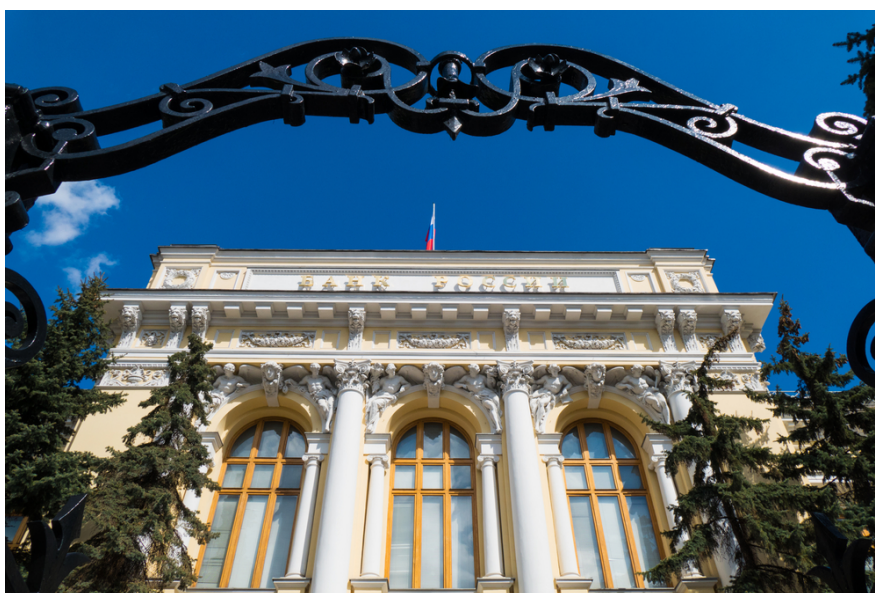


Russia: Resilient current account supports near-term RUB strength

Russia's current account surplus widened in May, mainly on the resilient trade balance, supporting USDRUB recovery to the 67-70 range. Meanwhile, the likely reduction in the central bank's FX sales and continued private capital outflows may limit further RUB appreciation in 2H20



Source: Shutterstock

\$28.9bn

Current account surplus in 5M20

including \$5.4bn in May

Ruble supported by stronger current account, continued FX interventions

The [preliminary estimates](#) of the balance of payments for 5M20 suggests that the strong current

account and continued FX interventions were the primary support factors to the 3% appreciation in the average monthly USDRUB seen in May. Meanwhile, the support coming from portfolio inflows into the local public debt (OFZ) remained modest, while the private capital account was a pressure factor (see Figure 1).

- According to the central bank, the current account surplus totaled US\$28.9bn in 5M20, which suggests a widening in the monthly surplus from US\$1.5bn in April to US\$5.4bn in May. The nearly doubling in the average monthly Urals from US\$16/bbl in April to US\$30-31/bbl in May, could have contributed to this recovery, however Russia's 96-99% reported compliance to the OPEC+ mandated supply cuts (by 23% from the previous quota and by 17% from the actual supply) should have limited the positive effect on the country's exports. The drop in imports also contributed to the improvement, however according to preliminary customs data, the drop in non-CIS imports (accounts for 90% of total imports) has narrowed from -20% year on year in April to -12% YoY in May. This suggests that the non-oil exports could have also been stronger than initially expected. Additional support may have come from improved balance of services (no outward tourism) and lower dividend outflow, which we mentioned [earlier](#).

Overall, it appears that thanks to a faster-than-expected oil price recovery, as well as strong non-oil items, **the current account may post around a US\$10bn surplus in 2Q20** (after US\$22bn in 1Q20) instead of being zero to negative as per our initial expectations.

- The second most important support factor for the ruble in May was the sales of FX on the market by the Central Bank of Russia (CBR), which along with the increase in the Urals price declined from US\$4.8bn in April to a still significant US\$2.8bn in May (see Figure 2). As we mentioned [earlier](#), the May amount of FX interventions was in line with the Finance Ministry's guidance, however we treat this as largely coincidental, and it remains unclear if the June guidance by the Minfin (suggesting US\$3.0bn sales) will be fully executed on the market. By now the central bank has suspended the extra FX sales related to the Sberbank deal (having sold for that purpose a total of US\$4.3bn in March-May), and at the moment is selling around US\$150m per day as requested by the Finance Ministry due to the fiscal rule. However, with Urals returning to US\$42.4/bbl, the fiscal rule cut-off level, it is possible the CBR may opt to pre-emptively suspend the FX sales, mirroring its decision to pre-emptively start the FX sales in March, when Urals crossed the cut-off level from the other side. According to our estimates, during March-May, the CBR has front-run the Minfin FX sales guidance by US\$2.5bn, and may decide to adjust the market FX sales by that sum in the near future.

