

Russia: Celebrating success with a bigger cut

The Central Bank of Russia decided to go against consensus and cut its policy rate by 50bp to 7.75%. The extended OPEC+ deal and record-low inflation made the move possible leaving room for further policy easing in 1H18



Source: Shutterstock

7.75% CBR policy rate
Consensus 8%

It is all about OPEC+ deal and lower inflation risks in 2018

It is not uncommon for the Central Bank of Russia (CBR) to surprise the consensus when it is especially strong (8% this time with no other views), and today's decision to slash the policy rate by 50bp vs the expected 25bp to 7.75% will add to the track-record.

The CBR said the extended OPEC+ deal would reduce inflation risks in 2018, which together with the already record-low inflation of 2.5% (vs the target 4%) allowed it to do the more significant

cut. However, it still retained a bit of caution saying that mid-term upside inflation risks outweigh those of inflation sustainably undershooting the target.

The CBR reiterated it would continue slowly moving from a current moderately-tight to neutral policy, but also said that there is room for some further policy easing in 1H18.

Higher GDP forecast for 2018, same mid-term inflation risks

Given the OPEC+ deal and its support for oil prices, the CBR said it kept its 2017 GDP growth forecast of 1.7-2.2% intact but upgraded its view on 2018 economic growth. The CBR will factor in US\$55/bbl oil price assumption vs US\$44/bbl in the base-case, which will likely see GDP growth near 2017 levels (1.7-2.2%). Overall, the CBR sticks to the narrative of the economy growing with a potential 1.5-2% a year without structural reforms. This, together with moderately-tight policy, shouldn't create excessive inflation risks.

As for those inflation risks, the CBR noted that global energy and food price dynamics create two-way risks for inflation during the next 12 months. As for the mid-term risks, the CBR stuck to a list of a tight labour market, changes in consumer behaviour and inflation expectations.

What was new is the wording about potential risks from fiscal and tariffs decisions in 2019-2022 - the reference which we haven't seen for quite some time. Post-election uncertainty about the President's priorities could be an explanation.

Finally, the CBR mentioned external factors which should include the risk of US sanctions against sovereign debt, even though it doesn't look like the base-case scenario both for the CBR and the market.

The bigger the move, the shorter the talk

During the press conference, the Governor Elvira Nabiullina reiterated that the bigger move stays within the possible range of 0-50bp rate cuts, and the decision reflected the new assessment of the 2018 outlook not affecting the overall view on the future policy trajectory. The CBR believes its communication policy works well trying to balance the level of openness vs fears of market misinterpreting excessive communication.

The CBR doesn't factor in the tail-risk of sovereign sanctions but reiterated that it has all options to address this or any other external risks without changing the policy rate. The governor did say direct OFZ purchases by the CBR, in the case of sanctions, is in the list of potential policy measures, but the CBR still not sure it would be necessary used/needed.

Overall, the press conference lasted less than previous ones and was concluded with the unanswered question about governor's view on the 8-year sentence for the former Economy Minister, Alexey Ulyukaev.

What does it mean for 2018?

Before the meeting, we expected to see the policy rate at 7% in 2018 and 6% in 2019. We still think there is a downside potential of 75-100bp for the key rate in 2018 sticking to the 6% call in 2019. With policy normalisation likely taking 1-2 years and the fiscal rule expectedly arresting RUB volatility we reiterate our call that the CBR policy outlook is not a risk for the RUB.

And, the clear retention of the easing bias going forward works perfectly well for our positive view of a further reduction of OFZ yields over the course of 2018.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com