

Flash Comment

CBR rate decision preview: time for a big cut

- We expect Russia's central bank, the CBR, to cut the key rate by 50bp to 8.50% on 15 September, as headline inflation has fallen below the target and the decline in inflation expectations resumed in August 2017.
- High real rates are set to prevail throughout 2017, supporting the RUB.
- We expect the CBR to follow its monetary easing path, hitting 8.00% by end-2017 and 7.00% by late-2018.

Assessment and outlook

Tomorrow at 12:30 CET, the CBR is due to announce its monetary policy decision. Together with Bloomberg consensus we expect a solid 50bp cut to 8.50%. Markets have been pricing the 50bp cut for a while already.

We see the following **reasons supporting our call for a large 50bp cut**.

- According to a recent statement from the CBR headline inflation has fallen to 3.2% hitting an all post-Soviet times low, which is far below the end-2017 4.0% target.
- Monitoring inflation expectations remains crucial for the CBR's decision making. The situation in August showed that decline resumed in both observed and expected inflation.
- The CBR has enough room for the 50bp cut as the real rate remains far above the acceptable corridor of 2.50-2.75%. At the same time, external risks have been incorporated into market expectations and the RUB has been supported by the surging oil price and active carry traders.

Market implications

A large cut and CBR's soft tone would still be RUB positive: falling inflation is driving demand for Russia's local debt, OFZs, and improving economic prospects support local stocks. Despite less carry appeal, we still see good opportunities for carry traders as we expect the real rate to hover around 3.0% in 2017 and the RUB to continue to strengthen on the rising oil price and improving macro fundamentals.

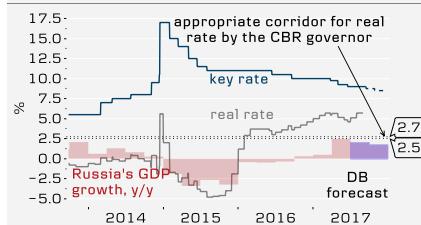
An unexpected cautious 25bp cut would hit OFZs and RUB demand. However, that would keep carry traders' longs in RUB. We expect the CBR to follow its monetary easing path, hitting 8.00% by end-2017 and 7.00% by late-2018. As CBR's governor's press conference will follow the monetary policy decision, RUB could see more swings on the upcoming comments.

Inflation dropped far below the target, posting an all post-Soviet time low



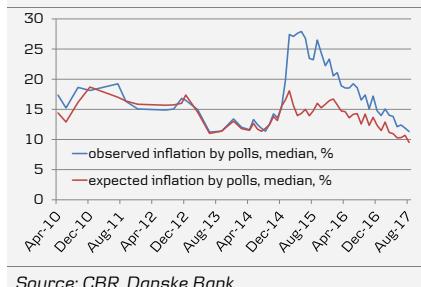
Source: Macrobond Financial data, Danske Bank

The real rate remains high, keeping RUB bulls in



Source: Macrobond Financial data, Danske Bank

Decline in inflation expectations resumed in August 2017



Source: CBR, Danske Bank

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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