

## RUB: portfolio investments in, local capital out

The ruble's 1.0% appreciation to USD in October took place amid a mixed capital flow picture: state sector, represented by ruble bonds (OFZ), saw massive portfolio inflows, while local capital continued to flow out. Given that the global market mood is volatile, higher local confidence is required for RUB to gain ground from here



Source: istock

### Current account expectedly strong... so is the local capital outflow

Preliminary estimates of the Russian balance of payments for October paints a mixed picture. On the one hand, the current account surplus has expanded massively - from a US\$4.3 bn average for 3Q19 and US\$2.7 bn in September to US\$8.0 bn in October (highest monthly surplus since April) - in line with seasonality and our expectations of the 4Q19 figure reaching around US\$30 bn. On the other hand, this strong result was fully offset by a combination of FX purchases by the government in the amount of US\$4.3 bn and, more importantly, net private capital outflow of US\$6.7 bn (also the highest monthly figure since April). The simultaneous increase in the current account surplus and private capital outflow is not a coincidence and reflects a continuous conversion of the current

account into foreign assets by banks, companies, and households amid sluggish local activity.

It appears, that the only strong support factor for RUB in October, ensuring appreciation by 1.0% to USD (in line with peers), was the massive portfolio inflow into the state ruble bond market (OFZ), which was preliminarily estimated at US\$3.1 bn, the strongest result since May. This inflow was apparently triggered by a more dovish guidance by the Bank of Russia, which lowered its CPI forecast and delivered a strong 50 bp key rate cut. Currently the market is pricing another 50 bp cut to take place over the course of the next 3-4 meetings, which we see as adequate. This suggests that new positive triggers (global or local) would be required in order to assure further strong portfolio inflows into the Russian market until the year-end.

We do not see the October balance of payments as particularly negative for the ruble. However, the volatile portfolio flows (especially after a strong rally) should not be seen as a reliable support factor for RUB in an environment when the local players are showing a persistent preference for accumulation of foreign assets. We reiterate our cautious expectations of USDRUB 64-65 trading range for the coming weeks. Continuous local capital outflow is also the reason why we remain cautious on RUB for the next year (our 2020 year-end USDRUB target is 66.0) even accounting for some technical positive one-off effects coming from local investments from the National Wealth Fund.

## Author

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

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