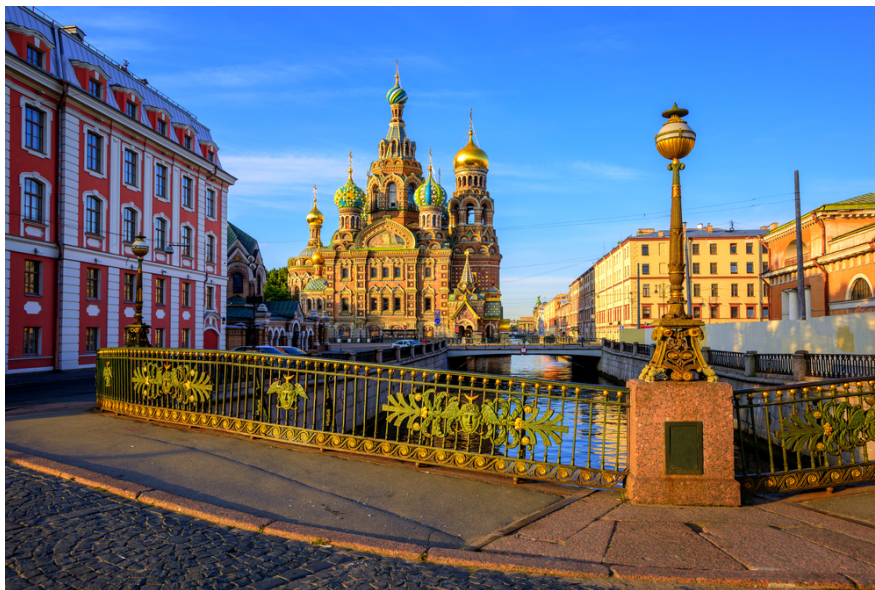


Russia: July BoP point at weaker inflows to OFZ

Preliminary data on July balance of payments support our view that the 3Q19 current account surplus will be fully sterilized by budget-rule-related FX purchases and net private capital outflows, while foreign portfolio inflows into state bonds are weakening. This leaves the ruble vulnerable to risks of contagion coming from global markets



Source: Shutterstock

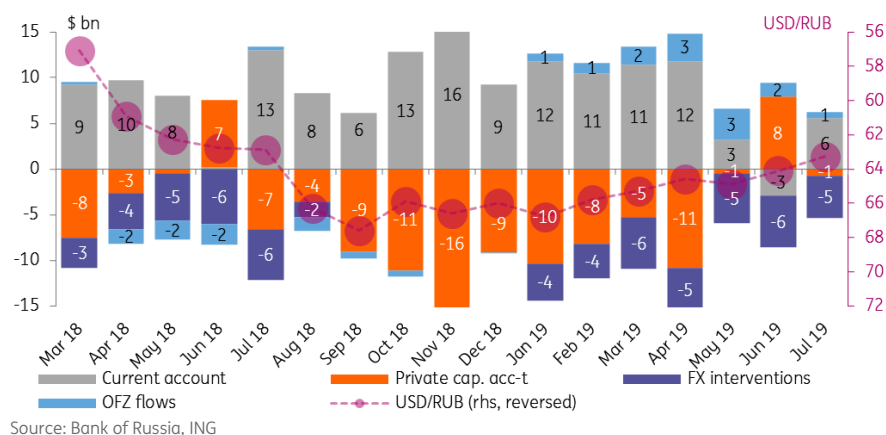
July current account sterilized by FX purchases and net private capital outflow

The preliminary balance of payment data suggests that the Russian current account surplus totaled US\$5.6 billion in July, which flow-wise was offset by US\$4.7 billion of FX purchases conducted by the Bank of Russia (CBR) for the Finance Ministry according to the budget rule, and the US\$0.7 billion net private capital outflow. It so far remains unclear whether the capital account benefited from a US\$5 billion sale of Sberbank's Turkish asset, as the payment details are not available.

Regardless of the possible one-off effects, that configuration is generally in line with our view (see our note "Why the ruble could be facing another bad August" from 5 August), that the 3Q19 current account surplus will total US\$5-8 billion, with around 80% of it sterilized by the FX purchases. The key takeaway is that the balanced corporate flows reinforce the dependence of ruble performance from the portfolio flows into state bonds (OFZ).

<https://think.ing.com/articles/rub-ruble-rouble-fx-russia-dollar-ofz-inflows-cbr-rates/>

Key components of monthly balance of payments

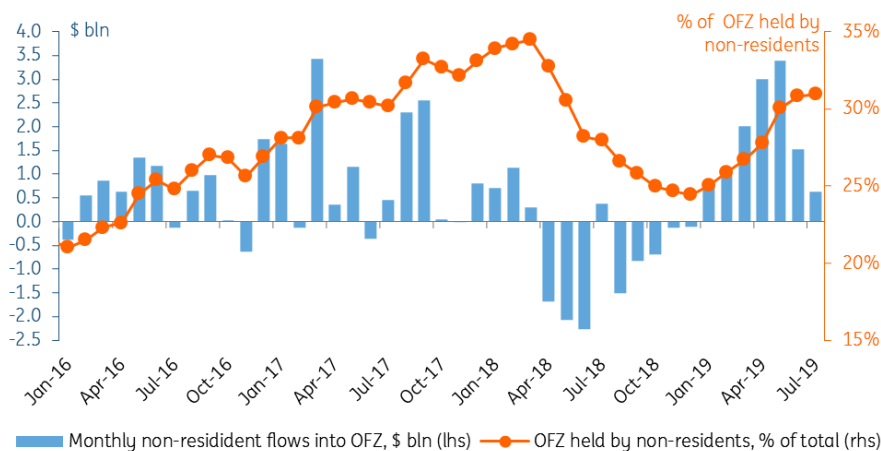


July foreign portfolio inflows into OFZ minimal for 2019

The preliminary data on foreign portfolio inflows into OFZ for July also confirm our expectations of moderation to under US\$1.0 billion monthly inflows in the coming months. According to CBR's recent report on financial market risk, following the US\$1.5-3.5 billion monthly inflows in February-June, the OFZ market saw only a US\$0.6 billion inflow in July. This was due to the fact that following the very successful 1H19 placement the Finance Ministry reduced the weekly supply of OFZ at the primary auctions to just RUB20 billion per week (US\$1.2-1.6 billion per month) at the beginning of 2H19. To remind, according to our recent estimates, in order to fulfill its annual programme, it's enough for the finance ministry to place RUB16 billion per auction in August-December to fulfill the annual plan. The reduced supply going forward supports our positive view on the benchmark yields but also limits the potential portfolio investments, especially given that foreign investors have restored their positioning in OFZ following the 2018 sell-off.

Moreover, while the Russia-specific factors do not warrant portfolio outflows from the local bond market, the current escalation of global trade tensions may limit global investors' appetite for EM risk. This suggests that portfolio inflows into OFZ, which were the key support factor for the ruble in 1H19, are unlikely to provide strong support to the balance of payments in 2H19.

Monthly foreign portfolio inflows into OFZ vs. non-resident share on the OFZ market



Source: Bank of Russia, ING

The July BoP data supports our expectations of increased ruble volatility in 3Q19. We see the USDRUB trading range at 63-67, with the balance of risks skewed to the weaker bound, based on global market jitters.

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