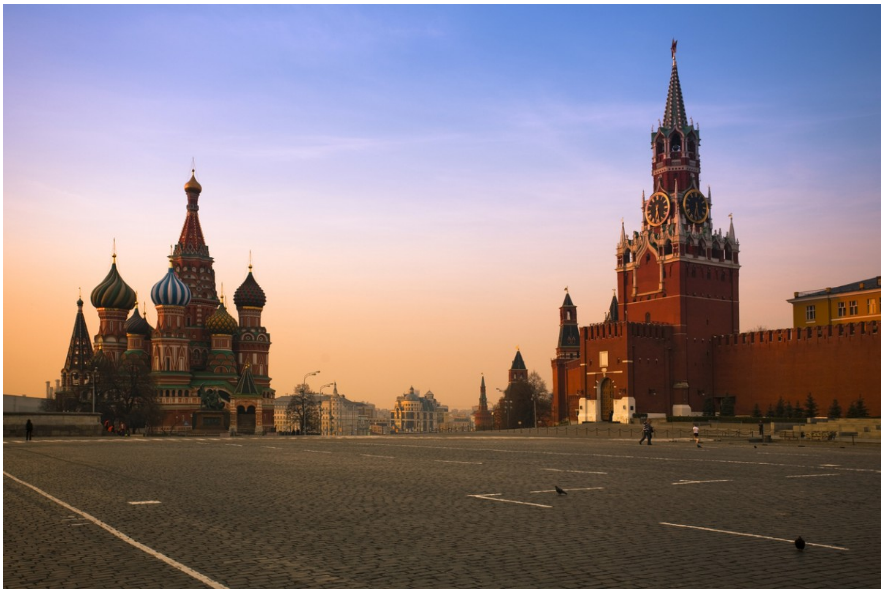
Russia: FX sales by central bank may decline despite guidance

The Russian finance ministry is going to boost FX sales to the central bank from RUB 193 bn in May to 204 bn in June on worse-than-expected fuel revenues. However, the market FX sales by the central bank may still decline from May's $2.8 bln, reflecting adjustment for the ahead of schedule sales in March-April



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Minfin to boost off-market FX sales in June due to large revenue miss in May

The Russian finance ministry announced that it will increase the volume of FX sold to the central bank of Russia (off-market transaction) from RUB 193bn in May ($2.7 bn) to RUB 204 bn ($3.0 bn) in June. This is more than consensus expectations of RUB130 bn and our expectations of RUB163 bn, which were based on the almost double average monthly Urals price from $16/bbl in April to $31/bbl in May.

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Admittedly, the dependence between oil prices and fuel revenues (which in turn determines the volume of FX intervention according to the fiscal rule) is not direct and can be distorted by the exchange rate, and physical volumes of produced and exported oil. Nevertheless, the difference with forecasts is noticeable and is explained by the ministry with a large RUB 45 bln under-collection of May fuel revenues relative to the ministry's initial guidance.

The FX sales data is obviously pointing at the lower than expected budget revenues. One explanation could be Russia's compliance with the OPEC+ deal requiring a cut in oil supply by 23% since May, however, the terms of the deal were already known at the time of Minfin's initial guidance for May and therefore cannot be used as a principal explanation, unless Minfin was surprised at Russia's compliance with the OPEC+ deal.

An extra drop in supplies and the delayed effect of spot prices on actual supply contracts could be another factor limiting oil revenue collection in May and are likely to remain risk factors in the months ahead.

Market FX sales by the central bank may still decline in June

The key question for the market is whether the finance ministry's FX sales in June will be fully passed on to the market by the central bank.

As we mentioned earlier, since March, the central bank has abandoned the Minfin's backward-looking intervention guidance (based on last month's Urals price) and started front-running the interventions based on current Urals price, and even intensified the FX sales when Urals traded below $25/bbl. As a result, in March-April, the CBR sold $5.9 bn of FX, exceeding the Minfin guidance by $6.7 bn. In May the actual FX sales totalled $2.8 bn, very close to Minfin's guidance of $2.7 bn, which however we take as a coincidence, related the market conditions.

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With Urals price approaching the $42.4 fiscal rule cutoff point and USD/RUB trading at levels which were seen in early March amid a much higher oil price of around $50/bbl, we find it likely that the CBR, which currently sells $150-160 mn of FX daily, to start scaling back its presence on the FX market. We also reiterate our take that the FX sales obligations related to the SBER handover deal, estimated at around $22 bln, can be at least partially netted out with the FX purchase backlog of $24 bn.

Overall, we believe that the ministry of finance's FX sales announcement for June is more relevant to the budget execution analysis rather than as guidance of the FX sales by the Bank of Russia on the market. With Urals price approaching the cut-off $42.4 level, the central bank may reduce its FX sales as adjustment for the front-runned operations seen in March and April. If the central bank scales back its presence on the FX market, the sustainability of USD/RUB remaining in the new 65-70 trading range will largely depend on the structural items of the balance of payments, including private capital flows and portfolio investments in the local bond market. The May balance of payments data will be released next week and will be a key factor to watch.

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