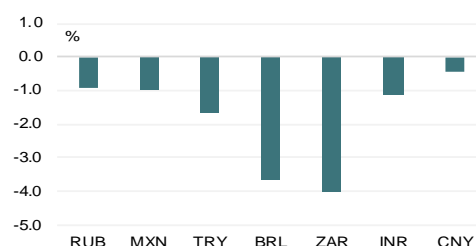


Main Indicators

	Last	1wk	ytd
USD/RUB	73.6	-0.9%	-0.8%
EUR/RUB	86.8	-0.1%	-4.3%
EUR/USD	1.180	0.8%	-3.5%
DXY	92.7	-0.9%	3.1%
Brent, \$/bbl	72.7	11.5%	40.3%
Gold, \$/t oz	1818	2.0%	-4.1%

EM currencies last week *



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

Russian Weekly

Foreign Currency Market

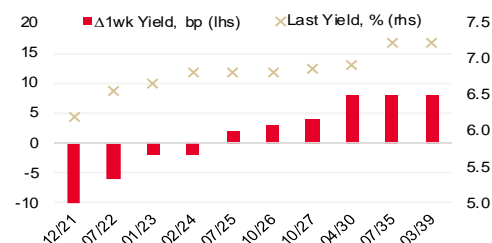
The ruble on a course towards strengthening. Friday's speech by J. Powell intensified risk-on sentiment in the FX markets and allowed the USD/RUB and EUR/RUB pairs to fix gains at the levels of 73.5 and 86.7, respectively. However, the ruble was far from the leader positions among other EM currencies, with only +0.9% growth against the dollar, while the TRY rose by 1.7%, the BRL added 3.8% and the ZAR won 4.2% over week.

This week paved the way for a strong start for the RUB with rising commodity prices amidst oil output cuts by the US ahead of hurricane Ida coming to Gulf of Mexico. However, strategic risks may emerge in early September. On Wednesday, presidents of the US and Ukraine will hold a meeting (probably devoted to the "Nord Stream 2" project), as well as the OPEC+ may start a discussion on raising production quotas. On top of that, the US NFP report will be released on Friday — it may conform the pace of labor market recovery and challenge dollar-bears for a while again.

We also expect the MinFin to announce on Friday its plan for FX purchases in September. Some lower volume should be proposed (we suggest RUB 270-290bn per month), so the USD/RUB should remain balanced flow-wise. Consequently, the USD/RUB is seen well positioned in the range 73.2-73.9 and the EUR/RUB – in the range 86.4-87.2, if the EUR/USD fails to deviate from 1.18 watermark.

	Last	1wk	ytd
\$ UST'10, %	1.31	0.05	0.39
€ BUND'10, %	-0.42	0.07	0.15
\$ Russia'29, %	2.30	0.02	0.17
OFZ 5y (26229), %	6.87	0.04	1.35
OFZ 10y (26228), %	6.98	0.04	0.93
OFZ 15y (26225), %	7.25	0.05	0.81

Russian local sovereign bonds last week



Fixed Income

The Fed did an insipid signal to the market, while local bulls stumbled over inflation.

The local OFZ curve shifted to the north by 4-8bp last week amidst of uncertainty about base rate trajectories in Russia and the US. The hawkish view on the upcoming CBR meeting once again rose from its ashes after the local weekly CPI gained 0.1% last Wednesday, as well as household and enterprise inflation expectations reported mild contraction in August (see further details in Macro section). Both data pieces were released in the aftermath of MinFin's auctions, so that the ministry once again managed to print RUB107bn of the long-term OFZ bonds at a minimal yield premium to pre-auction levels. Nonetheless, investors did not hesitate to unload positions at the end of the week given much uncertainty around Fed's Powell speech last Friday.

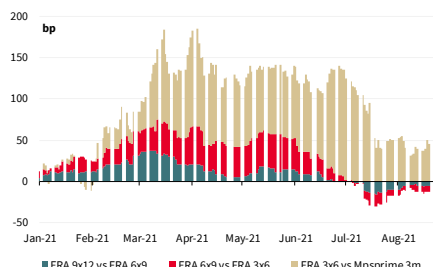
The 'super' shock did not materialize as long as J. Powell proposed a 'soft tapering mode' without commitment to facilitate rate hikes when the quantitative easing would be finally closed down. This made investors keep distance from reflation trades globally once again and helped local yields to recover by 1-2bp on Monday. Nonetheless, local reflation debates should escalate ahead of the CBR meeting on 10 September that may put a spree of primary auctions on pause for a couple of weeks.



Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	6.47	0.01	2.20
USD/RUB swap o/n, %	6.25	0.04	1.51
₽ Mosprime'3m, %	7.23	0.00	2.31
\$ Libor'3m, %	0.12	-0.01	-0.12
USD/RUB Xccy 1y, %	6.78	0.02	2.55
USD/RUB basis 1y, bp	-92	-2	-10

A 50bp hike is priced in by the market



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	Jul 6.8	Jun 10.2
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

Russian Weekly

Money Market

Inflow of deposits from the MinFin enabled to regain control over funding rates. The segment of overnight rates avoided knee jerk reaction to the tax payments last Wednesday and at the start of current week. Key benchmarks fixed with a minor discount to the key rate level (Ruonia o/n at 6.47% and o/n FX swap at 6.25% on Friday). The overall outflow of funds to the budget was c. RUB 1.3tn, which is nearly half of which were reversed as short-term deposits. The rest was funded with nostro accounts (decreased by c. RUB 0.5tn to RUB 3.0tn), so that roll over of deposits with the CBR was limited at RUB 0.8tn.

As regards medium-term rates, the rise of deflation risks last week pushed 3x6 FRAs by 10bp above the 3m Mosprime. So that the market has almost switched in to the mode of a 50bp hike through the year-end. The rest of the FRAs buckets from 6 to 12 months remained in a reverse mode versus the 3x6 FRA, so that return of hawkish views did not break the general downward trajectory expected to start from 2022. From a fundamental standpoint, we suggest backload assumptions exaggerated and would recommend receiving the most remarkable spikes in rates over the terms up to 6 months.

Macroeconomics

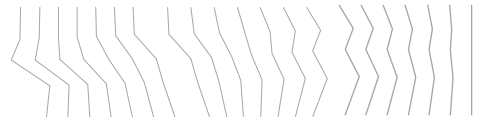
Inflation remained a focal point. The Rosstat reported a 0.1% gain in the CPI on the week to 23 August that made the annual gauge to drift back to 6.6% yoy. The composition between food and non-food drivers was rather patchy with slower seasonal deflation in fruits and vegetables (-1.7% wow) and faster inflation in motor fuels (+0.1/0.3% wow).

In the meantime, survey of inflation expectations delivered mixed results – households started to reduce price fears for the year ahead (to 12.5% from 13.4% in July), while enterprises reported stagnant incoming prices and expressed willingness to pass costs to consumers (3.8% indexation of prices expected by retailers over the next 3 month, 1.9% in August 2020).

The data did not look unanimous and did not provide bullet-proof argument for a hike on 10 September. With respect to enterprises, they reported strong outlook for demand, but it started to lose momentum in recent months to passing of costs may become limited. With respect to households, those who have savings stopped a step ahead of single digit outlook (10.6% versus 11.4% in July), while those without savings replied with 14% expectations. Should this discrepancy be attributed to different consumer baskets, the CBR may have limited power to indulge in tightening monetary policy.

Consequently, we expect the CBR to preserve hawkish rhetoric on the upcoming meeting, but we consider the unchanged key rate as the baseline scenario. From a statistical standpoint, seasonally adjusted monthly inflation continued to decelerate in August, as well as annual inflation should turn down from September (albeit from a potentially higher level of 6.7% yoy).

Rosbank Research Team, research@rosbank.ru



Appendices

Date	Event	Forecast	Expected impact
3 September	Non-farm payroll in the US	SG: 690k, CNS: 750k	The stronger the labor market, the more arguments will get hawks for the 22 September FOMC meeting.

Café et Croissant

Weekly – Aug 23 ([eng](#))

Weekly – Aug 16 ([eng](#))

Weekly – Aug 9 ([eng](#))

Weekly – Aug 2 ([eng](#))

Markets and economics

Forecast Update – Aug 4 ([eng](#))

OFZ Auction Alert – Aug 25 ([eng](#))

Capital Markets & Investment Banking

Pavel Vintin

Pavel.Vintin@rosbank.ru

+7 (495) 662-13-00, ext. 19-109

Financial Institutions Sales

Pavel Malyavkin

PVMalyavkin@rosbank.ru

+7 (495) 725-57-13

Debt Capital Markets

Tatyana Ambrozhevich

TVAmbrozhevich@rosbank.ru

+7 (495) 956-67-14

Brokerage

Timur Mukhametshin

Timur.Mukhametshin@rosbank.ru

+7 (495) 234-36-52

Corporate Sales

Vladimir Matsko

Vladimir.Matsko@socgen.com

+7 (495) 725-57-44

FX & Rates Solutions

Alexandre Koutcherov

Alexandre.Koutcherov@rosbank.ru

+7 (495) 725-57-44

Research

Yury Tulinov, CFA

Yury.Tulinov@rosbank.ru

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

Evgeny Koshelev, CFA

Evgeny.Koshelev@rosbank.ru

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

Anna Zaigrina

Anna.Zaigrina@rosbank.ru

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

Ekaterina Korchagina

Ekaterina.Korchagina@rosbank.ru

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

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