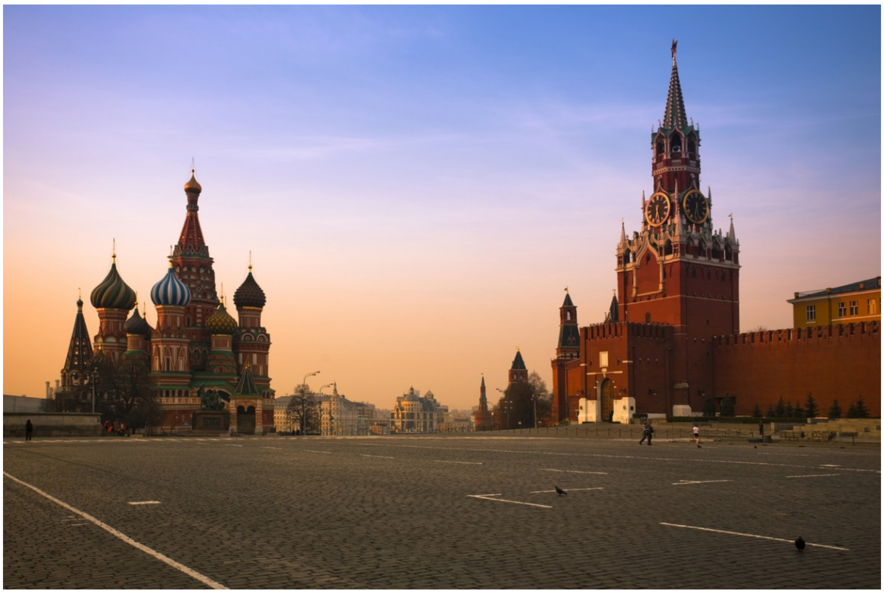
Russia: FX purchases up in November despite lower oil price

Russia is to increase FX purchases in November, reflecting higher than expected fuel revenue collection and mildly negative news for the ruble. Still, less than 50% of the current account will be sterilised, which is a big drop from the previous two quarters. Private capital accounts and OFZ flows will be more important RUB drivers until the end of the year



Source: istock

228bn

Higher than expected

Minfin FX purchases for November in RUB

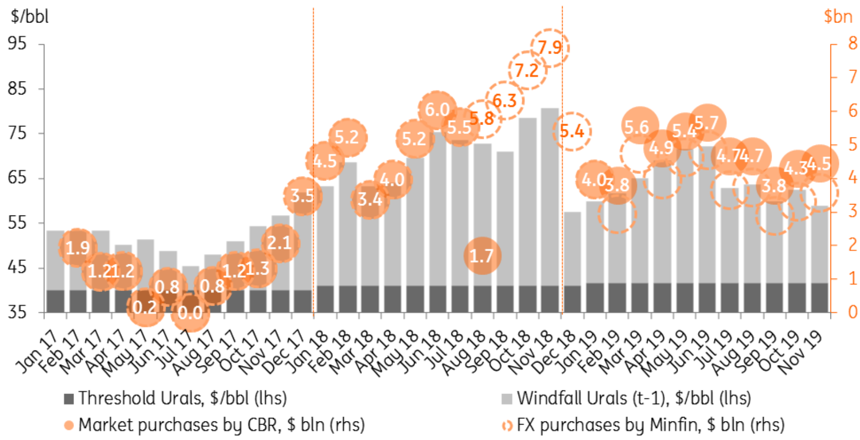
Up from RUB213bn in October

Increased FX interventions in November

Russia's central bank and the Finance Ministry is to increase monthly FX interventions in November as the drop in the oil price is offset by higher than expected fuel revenue collections in October. The Minfin has announced it will spend RUB228bn (equivalent to USD3.6bn at the current exchange rate) for FX purchases between 8 November and 5 December, much higher than RUB165 bn we were expecting and the consensus figure of RUB196 bn. The amount comes from the RUB184bn in extra fuel revenues for the budget that's expected in November and the RUB44bn upward revision in extra fuel revenues for October. 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 approximately $4.5bn in November, up from the $4.3bn seen last month.

The increase in those FX purchases comes despite a $3.5/bbl drop in the average Urals price in October vs. September as the effect of the attack on the Saudi oil facilities evaporated. It appears that the negative price effect was offset by higher volumes of oil exports (+1.9% YoY in October), mainly thanks to a pick up in the non-CIS exports (+3.6% YoY). We take the numbers as positive signs for the 2019 budget revenue expectations.

