Russia: Entire current account surplus to be sterilised in 3Q

We doubt that the reduction of FX purchases to $2.8 billion ($3.7bn including backlog) in September will be a material positive factor for the rouble, as the 3Q current account surplus, which we downgrade to $10-15bn, will still be fully sterilised. RUB appreciation to our end-quarter 65.0/USD target is possible if global risk appetite improves

Source: Shutterstock

187bn

Lower than expected

Minfin's FX purchases for September in RUB

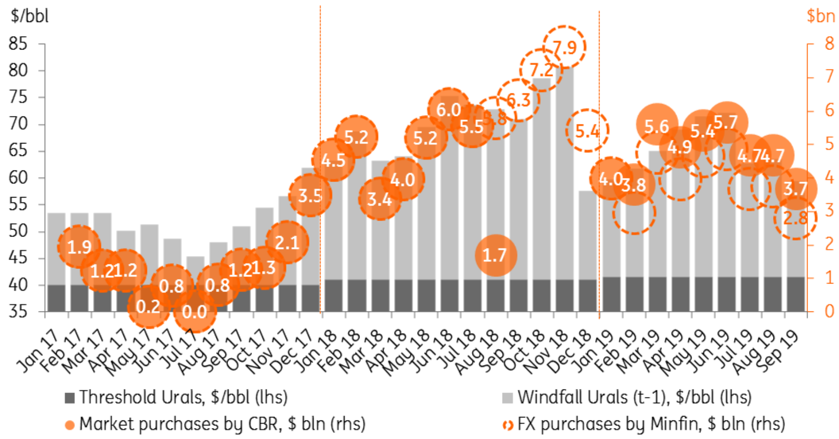
Down from RUB 246bn in August

CBR/Minfin to lower monthly FX interventions to this year's low in September - to reflect a drop in the oil price

The Russian finance ministry announced it will spend RUB 187bn (equivalent of USD 2.8bn under the current exchange rate) for FX purchases between 6 September and 6 October. The amount comes from the RUB 193bn in extra fuel revenues from the budget expected in September and RUB 6bn downward revision in extra fuel revenues for August. Combined with the August-December 2018 backlog, when the central bank put market purchases on hold, the total amount of FX to be purchased on the market will be $3.7bn in September, down from the $4.7 billion seen in June and July each.

The September FX interventions volume, which will be the lowest since the beginning of this year due to the oil price weakness, is $0.5bn lower than the consensus and $0.3bn lower than our expectations.

Monthly FX purchases by Russian Finance Ministry/Central Bank



Source: Bank of Russia, Finance Ministry, ING

Current account surplus in 3Q to be fully sterilised anyway

The decline in FX purchases in September is unlikely to provide a strong positive boost to the rouble exchange rate, as it represents an adjustment to the lower oil price environment. While previously we expected Russia's current account surplus to reach $15-20bn in 3Q, the weakness in the oil price since August warrants a cut in expectations to $10-15bn. This suggests that even with the lower FX interventions, around 100% of the current account surplus will still be sterilised.

July's current account, which was accumulated under oil prices $5/bbl higher than the current level, was reported at $5.6bn, and we expect the central bank to report the preliminary balance of payments for August in the middle of next week, which will be the first checkpoint.

Capital account - a factor to watch

With the current account fully sterilised, the capital account is detrimental to the rouble's performance.

In terms of corporate flows, some mild pressure could come from foreign debt redemptions, as the published CBR data and commentary implies a possibility of up to $8bn in net corporate foreign debt redemptions in 3Q, with 30-50% of this sum due in September. This pressure might be offset, however, if the redemptions are settled with the previously accumulated international assets.

Portfolio flows, on the other hand, may provide support though these are unlikely to be strong given the limited new supply of local currency state bonds (OFZ). The July net non-resident inflow (the latest available data) into OFZ was only $0.4bn, the lowest reading year-to-date, with monthly gross market supply shrinking to $1.0-1.2bn for 2H19.

Quarterly RUB forecasts unchanged

Based on the likely neutral effect of FX interventions, our RUB65/USD target for the end of September is still viable, however continued rouble appreciation from this point relies heavily on a further improvement in global risk appetite, which is currently on shaky ground.

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