

Little rate guidance from the Bank of Russia

Bank of Russia is unlikely to hike rates instead we think a 25bp rate cut looks doable, despite the rising raw food CPI.



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Little forward guidance

Central Bank of Russia's (CBR) latest communication via an analytical report and the Governor's comments on Thursday have been without any forward guidance about the upcoming meeting (unlike the last two meetings) with them only pledging not to rate hike. It looks like they have turned more cautious and less relaxed regarding the 2H17 outlook. However, slight guidance can be found through their repeated assurance of hitting the 4% target in 2017, despite some short-term upward bias in the CPI rate from raw food, and them saying that the market expectations on the rate path have remained in line with the CBR's internal thoughts. The Bloomberg consensus sees end-3Q/4Q17 rates at 8.50%/8.00% vs ING forecasts of 8.50%/8.25%.

Our opinion

We think on 28 July 2017, the CBR will choose between an 'on-hold' and a '25bp cut', with our view being the latter, given that core CPI has been better than expected, fruits & vegetables prices have already started to go down, June inflation expectations were said to have been stable (not rising)

and the upside rise in CPI in 1H18 has already been expected at the Jun 2017 meeting. Finally, the Russian ruble's (RUB) decline over June-July has followed the oil price movement without any extra negative pressure, despite the challenging external backdrop. So, a 25bp move won't be a game-changer for the balance of risks, even though we admit that the probability of the cut looks a bit lower than it was in June.