First signs of rising Russia inflation

CPI inflation did edge higher in April, and a weaker RUB might have played its role. But this bodes well with expectations of a gradual pick-up in inflation over 2018, so we still see the CBR cutting rates by 75bp by end-2018

Source: Shutterstock

2.4%/1.9%

As expected

Headline/core CPI

2.4%/1.8% in Mar-18

April figures came out as expected

Headline CPI in April slightly accelerated from 0.3% MoM to 0.4%, but this still buoyed the annual print at 2.4% due to high base effect of 2017. Core CPI also firmed from 0.1%MoM/1.8%YoY to 0.3%/1.9%. We expected headline/core CPI at 2.4%/2.0% vs consensus of 2.4%/1.9%.

The breakdown points to a touch weaker food inflation (0.4%/1.1% vs 0.5%/1.3%) with its core component rising only marginally from 0.7% YoY to 0.8%. This helped to partly offset the stronger contribution from higher non-food (0.4%/2.7% vs 0.2%/2.4%) and services inflation (0.3%/4% vs 0.1/3.9%).

In the last two cases, we indeed saw signs of stronger price growth for items sensitive to RUB swings (eg, electric appliances, TV, medicine as well as tourism) on the back of the still modest performance in textile, clothing and footwear items. This may be the first signs of the reaction to RUB weakness, even though it is too early to judge on the potential effects. Generally, our measures of core non-food/services inflation firmed from 1.6%/2.0% to 1.8%/2.2% potentially indicating both the effects of consumer demand recovery and RUB dynamics.

Inflation is set to rise, but upside risks are hard to assess now

It has been expected that inflation is set to slowly rise over 2H18 after having some pause in 2Q18 due to a high base effect of 2Q17. For now, the April data provides some signs that underlying price pressures have started to pick up, but the speed doesn't look alarming. And it is still difficult to answer a question of whether this strengthening owes only to weaker RUB or also to consumer demand recovery.

Overall, as long as the CPI drifts higher in line with expectations and RUB doesn't weaken further, we see the CBR base-case scenario of further policy normalisation staying intact. After the latest update taking into account some likely RUB-related effects, we still expect headline CPI closer to 3.5% rather than 4% by 2018-end which may allow the CBR to cut its key rate by 75bp via three 25bp rate cuts in June, September and December.