute up to 1pp to the annual inflation through the 2Q21 but this did not result in an upward review of the 3.5-4.0% range for inflation expected by the CBR in 2021. The probable reason is a drag for the economy from the second wave of the pandemic and related risk for demand-driven disinflation.

The outlook for 2020 was pulled slightly higher to 3.9-4.2% from 3.7-4.2%, but given current inflation at 3.8% the level above 4.2% looks more reasonable. Both supply side and geopolitical tensions may push inflation expectations even higher in the next several months (unless dust settles down), especially, if the White House will be led by the Democrat. So far, the room for further policy easing continues to narrow, even against the pandemic continues to spread all around.

The Rosstat released concerning data for September. A positive dynamics could be discerned only in the services segment which recovered to -12.2% yoy from -18.8% yoy in August. Retail sales also had a positive contribution from non-food goods (-0.3% yoy from -1.2% yoy in the previous month). However, contraction of the food sales (-4.6% yoy) and very limited drivers for the non-food sales (mostly related to volatility of the ruble) may hamper the inertia of economic recovery in subsequent months.

More than that, the labor market has all the reasons for deceleration of recovery. While real wages growth edged down to 0.1% yoy in August, being driven mostly by public sector wages, real disposable income plunged by 4.8% yoy in 3Q20. Among the components, the most concerning is entrepreneurial and other income which may have contracted by 20-23% yoy). Finally, the unemployment rate edged down to 6.3% though the number of unemployed (+44k to 3687k overall) continued to demonstrate tensions in many sectors of the economy, especially when government stimulus come to the end.

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Appendices

Date	Event	Forecast	Expected impact
26/28 October	Tax payments for September		FX market to face support from sales by export companies
29 October	ECB to decide on rates	SGe: -0.5%; CNS: -0.5% for the depo rate	Some hints on extending the PSPP (QE) on December meeting will pull the EUR down
29 October	US to publish first estimate for 3Q20 GDP	SGe: 31.7; CNS: 31.8% qoq annualized	Strong figure is expected but it will hardly reduce the need of fiscal stimulus

Café et Croissant

Markets and economics

Russian macro update – 3Q'20 (eng)

OFZ Auction Alert – 14 October(eng)

Russian forecasts update – Oct'20 (eng)

CBR meeting preview – Oct'20 (eng)

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