

Russia: Balance of payments does not add certainty for RUB

A shrinking current account and lack of material improvement in local capital flows are increasing the uncertainty for the USDRUB outlook. For now a return to the USDRUB70-75 range would require normalisation of the foreign policy backdrop, stabilisation of oil prices and continued USD weakness globally



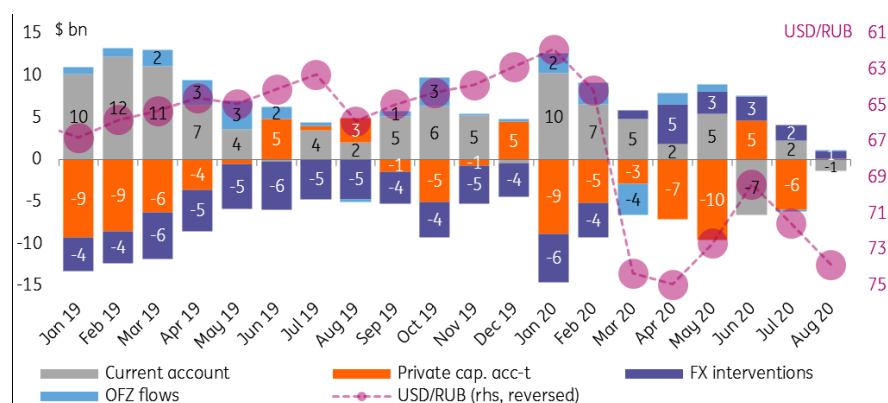
The preliminary estimates of the [Russian balance of payments for 8M20](#) suggests that the August weakness of the ruble resulted from a cautious mood of both the foreign investors and local players.

- The monthly current account slid from a US\$2.3 billion surplus in July to a US\$1.3bn deficit in August (Figure 1), presumably as the reopening of foreign travel to the popular destinations, such as Turkey propelled the imports of services and outweighed the effect of some relaxation in the OPEC+ oil supply restrictions since last month. The preliminary data on non-CIS imports (amounting for around 90% of the overall merchandise imports) suggests little change in dynamics in the last two months. Overall, the trailing cumulative 12-month current account surplus continued to shrink from US\$43bn as of July to US\$40bn as of August. The recent drop in the Brent price from the range-bound US\$45/bbl to below

US\$40/bbl could be a pressure factor for the current account in 4Q20.

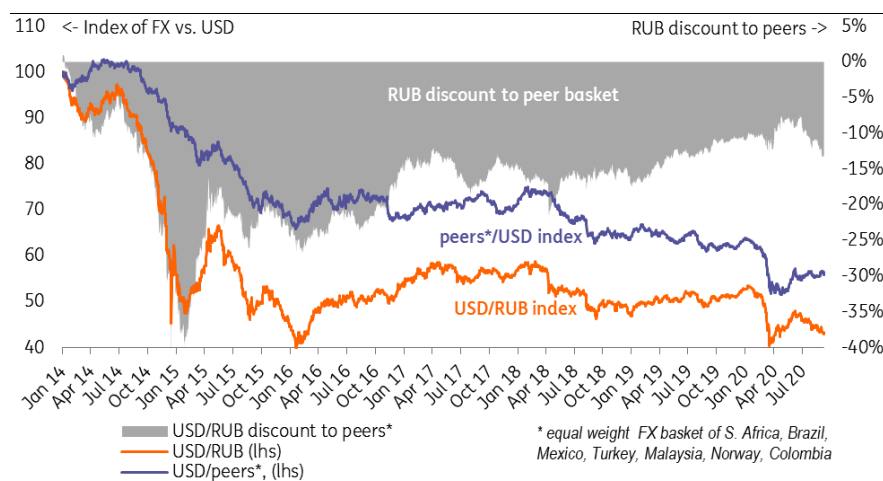
- FX sales mandated by the fiscal rule halved from US\$1.8bn in July to US\$0.9bn in August amid the shrinking current account, suggesting RUB's smaller insulation from capital flow volatility. To remind, FX sales are to continue to decline in September to US\$0.7bn before recovering somewhat due to residual one-off FX sales attributable to the Sberbank handover deal.
- The private capital account seemingly improved – with US\$6.0bn net outflow in July followed by US\$0.1 bn inflow in August, however on a trailing 12-month cumulative basis it still suggests an acceleration of the net outflow from US\$35bn in July to US\$37bn in August. Comparing this performance with seasonality and a shrinking current account, the capital flow data points at the cautious mood by the local corporates and households.
- Interestingly, the negative foreign policy newsflow that arose in August apparently did not result in any outflow of portfolio investments in the local state debt (OFZ), as according to preliminary data, no residents maintained a flat position in the OFZ in August. Perhaps, a part of RUB's underperformance to EM peers (Figure 2) was due to the lack of inflows that would otherwise come thanks to the easing in the Fed approach. Meanwhile, the most recent daily data suggests that the foreign portfolio investors resumed inflows in September despite the foreign policy jitters.

Figure 1: Current account under pressure of foreign travel in August, capital account improves MoM, but not YoY



Source: Bank of Russia, MOEX, Bloomberg, ING

Figure 2: USDRUB has been lagging behind EM/commodity peers since July, August weakness was driven by politics and BoP fundamentals



Source: Bloomberg, ING

Uncertainty for USDRUB increased

The near-zero current account is not a surprise to us, and the likely increase in the FX sales in 4Q20 should be a mitigating factor, but the lack of material improvement in the private capital flows suggests a lack of support to the ruble from the local players in the current context.

That leaves USDRUB exposed to volatility and leaves the fate of the recovery to the 70-75 forecast range in the hands of external factors, including a normalisation of the foreign policy backdrop, stabilisation of oil prices and continued weakness of USD globally.

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