

## Russia: CPI higher than consensus in August, supporting unchanged key rate in September

The lack of monthly deflation in August confirms our take that the pick-up in CPI – to 3.6% YoY currently – is caused not only by the low base effect, but also by RUB depreciation, higher agriculture prices and a lack of demand constraints. Higher CPI combined with increased market volatility are strengthening the case for an unchanged key rate this month



A man making a choice in a Russian supermarket

# 3.6% August CPI, YoY

up from 3.4% in July

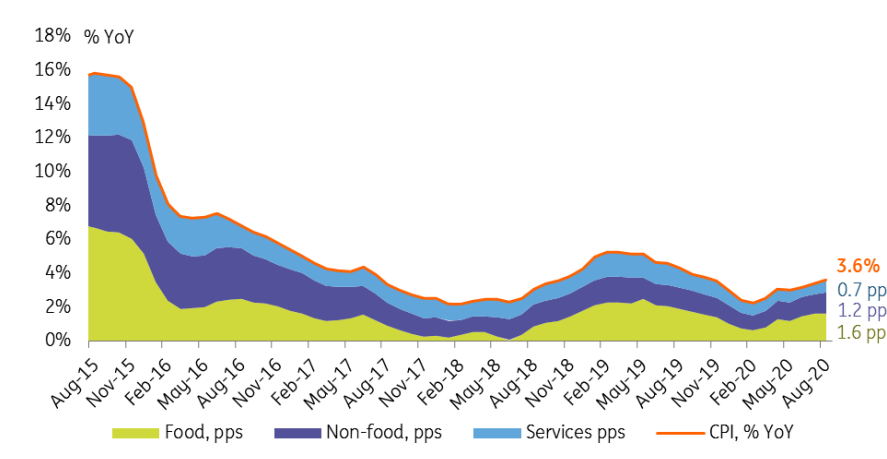
Higher than expected

## No monthly deflation in August, YoY CPI higher than consensus

Russian CPI showed no monthly deflation in August despite seasonality, and the annual CPI rate picked up by another 0.2 percentage points (pp) to 3.6% year on year (Figure 1). This result is in line with our expectations, however we were on the hawkish side of the consensus range, with most of the market participants expecting 3.4-3.5% YoY. We take the numbers as supportive of our [initial](#) take, that the reasons for the acceleration in the CPI, which is likely to take place in 2H20 and in the beginning of 2021, go beyond the statistical base effect. We have the following list of suspects:

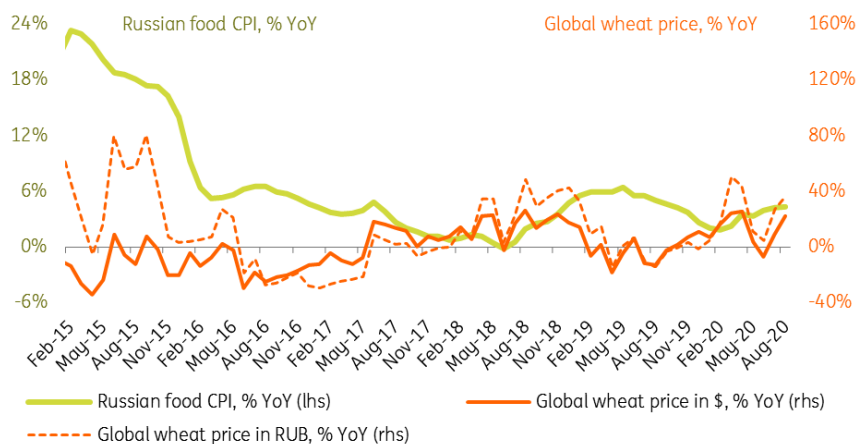
- Pick-up in global agriculture price growth on solid demand and damaged crops is likely putting upward pressure on the local food CPI in Russia, as it was historically (Figure 2). We remind, that around 10 pp of global wheat price growth translates into around 1 pp of local food CPI growth and 0.4 pp of overall inflation.
- It remains unclear if the protests and strikes at Belarus' companies since August have any material impact on Russian CPI. According to our estimates, Belarus accounts for around 1.6% of the Russian consumer basket, with elevated importance for dairy, textiles, fertilizers, and furniture. So far, those items of the Russian CPI have shown no noticeable uptick in prices.
- Ruble's [depreciation](#) to major currencies since June, especially by 9% to EUR in July-August (as the EU accounts for around 36% of Russia's imports), could have contributed to the upward pressure in import-heavy non-food items, such as consumer electronics and household chemicals, which are already showing signs of acceleration of CPI in July-August.
- Lack of obvious signs of disinflationary effects of demand that seems to be recovering faster than expected, as the consumer trend is actively rebounding (Figure 3) amid resumed retail lending, active fiscal support, persistent real salary growth and restrained foreign travel.

Figure 1: CPI creeping up on both base effect and other factors



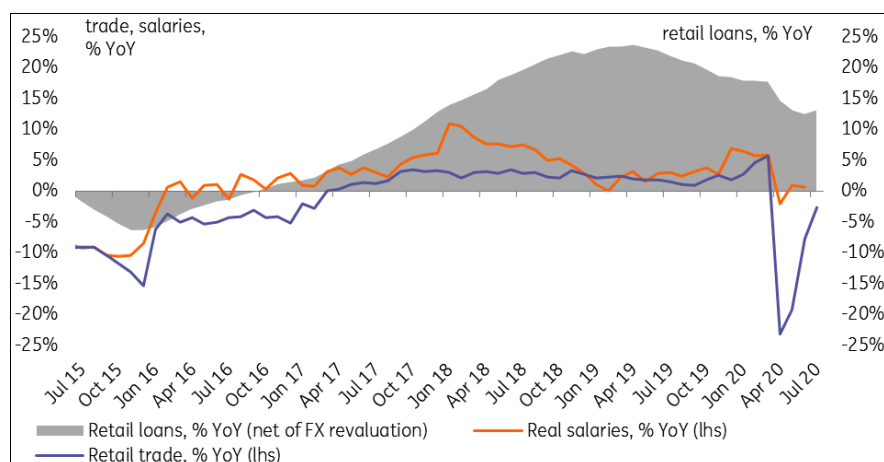
Source: Rosstat, Bank of Russia, ING

**Figure 2: Global grain prices are contributing to the upward pressure in the local food CPI**



Source: Bloomberg, Rosstat, ING

**Figure 3: Active recovery in consumption is challenging the narrative of disinflationary demand drivers**



Source: Rosstat, Bank of Russia, ING

**Higher CPI combined with increased market volatility are strengthening the case for unchanged key rate this month**

Higher-than-expected CPI in August is not a threat to the Central Bank of Russia's wide year-end guidance range of 3.7-4.2% for the year-end, and therefore is obviously not an argument against the generally dovish monetary policy framework for the medium term. However, it does suggest that our and the market expectations of 3.7%, the lower border of the CBR range, might be challenged. This in our view strengthens the case against an immediate key rate cut from the current 4.25% level at the upcoming 18 September monetary policy decision.

Other arguments against the immediate cut include the increased local [market volatility](#) observed since July as a result of dividend payments, acceleration of local capital

outflow and the renewed foreign policy challenges.

## 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>.