Russia: RUB stabilised on portfolio flows and FX interventions

Russia's balance of payments for April suggests that FX interventions and portfolio inflows mitigated the negative effect of low oil prices. Meanwhile, acceleration in the net private capital outflow is a somewhat negative surprise – and a watch factor for the ruble going forward

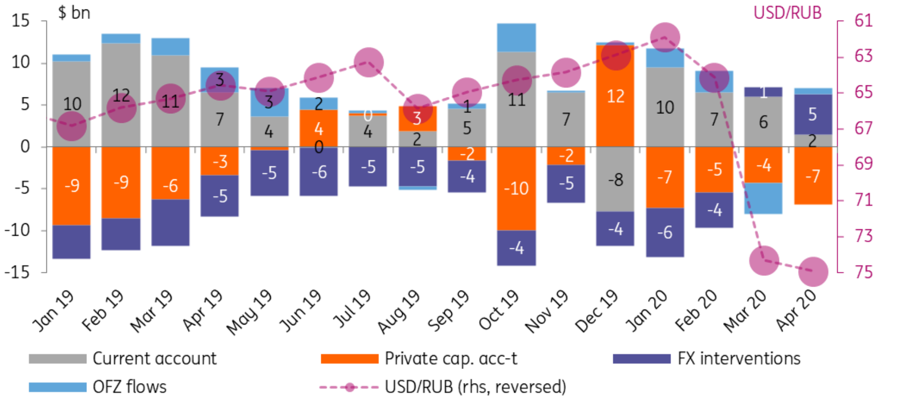
Negative effect of oil prices offset by FX interventions, portfolio flows

The recently released Russian balance of payments statistics for January-April 2020 sheds more light on the ruble performance in April, which was stronger than suggested by the oil prices and movement of RUB's EM/commodity peers. It creates an impression that the negative effect of lower oil prices on the current account may have been offset by a drop in the non-oil deficit, while further reinforcement to the ruble has been provided by Bank of Russia's FX sales and some recovery in portfolio inflows into the Russian debt market. At the same time, the private capital account remains a concern.

- The current account surplus for 4M20 totaled US$23.5 billion, which means that the monthly surplus shrank from US$6-10 bn in 1Q20 to US$1.5 bn in April. It means that the reaction to the oil price drop comes with a lag, as it is the first noticeable monthly contraction of the surplus amid the second month of the oil price drop: average Urals dropped from US$56/bbl in February to US$30/bbl in March and then to US$16/bbl in April. As a result, the oil revenue side of the current account has yet to suffer from the full effect of low Urals later on. At the same time, it appears that the non-oil current account is improving on lower imports of goods and services, as well as lower dividend outflows: the decline of the current account surplus from March to April (from US$6.0 bn to US$1.5 bn) is, in fact, in line with seasonality, as in March-April 2019 the monthly surplus dropped from US$11.1 bn to US$6.6 bn. This means that the current account may avoid falling deep into negative territory in 2Q20.

- Meanwhile, the contraction of the current account surplus in April has been fully offset by FX sales by the Bank of Russia (CBR), which intensified from US$1.1 bn in March to US$4.8 bn in April. As we mentioned earlier, the CBR is likely to continue active FX sales in the near term, which may protect the ruble from a sharp depreciation. At the same time, the presence of the FX purchase backlog of US$22 bn is guiding for a possible reduction in the CBR's involvement on the FX market later into the year, limiting the scope of RUB appreciation.
- Another support factor for the ruble in April was the recovery in portfolio flows into the local currency state bonds (OFZ). According to CBR data, after seeing a sharp net portfolio outflow of US$3.7 bn in March, the OFZ market saw a return of US$0.7 bn in April. Investors' interest is supported by global monetary easing, Russia's strong fiscal position (public debt of 12% of GDP, liquid fiscal savings of 10% of GDP), CBR guidance for further key rate cuts, including a likely 50-100 bp cut for the June meeting. Meanwhile, the inflow appears volatile, as despite all the above, the preliminary estimate for May's net inflow so far is only US$0.14 bn (RUB10 bn as of 14 May).
- The private capital account, on the contrary, is a bit of a concern, as the net outflow accelerated from US$4.3 bn in March to US$6.9 bn in April despite the shrinking current account surplus. While the overall outflow figure is not critical, we are still surprised at the acceleration despite the apparent calm FX behaviour of the population. In the best case, the private outflow reflects pre-emptive foreign debt redemption by the corporate sector (which may be confirmed in the 2Q20 statistics later on). However, in the worse case it may reflect resurfaced preference for foreign assets, which could eventually lower the efficiency of CBR's FX interventions. The capital account remains a watch factor for ruble performance in the coming months.

Figure 1: RUB stabilised in April by FX interventions and portfolio inflows, but private capital outflow accelerated



Source: Bank of Russia, Bloomberg, ING

We now expect a narrower USDRUB trading range for this year

The stronger-than-expected current account combined with active FX interventions and positive portfolio flows suggests a decline in the near-term risks to the ruble. As a result, we upgrade our 2Q20 USDRUB range from 80-85 to 73-78. At the same time, continued pressure on the private capital account as well as the CBR's eventual need to catch up on the FX purchase backlog of US$22 bn, are limiting the scope of potential RUB appreciation. We therefore downgrade our year-end USDRUB forecast from 70.0 to 72.0, implying a more narrow trading range for the ruble than initially thought.

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