

Russia: FX purchases to rise further

In February, the Ministry of Finance will buy US\$5.3bn, up from US\$4.5bn in January. We don't see this as a game-changer and the rouble could be flat over 2018



Source: Shutterstock

\$277m

Daily FX purchases

vs \$267m in January 2018

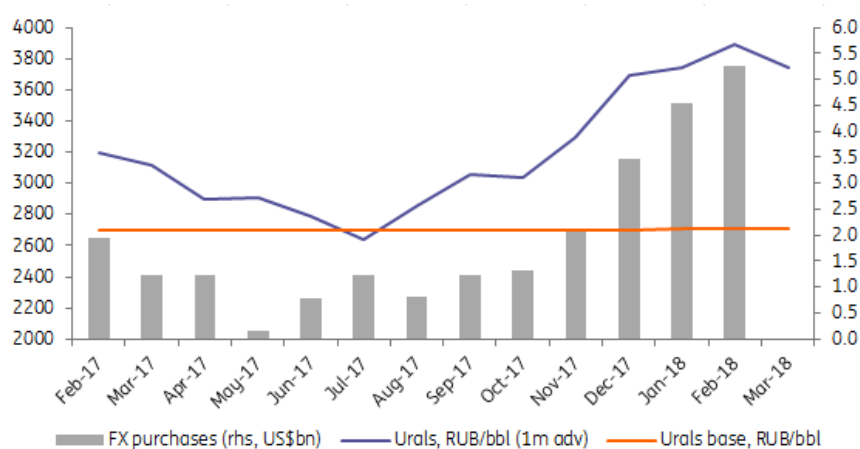
FX purchases marks new record

The rising oil price in January - at US\$68.7/bbl vs US\$63.9/bbl in December - has naturally resulted in a higher volume of Ministry of Finance (MinFin) FX purchases under the adjusting mechanism for calculating extra oil and gas revenues.

Since 2018 this only depends on the difference between the current US\$/bbl price of Urals oil and the base level of US\$40/bbl in 2017 prices, which gives us US\$40.8/bbl in 2018 after adjusting for 2% US\$ inflation. With the announced US\$5.3bn, the volume of FX purchases goes up from

US\$4.5bn in January and US\$0.15-3.5bn over 2017, so setting a new high.

MinFin FX purchases vs Urals price levels



But high current account surplus to support RUB for some time

The higher level of MinFin FX purchases should, as intended, further reduce the rouble's ability to significantly strengthen from current levels. But it doesn't look as if it will be a sufficient driver for sustained RUB weakness, at least over 1H18. The higher oil price should boost the current account (C/A) surplus to levels visibly exceeding the volume of FX purchases.

At US\$65-70/bbl and at the current RUB rate, we expect current account surpluses at US\$26-29bn and US\$18-22bn respectively in 1Q and 2Q18. This should be sufficient not only to cover MinFin FX purchases (US\$5-6bn/month) over 1H18 but also net private sector debt payments, given the comfortable refinancing ratios in 2H17 and higher primary activity in early 2018.

Yet, the "C/A surplus vs MinFin FX buying" balance is likely to deteriorate over 2H18, especially if RUB stays stronger than our initial estimates of the fair-value levels under the fiscal rule. So, the RUB outlook will be more sensitive to swings in capital flows, which may or may not be as supportive as they have been so far, and its continued strength may additionally depress the C/A surplus later in 2018.

Our base-case doesn't see any game-changers for the RUB, with growing GDP, prudent policy mix (fiscal/monetary) and room for CBR rate cuts all making OFZs/RUB fundamentally attractive. So we still think the RUB will remain relatively flat over 2018, especially after the reduction of the US sanctions threat.