Russia: CPI accelerating within expectations... so far

The pick-up in inflation to 3.8% YoY in November is in line with consensus and comfortably within the CBR's guidelines. Yet the sharp acceleration in the weekly CPI in December suggests that next week's key rate decision will still be a close call

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3.8% YoY

November headline CPI

3.4% YoY core CPI

As expected

According to the final estimates, Russian CPI accelerated from 3.5% YoY in October to 3.8% YoY in November, which is in line with consensus expectations and lower than the 3.9-4.0% YoY suggested by the preliminary weekly data. The latter is based on a more narrow and food-heavy basket of items, therefore the final result suggests that the higher inflationary pressure is so far contained to the food segment. Indeed, the final data suggest that the primary driver of the acceleration in the headline CPI was the spike in the food CPI (~40% of the basket) from 2.7% YoY to 3.5% YoY, while the pick-up in non-food CPI (~40% of the basket) was much more moderate - from 4.1% YoY to 4.2% YoY, and the services sector (~20% of the basket) saw a disinflation from 4.0% YoY to 3.8% YoY.

Overall, the primary role of food in the current pick-up in inflation could be considered somewhat positive, as it is driven by various temporary effects, including a low base and seasonality, while the remainder of the CPI basket, subject to a more fundamental drivers such as consumption (currently weakening), gasoline prices (a freeze was negotiated till March 2019) and exchange rate (stabilised recently), do not show signs of above-expected increase in the inflationary pressure.

Those facts are unlikely to prevent further acceleration in the overall CPI - to 4.0-4.2% YoY by year-end 2018 and 5.5-6.0% YoY by mid-2019 (primarily due to VAT hike since January from 18% to 20%), however such a trajectory is already priced in by the market participants and accounted for by the Bank of Russia in its previous comments and actions. We, therefore, do not see any strong immediate inflationary arguments in favour of a rate hike at the upcoming 14 December monetary policy meeting.

At the same time, we note that the fresh weekly CPI statistics for December suggests there are still risks that the CPI might overshoot expectations in the near term. The average daily CPI growth seen in 1-3 December was 0.027%, which is 1.5x the rate for the beginning of November and should it continue, the FY18 CPI could exceed our 4.0% YoY expectations and hit the upper range of CBR target range of 3.8-4.2%. Combined with persisting uncertainties regarding financial markets (related to Fed rate trajectory, US-China trade tensions, Russia sanctions), this suggests that the upcoming decisions on the key rate are likely to made in an "11th hour" mode, and a hike cannot be completely ruled out.

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