Monthly FX purchases by Russian Finance Ministry/Central Bank



Source: Bank of Russia, Finance Ministry, ING

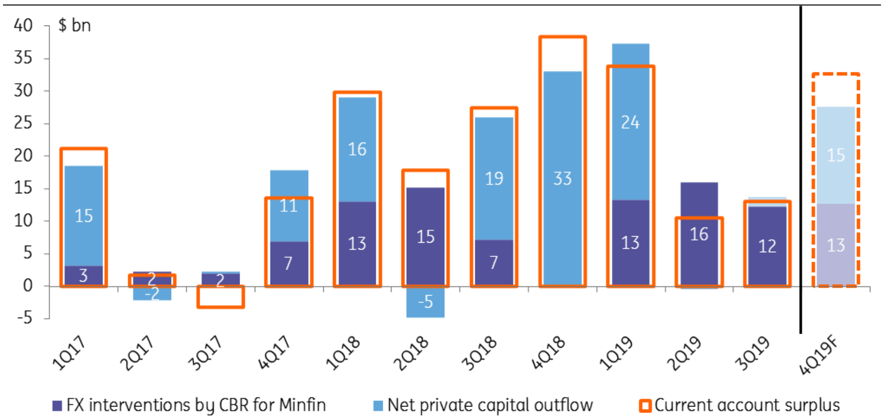
Mildly negative news for RUB in the short-term, neutral for quarterly performance

Higher-than expected FX purchases in November partially reflects already realised export proceeds. That makes it a potentially negative development for the RUB exchange rate in the near-term, which can potentially support the current depreciation momentum. We do not exclude a USD/RUB 64-65 trading range for November.

Nevertheless, it's worth remembering that even at a $4.3-4.5 bn monthly rate, FX purchases are likely to offset only around 40-50% of the quarterly current account surplus, which we expect to expand from $11-13 bn in 2-3Q19 to $26-33 bn in 4Q19 on seasonality and depending on the oil price environment. This suggests that private capital flows (reflecting mainly corporate and households' accumulation of foreign assets) and portfolio inflows into OFZ will be detrimental to the rouble's performance.

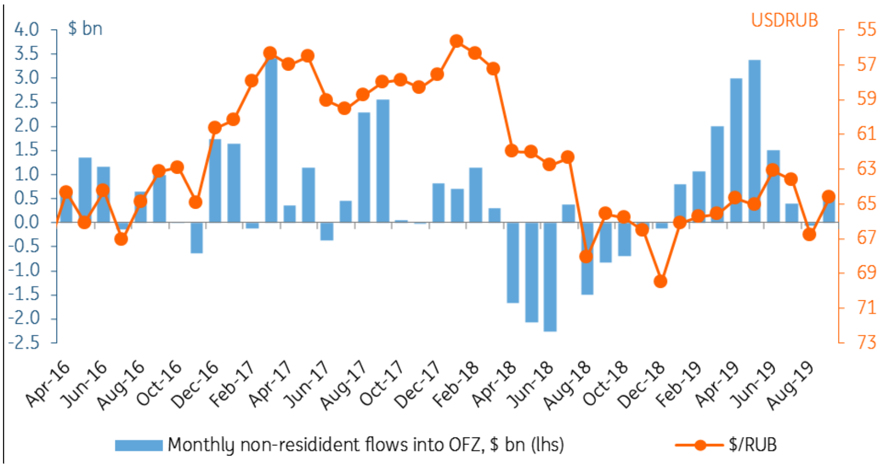
- As for the private capital flow, we expect it to remain negative at around -$15 bn in 4Q19, with net foreign debt redemption likely reaching $4bn in 4Q19, and foreign asset accumulation accounting for the rest. Still, the size of the expected current account surplus seems large enough to cover both FX purchases and private capital outflows. We are looking forward to monthly balance of payments data, which should be released next week, as a preliminary confirmation of this view.
- In terms of portfolio inflows into OFZ, we remain cautiously constructive. While the massive $2-3 bn monthly inflows seen in March-May are unlikely to happen, the benign global mood and lack of negative local drivers allow us to expect neutral to slightly positive flows in 4Q19 following an $0.6 bn inflow in September. We acknowledge, however, that following a strong rally on the local bond market driven by a softening of the Russian monetary policy approach, the directional risks to future OFZ performance appear balanced at this point.

Quarterly current account surplus vs. FX interventions and private capital outflow



Source: Bank of Russia, Finance Ministry, ING

Monthly inflows to / outflows from the local state bond market (OFZ) and USD/RUB exchange rate



Source: Bank of Russia, Bloomberg, ING

Overall, we see higher than expected FX purchases as mildly negative news for the FX market, which could contribute to USD/RUB trading range expanding to RUB64-65 in November. Nevertheless, our 64.0 2019 year-end target appears safe for now, given Russia's seasonally strong current account in 4Q19 and calm global markets. Our longer-term view, which is more cautious on RUB in the absence of positive structural drivers, also remains intact.

Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Disclaimer