2 February 2017

# Flash Comment

## CBR rate decision preview: no cut on looming FX purchases

- **We expect the Central Bank of Russia (CBR) to hold the key rate unchanged on 3 February, while the main focus will be on the statement's tone in light of planned FX purchases by the Ministry of Finance (Minfin).**
- **We believe the CBR's tone could remain hawkish if Minfin's planned implementation starts and curbs the RUB's rally further, fuelling inflation expectations.**

  **We expect the CBR to start cutting rates in Q2 17, while we believe the key rate will be higher than before by end-2017 (8.0% versus 7.0% previously), if the Minfin's plan is implemented.**

### Assessment and outlook

This Friday (3 February 2017) at 11:30 CET, Russia's central bank (the CBR) is due to announce its monetary policy decision. We expect the CBR to keep the key rate unchanged, as does consensus and as is seen through market pricing.

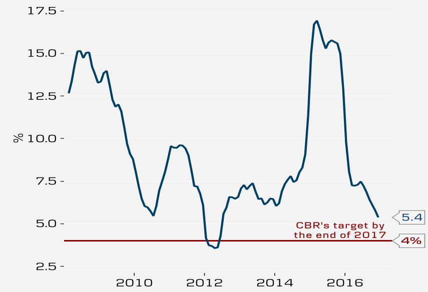
Despite continuing disinflation (CPI fell to 5.4% y/y in December 2016 and we expect the January 2017 print to deliver 5.0% y/y), lower inflation expectations, a stabilised RUB and the CBR's less aggressive tone in December 2016, we expect Minfin's plan to introduce an FX operations mechanism (see *Flash Comment: Russia unveils FX purchases plan putting a 'speed limit' on the RUB,* 27 January) to keep up the CBR's hawkishness, cooling down the bank's monetary easing path in 2017. The Minfin is due to announce the intended amount of FX purchases on 3 February, before the CBR's announcement at 10:00 CET. If implemented, the monthly amount purchased would be USD1.0-1.5bn, which would be RUB liquidity positive, braking the RUB's appreciation on a rising crude price.

We continue to expect the first cut in Q2 17, although we expect a slowdown in the monetary easing path in 2017. While we expect the real rate to stay over 3.0%, subduing possible increases in inflation expectations (and implying downside risk to our 2017 GDP growth forecast of 1.2% y/y), we expect the key rate to be cut to 8.0% by the end of 2017, versus our earlier dovish call of 7.0%, if Minfin fully realises its plan.

We do not expect a strong reaction from the RUB following the meeting as long as no surprise is delivered and the CBR's consistency holds, while we expect Minfin's announcement prior to the CBR decision to be a clear market mover for the RUB and money-market rates.

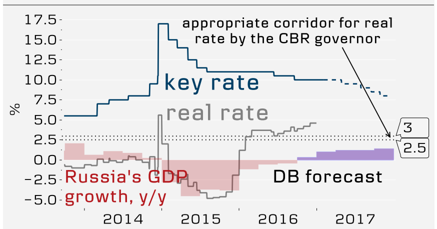
We continue to be moderately bullish on the RUB in light of our call for a rising crude price (USD59/bl for Brent in Q4 17) and high real rates encouraging carry-traders, while Minfin's FX operations mechanism would set 'speed limits' for a further rally in the Russian currency.

**CBR moves firmly closer to target...**



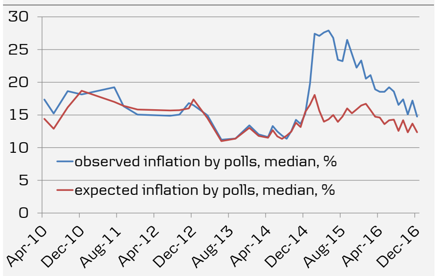

*Source: Macrobond Financial, Danske Bank Markets*

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




*Source: Macrobond Financial, Danske Bank Markets*

**Inflation expectations decreased in December 2016**




*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 the research report is Vladimir Miklashevsky, Senior Analyst.

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