# Russia: higher than expected FX sales unlikely to support the rouble

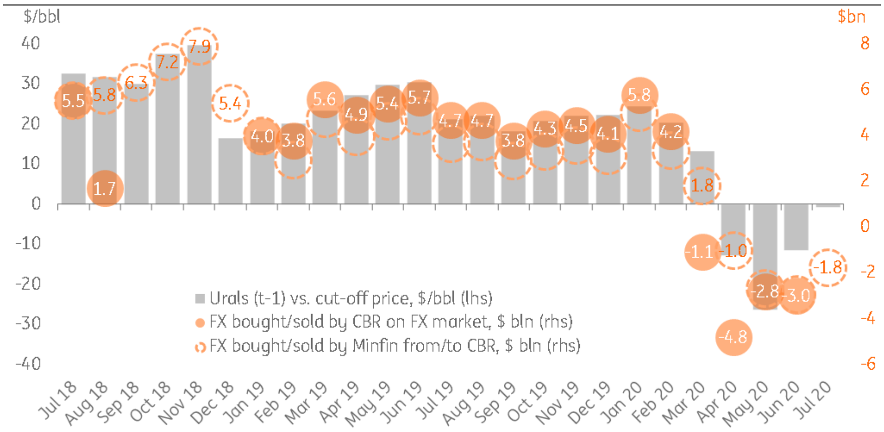
Russia is guiding for a cut in FX sales from $2.9bn in June to $1.8bn in July, which is still more than twice as much as expected. This is unlikely to help the rouble as market FX sales are not strong enough to offset weakness in the capital account, and they may have to decline relative to MinFin's guidance to adjust for front-run FX sales in March-April


The Russian finance ministry announced that it will cut the volume of FX sold to the Central Bank of Russia (off-market transactions) from RUB 204bn ($2.9bn) in June to RUB 126bn ($1.8bn) in July. This is higher than consensus expectations of RUB 52bn and our forecast of RUB 53bn. The expectations were based on the increase in the monthly Urals from $31/bbl in May to $42/bbl in June, however due to the cut in oil production the market forecast range was very wide - from RUB 25bn to RUB 200bn.

- Even though the Urals price was close to the $42.4/bbl official cut-off (the level of zero intervention), the apparent cut in oil production by 17-18%, mandated by the OPEC+ agreement, has resulted in an additional under-collection in oil revenues and has likely

pushed the de-facto near-term cut-off level to around $50/bbl.
- The size of monthly FX intervention is not high enough to offset weakness in the capital account of Russia's balance of payments. As a reminder, monthly data for April and May showed high net private capital outflows of $7-10bn per month amid modest $0.7bn portfolio inflows. Meanwhile, preliminary data for June suggests almost zero net portfolio inflows amid renewed sanction concerns and uncertainties regarding the size of public debt placement. More colour on Russia's balance of payments will become available with 2Q20 statistics to be released on 9 July.
- The Bank of Russia completely fulfilled the Ministry of Finance's $2.9bn FX sales guidance for June, contrary to our expectation that the improvement in external conditions would allow the CBR to reduce market FX sales, compensating for the front-run FX sales conducted in March-April. In March-April, the CBR sold $2.1bn attributable to Urals dropping below the cut-off level, even though MinFin's guidance suggested FX purchases of $0.8bn. This suggests that the CBR will eventually have to underperform the MinFin's FX sales guidance by around $2.9bn at some point in the future.
- As of July, in addition to the FX operations directly related to the oil price, the CBR had an obligation to sell FX worth around US$26bn (the remainder of the SBER deal) starting in September, which however may need to be reduced to US$23-24bn, accounting for the front-run FX sales we mentioned above. Moreover, the latter sum may be netted with the US$22bn FX purchase backlog the CBR has since August-December 2018. Given all the above, we continue to expect the CBR to reduce its presence in the FX market in the coming weeks or months.

## MinFin's FX sales fell in July on higher oil prices, but they remain significant due to the cut in oil production




Source: Finance Ministry, Bank of Russia, ING

Overall, the ability of FX sales to provide material support to the rouble at this point remains questionable for several reasons.

- First, higher than expected FX sales reflect lower than expected oil production in exports.
- Second, the size of intervention does not appear high enough to offset weakness in the capital account, unless the balance of payments data to be released later this week surprises on the upside.

- Third, the market FX intervention by the Bank of Russia may have to be reduced relative to MinFin's guidance at some point, adjusting for the front-run FX sales seen earlier.
- Finally, the long-term FX sales obligations may have to be netted out with the FX purchase backlog.

At this point, we reiterate our cautious take that the rouble is facing headwinds in 3Q20 despite the generally positive emerging market FX outlook.

## Author

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

### Disclaimer