12 September 2016

Flash Comment

CBR rate decision preview: time to deliver

- **We expect the CBR to deliver a 50bp rate cut on 16 September.**
- **Spiking global market volatility poses risks to CBR's delivery.**
- **We expect the CBR to deliver another 50bp cut in Q4 16.**

Assessment and outlook

This Friday (16 September 2016) 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 50bp to 10.0%, as does consensus and as seen through market pricing.

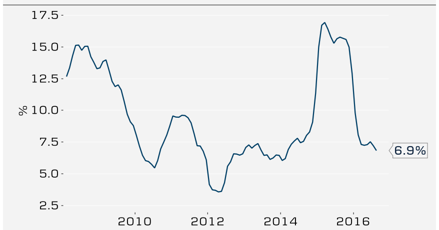
We believe that the stabilising RUB, return to disinflation (CPI fell below 7% y/y in August) and lower inflation expectations have opened the door for a rate cut. At the same time, the real rate continued to move up further from the appropriate corridor mentioned once by the governor Elvira Nabiullina, giving more room for a firm cut.

The external conditions have improved since the last time the CBR board decided on the key rate, leaving it unchanged on 29 July. However, increasing volatility in global markets, the slumping oil price and hawkish Fed rate hike repricing ahead of the Federal Open Market Committee's (FOMC) meeting on 20-21 September may fuel the risk of the CBR's overcautiousness resuming and the board forgoing the cut while keeping its softening tone.

We do not expect the RUB to react strongly to the 50bp rate cut, while an unchanged rate would be likely to activate carry traders who buy the Russian currency. As the Brent oil price has moved into the USD45-51/bl range over the past 30 days, RUB spot has diverged from the crude moves, while the global emerging market rally has supported Russian assets, FX redemptions by the corporate sector are low and the share of energy revenues in Russia's budget is shrinking. However, an extreme divergence from the oil price on a strengthening RUB could worsen the budget deficit, which we expect to end up at 3% in 2016.

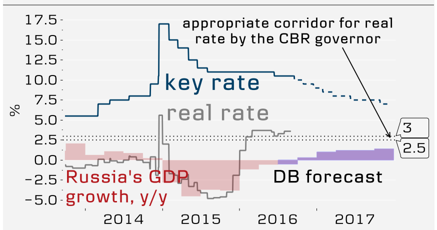
Whether the Fed turns out to be more dovish than the markets are pricing right now and global risk sentiment improves further fuelling a RUB rally, we still see the key rate falling to 9.5% by the end of 2016. We expect the positivity on upcoming economic growth to gain momentum on lower rates in H2 16 and be supportive of all three asset classes (the RUB, Russian stocks and the fixed income market) in the medium term.

Disinflation resumed...



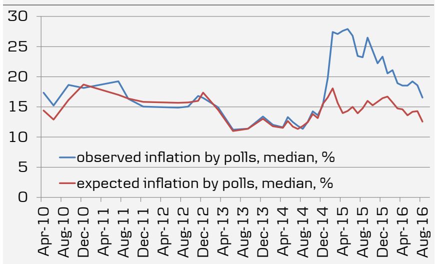
Source: Macrobond Financial, Danske Bank Markets

...while real rate escape from the appropriate corridor aims to prompt a cut



Source: Macrobond Financial, Danske Bank Markets

Inflation expectations decline further



Source: CBR, Danske Bank Markets

Senior Economist, Trading Desk Strategist
Vladimir Miklashevsky
+358 10 546 7522
vladimir.miklashevsky@danskebank.com

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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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Expected updates

None.

Date of first publication

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