

Russia: Higher FX purchases in August no big deal for the ruble

The increase in interventions to \$4.3bn in August is in line with expectations. Moreover, the strong current account and reinvigorated portfolio inflows may even shield the ruble from adverse seasonality this month. We see upside to our cautious near-term view on USD/RUB, if risks related to local capital flows and the external mood fail to materialise



A worker checks Russian 1,000-ruble banknotes at the Moscow Printing Factory

316bn

As expected

August FX purchases, RUB

up from RUB296bn in July

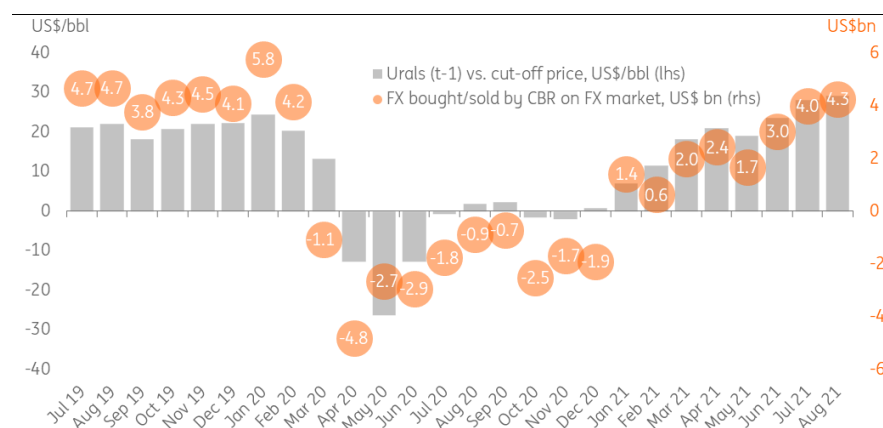
Higher FX purchases in August are neither unexpected, nor threatening

The Russian Finance Ministry announced today that monthly FX purchases will increase from July's

RUB296bn to RUB316bn in August, corresponding to an increase from US\$4.0bn to US\$4.3bn (Figure 1). This increase is not a surprise to us or to the market (we [expected](#) US\$4.4bn, in line with Reuters' consensus), as the continued increase in the average monthly Urals price assures higher exports and oil & gas revenues in the budget. We see several reasons why this development should be neutral for the ruble in the near term (apart from the obvious point that the FX intervention merely sterilises the windfall oil revenues):

- FX intervention is unlikely to fully sterilise the entire current account surplus in 3Q21, as non-fuel components of the Russian balance of payments are somewhat stronger than usual this year. As we mentioned [earlier](#), non-fuel exports are growing fast thanks to high demand for metals and chemicals, while imports of services, which are normally strong in 2Q-3Q, are still repressed this year. As a result, contrary to regular seasonality, this year's current account surplus distribution should be more even, suggesting that the **monthly current account surplus in 3Q21 is likely to stay close to the US\$6-7bn seen in 2Q21**. Should these expectations be confirmed (the data for July will be released on 10 August), it will mean that the current account still exceeds the present FX purchase commitments.
- Looking at other non-fuel components of Russia's balance of payments, one can see material improvement in the portfolio flows since the second half of July. According to preliminary estimates, the **net capital inflow into the local currency public debt market (OFZ) increased from US\$0.6 bn in June to US\$2.3bn in July**, with inflows continuing in the first couple of days of August. This is the result of the general improvement in emerging market risk appetite and the [continued tightening in the Bank of Russia's monetary policy stance](#).
- The corporate dividend period in Russia this year is somewhat [lower in scale and shorter in duration than usual](#), **ending in early August for the largest corporates and suggesting just US\$7 bn of dividends are attributable to non-residents since May**. This means that some post-dividend FX conversion is still possible in the coming days and weeks, but is unlikely to cause as much pressure as was the case in the previous years.
- Finally, the recent discussion on the potential US\$12 bn investment out of the local sovereign wealth fund (NWF) into Gazprom projects in 2021-23, combined with the earlier three-year plans to invest US\$19 bn into other local infrastructure projects, **could potentially lead to a cut in FX purchases by up to \$10 bn per year, starting in 2021**. This could be a potential catalyst for some improvement in the mood towards the ruble in the medium term, pending confirmation of those plans.

Figure 1: August interventions show further increase, in line with higher oil prices



Source: Finance Ministry, Refinitiv, ING

Ruble appears better protected against the 'unlucky' August seasonality, assuming well known risks fail to materialise

Normally, August is an 'unlucky' month for the ruble due to the seasonal narrowing of the current account, occasionally combined with negative external developments. This time, the situation appears more favourable thanks to strong non-fuel exports, restrained foreign travel, a reduced amount of outgoing dividends, higher real rates in Russia, expectations of a decline in FX purchases due to local investments out of the sovereign fund, and constructive EM risk sentiment. This creates some upside risk to our cautious view of USD/RUB 73-75 for 3Q21.

At the same time, ruble watchers are well aware that silver linings do not come without clouds. First, the [private capital outflow](#) from Russia, driven by the purchase of foreign assets, remains a sign of long-term weakness in the overall balance of payments. Second, the portfolio flows into Russia remain volatile and highly sensitive to the foreign policy developments and the general EM risk mood. The latter, as a reminder, is currently sensitive to the newsflow on the pandemic and the [Federal Reserve's policy stance](#). As a result, the forthcoming Russian balance of payments data on 10 August and the Fed's Jackson Hole conference on 26-28 August should be seen as the key near-term checkpoints for the USD/RUB view.

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