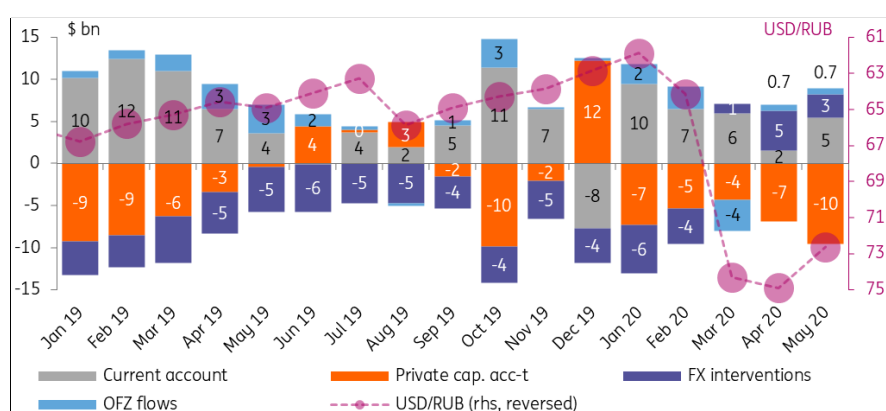
As of June, the CBR has an obligation to sell FX worth around US\$26bn (the remainder of the SBER deal) starting in September, which however may need to be reduced to US\$23-24bn, accounting for the front-run FX sales we mentioned above. Moreover, the latter sum may be netted with the US\$22bn FX purchase backlog the CBR has since August-December 2018 (see Figure 3). Given all the above, **we continue to expect the CBR to reduce its presence on the FX market in the coming weeks.**

- Portfolio inflows into OFZ remained a support factor in May with a preliminary estimate of US\$0.7bn in May, which however fails to show improvement compared to the April inflows. Moreover, the local bond market has recently entered a correction, and according to preliminary estimates by the National Settlement Depository, saw a small

US\$160m portfolio outflow in the first week of June. With **limited scope** for further improvement in the key rate expectations on the market, as well as some concerns regarding the increase in the placement volumes, **it is unclear whether portfolio flows will be able provide support for RUB in the near-term.**

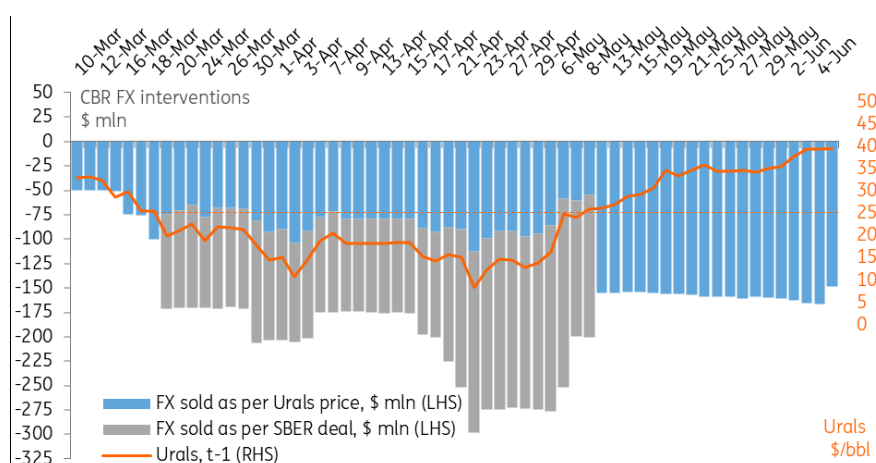
- Net private capital outflow accelerated noticeably from US\$6.9bn in April to US\$9.6bn in May. We do not treat this particular acceleration as overly negative, as it partially mirrors the increase in the current account surplus and according to the CBR reflects a reduction in the banks' foreign debt. However, the persistently high volume of capital outflow points to a generally risk-averse mood in the private sector despite all the positive factors mentioned above. This could indicate cautious expectations on ruble assets and could be one of the arguments against more aggressive monetary easing than already guided for.

Figure 1: Current account strengthened in May, but capital outflows also accelerated



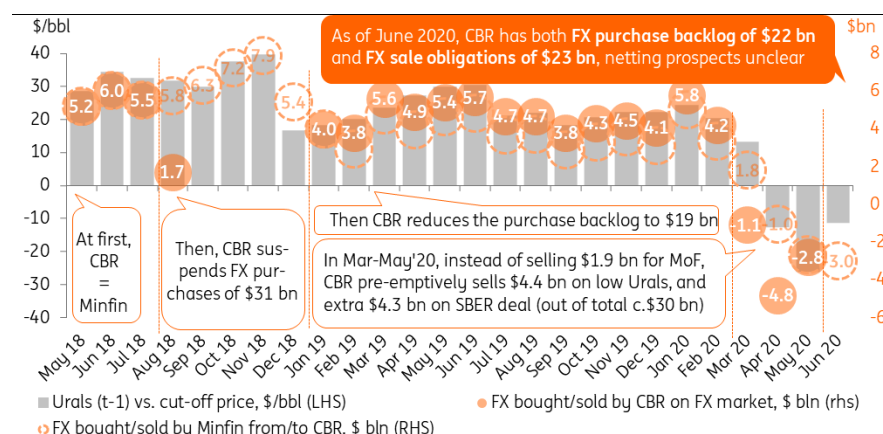
Source: Bank of Russia, National Settlement Depository, ING

Figure 2: At the moment, the CBR is continuing active FX sales despite Urals near the US\$42.4/bbl cut-off point...



Source: Bank of Russia, Reuters, ING

Figure 3: ...but it may still opt to reduce its presence on the FX market later on



Source: Bank of Russia, Finance Ministry, Reuters, ING

Near-term FX outlook improved, scope for further appreciation uncertain

The stronger-than-expected recovery in oil prices combined with an improvement in the non-oil current account justify the ruble's appreciation in May and allows us to expect a USDRUB trading range at 67-70 in June (vs. previous expectations of 70-75). However, with a likely reduction in CBR FX sales and persistently high private capital outflows, it remains unclear if the ruble can benefit from an improved oil price environment expected for 2H20. For now we keep our USDRUB72.0 forecast for year-end 2020 unchanged.

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