

## 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



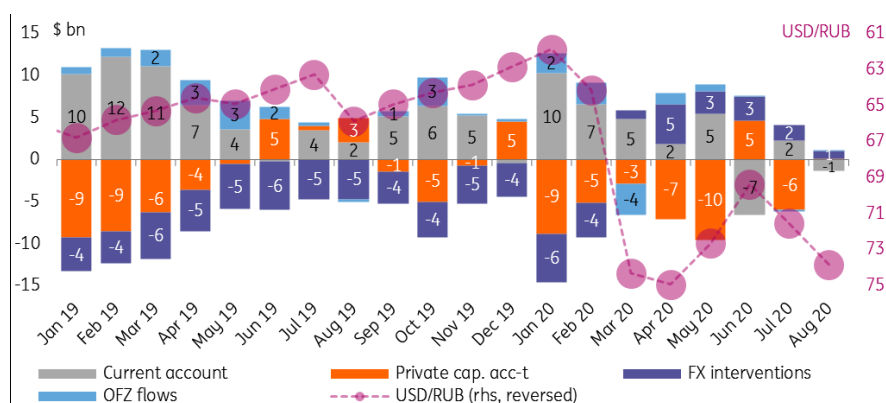
The preliminary estimates of the [Russian balance of payments for 8M20](#) suggests that the August weakness of the ruble resulted from a cautious mood of both the foreign investors and local players.

- 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.

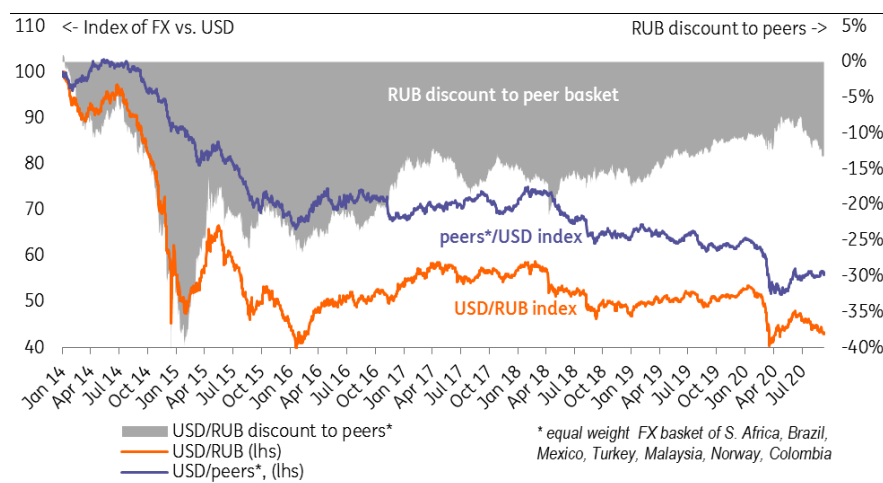
- FX sales mandated by the fiscal rule **halved** from US\$1.8bn in July to US\$0.9bn in August amid the shrinking current account, suggesting RUB's smaller insulation from capital flow volatility. To remind, FX sales are to continue to **decline** in September to US\$0.7bn before recovering somewhat 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.

### Author

**Dmitry Dolgin**

Chief Economist, CIS

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

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.