25 April 2017

Flash Comment

CBR rate decision preview: cutting further

- **We expect the CBR to cut the key rate by 25bp to 9.50% on 28 April, as inflation approaches its target and inflation expectations fall further.**
- **Yet, we do not exclude a 50bp cut, as the RUB's enduring strengthening on high carry becomes a headache for Russia's economic authorities.**
- **We expect the CBR to continue cautious monetary easing, hitting 8.50% by end-2017.**

Assessment and outlook

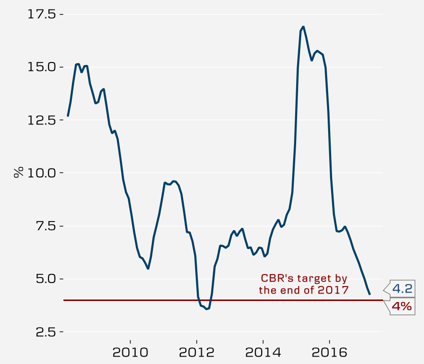
This Friday (28 April) at 12:30 CET, Russia's central bank (the CBR) is due to announce its monetary policy decision. We expect the CBR to cut the key rate by 25bp to 9.50%, as does consensus, although we do not exclude a 50bp cut to restrain the RUB's excessive strengthening. CBR governor Elvira Nabiullina signalled last week that rate cuts of 25 and 50 basis points may be discussed at the meeting as inflation hit 4.1% y/y as of 17 April. In March 2017, the decline in inflation expectations resumed and the real rate remained elevated.

Russia's Ministry of Finance's (Minfin) FX purchases do not seem to be restraining the RUB's excessive strengthening, or bothering the CBR with the risk of a sudden increase in inflation expectations. As Minfin estimates oil and gas revenues have deviated from the budget assumption by RUB65bn in April (RUB92bn in March 2017), it is currently buying daily FX of RUB3.5bn (approximately USD61m per day) versus RUB3.2bn in March 2017. Thus, in total, Minfin plans to buy FX for RUB70bn between 7 April and 5 May. This is not currently having a significant impact on the markets. Thus, a more dovish than expected CBR could help to put the brakes on the RUB.

We continue to expect the CBR to deliver 25bp in cuts at the meetings in 2017, as the crude oil price is set to increase moderately, lowering inflation expectations and balancing the oil price in RUB. We continue to expect the real rate to stay over 3.0% in 2017, attracting carry traders and oiling current long positions in RUB. We expect the key rate to be cut to 8.50% by end-2017.

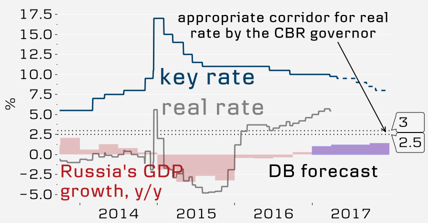
We do not expect a strong reaction in RUB after the meeting if the CBR does not deliver any surprise and its consistency holds. If the CBR cuts more than 25bp, the RUB's weakening would be temporary, as lower rates in Russia have traditionally attracted flows through expectations of better economic prospects spurring demand for both local stocks and debt.

CBR firmly moves closer to the target...



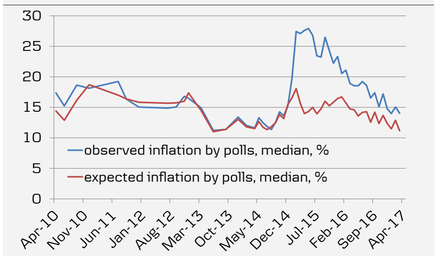
Source: Macrobond Financial, Danske Bank Markets

...while the real rate escape from the appropriate corridor is set to curb inflation risks further



Source: Macrobond Financial, Danske Bank Markets

Inflation expectations decreased in March 2017



Source: CBR, Danske Bank Markets

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S (‘Danske Bank’). The author of this research report is Vladimir Miklashevsky, Senior Analyst.

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Expected updates

None.

Date of first publication

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