

Russia: CPI keeps edging up, helped by RUB weakness

Russian inflation keeps accelerating on a combination of cost, demand, and technical factors. While we continue to see 2021 CPI risks as limited, the upward price pressure is likely to persist in the near term due to grain price growth and RUB depreciation. This should add to the list of uncertainties calling for central bank caution this month



3.7%

September CPI, YoY

up from 3.6% in August

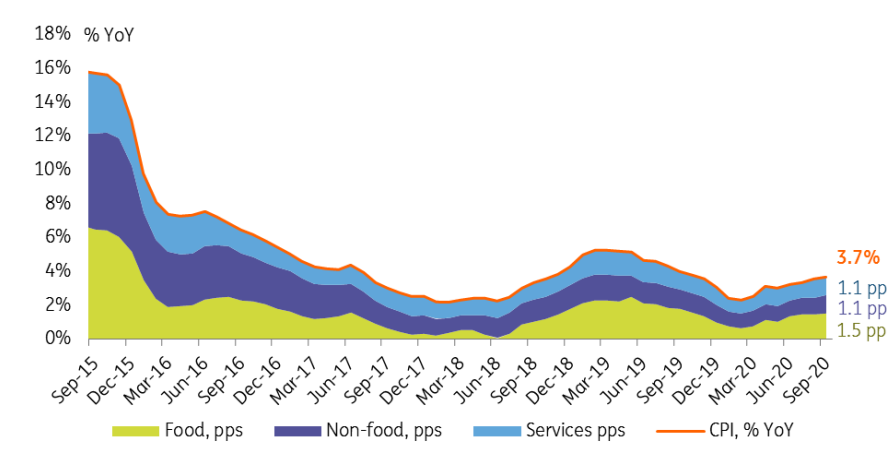
As expected

Russian CPI growth accelerated from 3.6% year-on-year in August to 3.7% YoY in September, which is in line with market consensus and our expectations. The acceleration in the annual rate

vs. August is largely technical: there still was a 0.1% month-on-month deflation this September, justified by the seasonality, but it was just smaller than the abnormally wide deflation seen last year. Combined with the prevailing market focus on foreign politics and FX market, the importance of inflation readings for now may seem low. However, there are still several observations worth mentioning in our view.

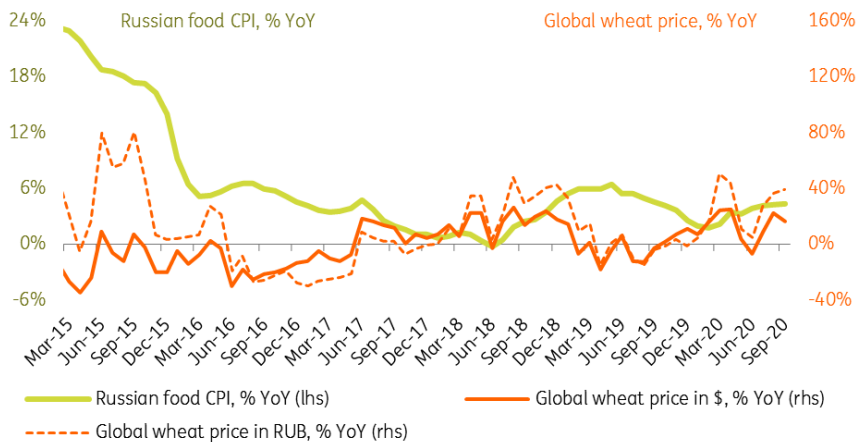
- Weekly CPI data suggest that deflation is nearly over. In fact, the entire 0.1% MoM deflation was assured by the second week of September, while in the other weeks consumer prices were flat.
- Looking at the annual CPI composition, it appears that the upward price pressure is uneven among segments, with non-food CPI taking the lead for the second month in row. The key items posting above-average acceleration include consumer electronics and construction materials, which we take as a reaction to continued RUB depreciation vs. USD (by 8%) and EUR (by 12%) since mid-year, as well as demand on real estate supported by the subsidized mortgage programme, which will probably be extended for the next year.
- Local food CPI is experiencing upward pressure from growth in global wheat prices, which were up 17-22% YoY in USD terms and 37-40% YoY in RUB terms in the last two months. This is a factor that is likely to prevent food CPI from posting material disinflation in the coming months.
- Acceleration in the CPI has minimized the ex-post real key rate to around 0.6%, a five-year low. Given the persistent expectations of disinflation in 2021, the ex-ante real rate is higher – at around 1%, but still below the historical highs.

Figure 1: CPI keeps growing on base effect, but role of non-food CPI is increasing



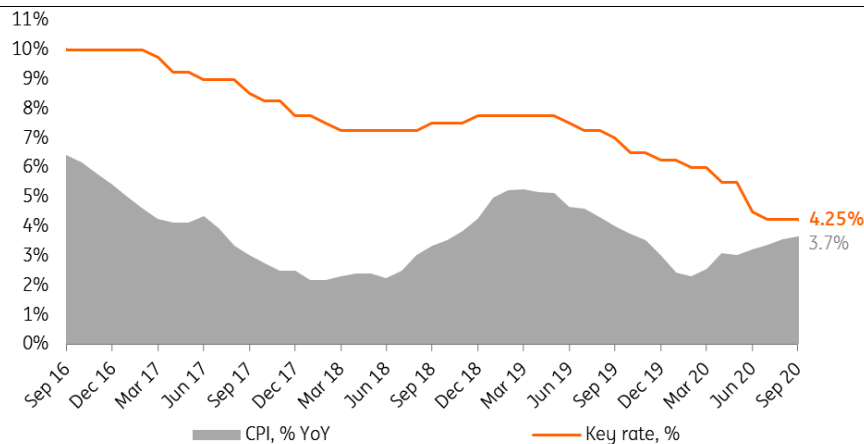
Source: Rosstat, Bank of Russia, ING

Figure 2: Growth in grain prices prevents disinflation in local food CPI



Source: Bloomberg, Rosstat, ING

Figure 3: Near-term CPI risks lower the likelihood of key rate cut in October



Source: Bank of Russia, Rosstat, ING

Although the active phase of CPI acceleration this year is likely nearly over, our year-end expectations of 3.7% YoY are facing upward risks due to additional pressure from cost inputs and demand drivers. Near-term CPI pressures combined with mounting foreign policy uncertainties and market volatility add up to an easy call for an unchanged key rate at the upcoming Bank of Russia meeting on 23 October.

Author

Dmitry Dolgin

Chief Economist, CIS

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>.