

Russia: Inflation steady in February

The figures clearly point to very limited underlying price pressures, suggesting the Central Bank of Russia may choose to cut rates again by 25bp or 50bp in March



2.2% Headline CPI growth (YoY)
vs 2.3% consensus

Price pressures look muted in all major categories

Headline CPI in February was reported at 0.2% MoM and 2.2% YoY, undershooting consensus expectations of 0.3%/2.3%, respectively. Core CPI of 0.1%/1.9% was also better than the expected rates of 0.2%/2.0%. Both headline and core CPI are unchanged from January.

The breakdown suggests that nearly-nonexistent food inflation of 0.9% YoY remained a major disinflationary factor, even after accelerating a bit from 0.7% in January. Fruits and vegetable prices added 3.1% MoM, but this was mostly offset by zero price growth in other food items. Non-food inflation eased from 2.6% YoY to 2.5% with all reported items showing either improving or non-deteriorating monthly price growth vs Jan-18. In services, inflation slowed down from 3.9%

YoY to 3.7% due to low price gains in housing/utilities and slowing monthly inflation in non-regulated services.

The CBR is to cut rates further

With non-accelerating price pressures and a further decline in inflation expectations in February (from 8.9% to 8.4% for 1Y-ahead responses), the CBR may comfortably continue to ease monetary policy at the upcoming March meeting. Given only marginal changes in composite PMI in Feb-18 vs Jan-18, economic activity has probably firmed only modestly. Also, PMI price sub-indices have been muted too, flagging limited pipeline price pressures.

So, no radical improvement in economic trends and unchanged inflation levels allow the CBR to choose between cutting the key rate by 25bp or 50bp again. For now, we stick to our base-case view of 25bp as a balanced step in an environment where consumption is expected to improve (driving CPI up slowly over 2018) on the one side, and a still uncertain external backdrop on the other. Yet, if global markets stay in a risk-on mode and the rouble strengthens further, there is a possibility the CBR will consider a 50bp cut.

We still stick to a view of the key rate falling to 6.50% in 2018 and 5.75% in 2019 under our projections of CPI inflation hovering within 3.0-3.5%.