Russian balance of payments support a stable rouble in the near term

Improvement in the corporate capital flows in November supports a constructive near-term view on the rouble and adds to the list of arguments in favour of a rate cut

Source: Shutterstock

Corporate capital outflow slows in November

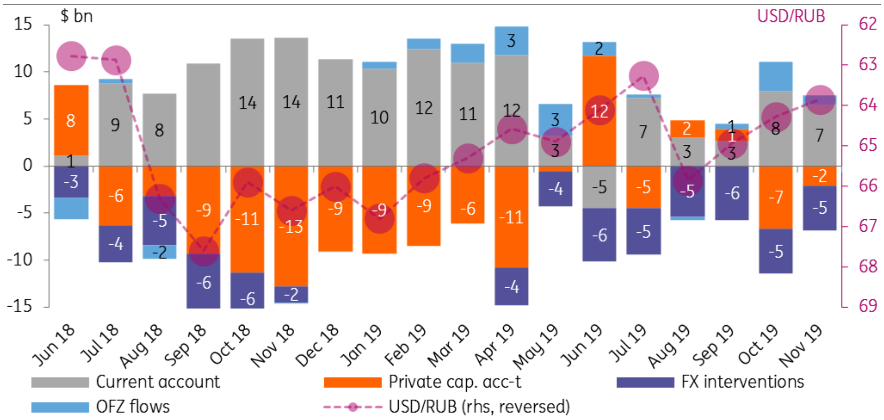
According to preliminary balance of payments, Russia's current account surplus suffered a minor contraction from $8.0 billion in October to $6.5 billion in November (11M19 surplus reached $71.6 bn), while net private capital outflow (by banks, non-financial companies, and households) slowed materially from $6.7 bn in October to $2.1 bn in November (11M19 net capital outflow is $33.7 bn).

Improvement in the corporate capital account was the primary support factor to the rouble exchange rate, which appreciated from USD/RUB 64.3 in October to 63.9 in November, as the FX purchases by the central bank of Russia and Ministry of Finance remained virtually unchanged at $4.3-4.5 bn in October-November, and the net portfolio inflows into the local currency state bonds (OFZ) in November haven't really matched October's extremely strong $3.1 bn result.

This balance of payment configuration represents a noticeable change vs. the typical performance of 2019 when rouble strength was assured only by portfolio inflows. While the reasons for the improvement have yet to be understood, the decline in the capital outflows at first glance is a positive development for the rouble exchange rate in the near term, supporting our constructive expectations of USD/RUB staying around the 64.0 level in 4Q19-1Q20.

An outperformance of this target is possible if the generally favourable global market mood, including optimism about global trade negotiations, persist, while risk factors include possible re-emergence of US-Russia sanction rhetoric, including the upcoming discussion of the Defending American Security from Kremlin Aggression Act, or Daska at the US Senate committee scheduled for 11 December.

Monthly balance of payments and USD/RUB exchange rate



Source: Bank of Russia, Bloomberg, ING

Arguments in favour of another rate cut

Improvement in the balance of payments structure, even temporary, can serve as an additional argument in favour of another rate cut at the upcoming central bank meeting on 13 December.

We have recently changed our near-term view on the year-end key rate from 6.5% (unchanged) to 6.25% (a 25 bp cut from the current level) following the lower than expected CPI reading of 3.5% for November and continued improvement in households' inflationary expectations, which combined with the high base effect should push CPI growth even lower to 3.2% YoY in December 2019 and 2.3-2.5% YoY in 1Q20.

In the meantime, we maintain the expected terminal key rate at 6.0% - the lower bound of the equilibrium range, given the persisting medium and long-term uncertainties regarding the inflationary and exchange rate trends. We expect the central bank commentary on 13 December to focus on the limited downside of further key rate cuts.

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