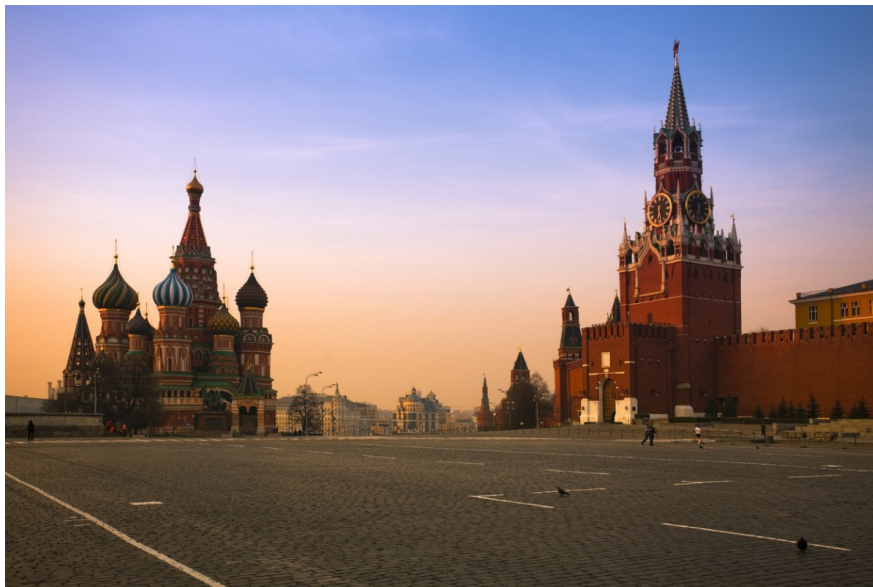


Russia: BoP weak in August on portfolio outflows

August balance of payments confirms Russia's lack of insulation from global portfolio volatility amid balanced corporate flows. The good news is that RUB can equally benefit from an improvement in the global risk appetite

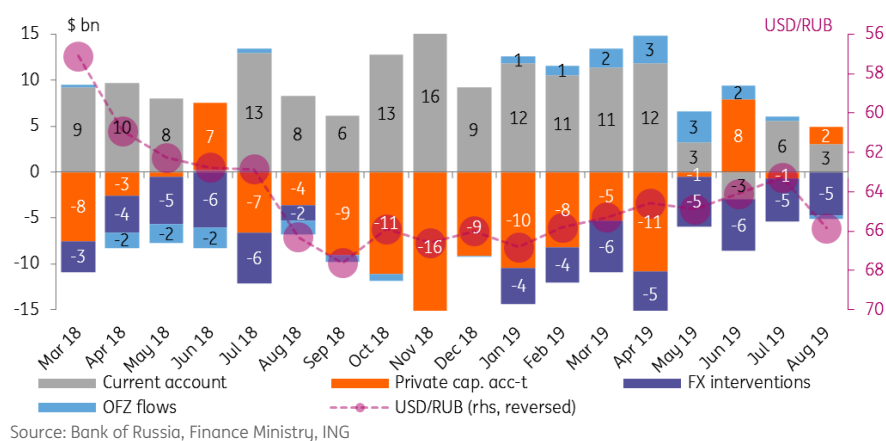


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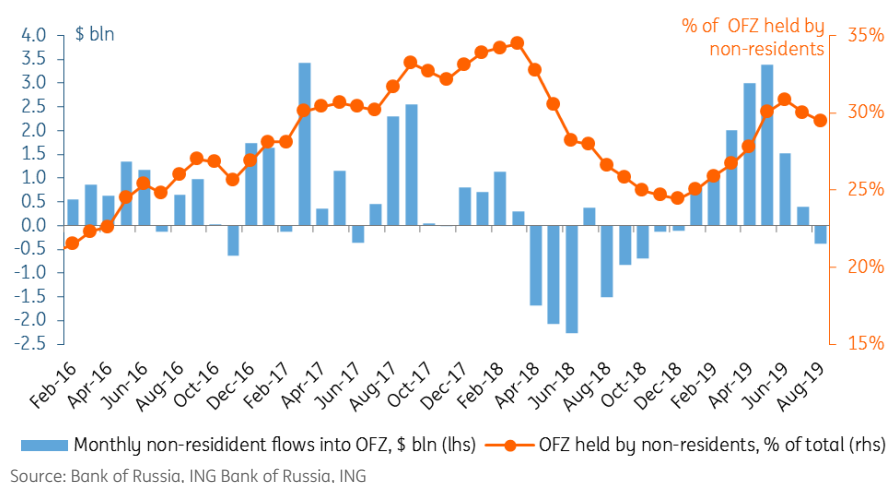
- The preliminary Russian balance of payments suggests a material decline in the monthly current account surplus from US\$5.6 billion in July to US\$3.0 bn in August amid a US\$5/bbl drop in the oil price over the period. This puts the likely 3Q19 current account surplus in the middle of our US\$10-15 bn forecast range and the full-year forecast at around US\$90 bn (vs. US\$54.4 bn for 8M19) if oil prices remain at the current level, which is our base case scenario;
- Surprisingly, the net private capital flows turned positive: after negative US\$0.7 bn in July (without Sberbank's sale of its Turkish asset this outflow could have been larger) there was a US\$1.9 bn inflow in August. With US\$26.1 bn net outflow for 8M19, the full-year result is now looking to undershoot our US\$50 bn expectation. Nevertheless, the September capital account may still come under pressure from net foreign debt redemption, which we estimate at US\$2.5-4.0 bn for the month and US\$8 bn for 3Q19;

- Still, the entire private capital account and the current account in August was offset by the US\$4.7 bn FX interventions. We expect a similar picture in September, as the decline in FX purchases to US\$3.7 bn should come along with the respective decline in corporate inflows;
- Amid balanced corporate flows in August, the tipping point for the RUB exchange rate, which depreciated 4.7% to USD, was a shift in the portfolio flows. According to preliminary data, there was an up to US\$0.4 bn net outflow of foreign portfolio capital from the state ruble bonds (OFZ). This outflow followed the global risk-off, which according to various sources, including the Institute of International Finance and Central Bank of Russia, led to the largest monthly EM outflows in over a year. According to our tracker model, monthly RUB performance was in line with its EM/commodity peers.

Key components of monthly balance of payments



Monthly foreign portfolio inflows into OFZ vs. non-resident share on the OFZ market



Overall, the August BoP data suggests high RUB sensitivity even to small changes in the portfolio flow direction. On the positive side, this supports our constructive near-term view on RUB, as the current stabilisation of the global market mood favours RUB appreciation to RUB65/US\$ by the end of the month. On the negative side, this suggests a persisting risk of increased volatility at least within the RUB63-67/US\$ range we indicated earlier.

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