

Russia: Restart of FX interventions unlikely to shake rouble

We believe the expected current account surplus in January of at least \$7 billion should be enough to cover the \$4 billion monthly FX purchases announced today and the likely \$1 billion in net foreign debt redemptions. Given the geopolitical status quo and global risk-on tone, the rouble can continue its move towards the 63-66/USD target range



Source: Shutterstock

RUB 266bn

January FX purchases

= \$4.0bn under current FX rate

As expected

Today, the Finance Ministry announced that it will purchase RUB 266 billion (\$4.0 billion under the current FX rate of 66.9) worth of FX on the open market from 15 January to 6 February. The sum, which is a function of the expected excess fuel revenues for the current month, is slightly higher than our \$3.5 billion expectation and generally fits into the consensus range. The purchases will take place on the open market by the Bank of Russia after a four-month hiatus caused by market instability. The decision to restart FX purchases on the open market was announced in mid-December and therefore is not a surprise.

In this regard, some market participants and experts expressed concern that the restart of FX purchases could negatively affect the rouble's performance, a view that we do not share. While we agree that in theory the FX interventions and growth in central bank reserves, all else being equal, could cause the FX rate to underperform, in Russia, this is not a strong factor.

1. The volume of FX intervention is not enough to offset the current account surplus. For instance, we expect the January surplus to reach at least \$7 billion, which should be enough to cover FX interventions and the net foreign debt redemption, which we see at \$1 billion. In fact, given the seasonality, only 30-35% of the strong 1Q19 current account surplus could be sterilised by FX interventions, while for the full year this ratio could go to 50-55% of the \$80 billion surplus which we expect under a \$66/bbl Urals assumption. The sterilisation could be higher if the CBR decides to catch up on the \$31 billion it did not purchase in 2018, however, statements from the CBR suggest a low likelihood of that sum being added this year.
2. In an environment of low investment demand, the Ministry of Finance's FX purchases reduce the amount of FX that otherwise would have been available to finance private capital outflows (increase in international assets). In other words, had there not been FX interventions, the net private capital outflow, which we see at around \$40 billion for 2019, would have been higher.
3. Portfolio flows remain the driving force of the rouble's performance, suggesting that global emerging market risk sentiment and geopolitics are very important. The former seems to be improving, as the rouble's peers have appreciated 4% against the US dollar YTD following more dovish Fed comments and optimism regarding US-China trade talks. The latter, however, remains an important risk factor, as growing tensions between the US Treasury and Congress on sanctions in Russia's corporate sector may have limited the rouble's appreciation to just 2%, reflecting a widening in the currency's 'sanction discount' to peers.

<https://think.ing.com/snaps/russian-key-rate-raised-to-775-as-central-bank-less-certain-about-future/>

Russia: Key rate raised to 7.75%; Central Bank less certain about future

Overall, we do not see the restart of FX purchases as a factor preventing the rouble's appreciation back to a more appropriate RUB63-66/\$ range that we expect for 2019, provided there is no material deterioration in EM risk appetite and the geopolitical context for Russia.

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