

Russia's balance of payments is key for rouble

The rouble isn't likely to react much to the Central Bank of Russia's interest rate meeting today. An on-hold decision is widely expected. But looking ahead, the balance of payments position could make the currency vulnerable



⬇️ USD: Softer dollar for now

We continue to look for a modestly softer US dollar in the near-term, and expect it to underperform vs emerging markets FX (LatAm should likely benefit the most). But a more pronounced dollar decline against low yielders such as the euro, Japanese yen or Swiss franc, would require a change in stance from those central banks (unlikely) or a shift in perceptions towards US dollar fundamentals (twin deficit, overvaluation). The latter is a slower, grinding process and is likely to unfold slowly over the course of the year.

⬆️ EUR: Another tentative sign of stabilisation in eurozone data

We look for a small uptick in eurozone PMIs, providing a tentative sign of stabilisation and bottoming out. This should be another positive for EUR/USD (following the surprisingly dovish Federal Reserve) and bring the cross above 1.1400 today. Still, the EUR/USD 1.1450 resistance

should hold. The EU has granted the UK an Article 50 extension until 22 May (conditional on the UK Parliament passing a Brexit deal by 12 April or coming up with an alternative plan for Brexit negotiations and a longer extension). Given the likely, more negative headline news ahead, we expect EUR/GBP to move above 0.8700 in coming days.

CAD: Canadian CPI to start recovering

Our economists expect February CPI to recover from the fall in January, as the adverse effect of energy prices should begin to dissipate. Although we still expect a below-target figure (1.5%) today, we think this is the beginning of an upward trend. With the Fed signalling no hikes for 2019, the case for Bank of Canada rate hikes has diminished, too. Yet, our commodities team's constructive outlook for oil prices points to some support for the Canadian dollar. Coupled with the Fed no longer providing an active tailwind to the US dollar, we look for USD/CAD to move to/below 1.30 later in the year.

RUB: CBT on hold, the balance of payments position to hit the rouble

Our economists expect Russia's central bank to remain on hold today. February inflation of 5.2% year-on-year (and most likely 5.4-5.5% YoY in March) is comfortably within the central bank's 'line in the sand' of 6%, economic activity remains subdued and markets conditions haven't really deteriorated since the previous meeting. Equally, a downward move in rates seems remote as a gasoline price freeze expires at the end of March, leaving the mid-term CPI trend unclear while market uncertainty remains. With no change from the CBR widely expected today, USD/RUB should remain largely unaffected. Looking ahead (and through the dovish Fed this week) the balance of payments position should make the rouble vulnerable over the next six months and we forecast USD/RUB returning to 67 over this period.