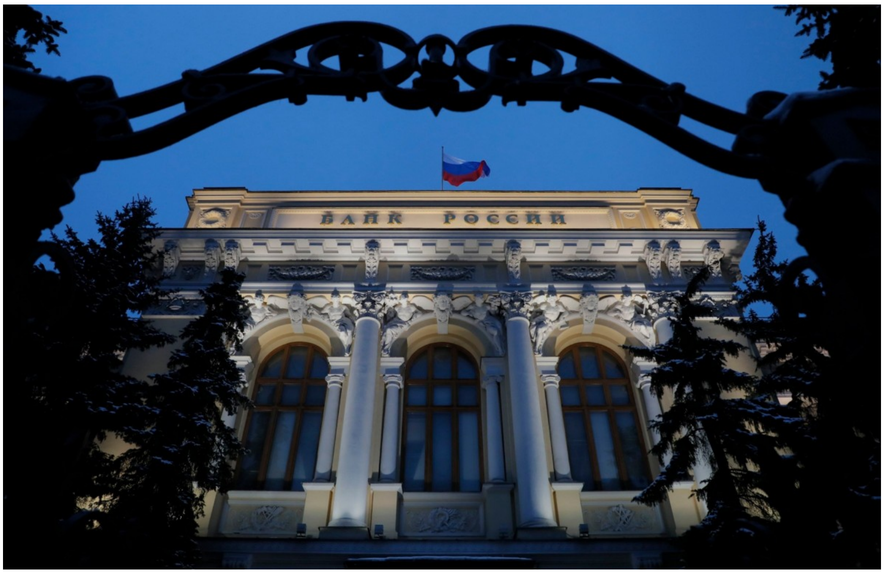
Russia: October's large capital outflow spike could be partly one-off

In October even a large $5.8bn current account surplus, combined with $2.5bn in FX sales by the CBR and $0.6bn portfolio inflows into OFZ, failed to prevent ruble weakness. These were counterbalanced by a massive $8.8bn capital outflow from local corporates and households. The ruble is still capable of recovery if that capital outflow proves temporary.



The Central Bank of Russia headquarters in Moscow

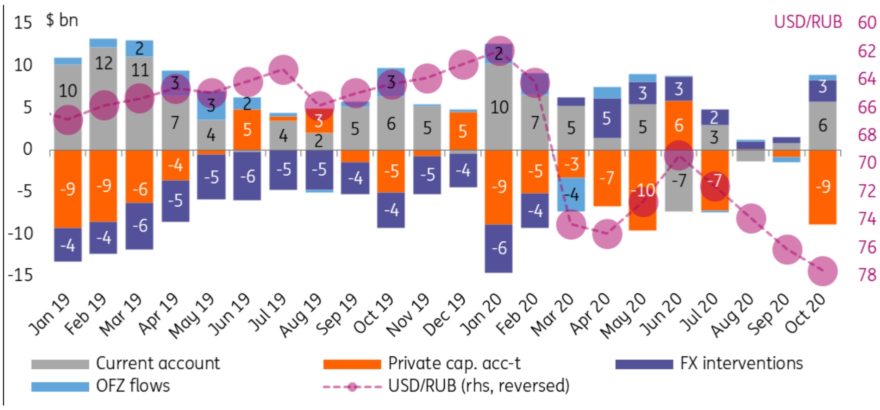
We mentioned earlier that the October balance of payments result could add certainty to our expectations of further USD-RUB recovery towards our target 70-75 range. In reality, the picture did not become clearer, with October data pointing in both directions. It appears that the outlook is clouded by volatile capital outflows from local corporates and households, which totaled a massive $8.8 bn last month. These countered the support to the ruble coming from a suprisingly strong current account ($5.8 bn), FX sales by the central bank ($2.5bn) and $0.6 bn in net portfolio inflows into local currency public debt (OFZ). At the same time, a cautiously constructive view on the ruble could be feasible, given that part of the local capital outflow could be a reflection of one-off nervousness ahead of US elections and upcoming changes in taxation.

- The current account surplus of $29.9bn for 10M10, which translates into a $5.8bn surplus for

October, came as a positive surprise after the near-zero reading in 3Q20. Simultaneously, the CBR released a September trade surplus of $10.1 bn, which also exceeded expectations on the export side. We attribute this positive surprise to Russia's continued exports to China (mainly oil) which, on the available customs statistics, remain defensive at -14% YoY in 9M20 vs. an overall 23% YoY drop. Also, Russia's exports to the UK (driven by gold which before 2020 was absorbed locally by the CBR) are up 102% YoY in 9M20 after being up 79% YoY in 8M20. We do not exlude that these export trends may have continued into 4Q20. At the same time, imports seem to have weakened again in October after a flat September, reflecting softening in local demand and recent RUB depreciation. The combined positive effect of all the above on the trade surplus should be around $6bn per month, supportive of an up to $10 bn current account surplus in 4Q20.

- Other positive factors that provided support to the ruble in October include CBR FX interventions at $2.5bn (which will be reduced to $1.7bn in November), and portfolio inflows into OFZ which were at a modest $0.6bn for October (preliminary CBR estimate). The most recent National Depository daily data indicates that, following the US elections and the return of the Minfin practice of placing fixed-coupon papers, net portfolio inflows into OFZ resumed in November. The removal of supply overhang and Russia's adherence to macro stability should be supportive of continued inflows, although persistent uncertainty around sanctions could serve as a deterrent.
- Net private capital outflows of $44.4 bn in 10M10, including $8.8bn in October, was a negative surprise after the 3Q20 data had suggested a deceleration. The structure of this outflow is yet to be seen - it is unlikely to be related to foreign debt redemption given the light schedule in this regard. Accumulation of FX assets remains as the primary suspect. While normally, this would be a negative sign of low local confidence, this time we do not exclude that part of this outflow may have been one-off. First, according to the CBR, around $1.9bn of the October demand for FX came from the largest state banks, which could be attributable to SBER's annual dividend payout (earlier we assesed up to $2.5bn could be attributable to foreign shareholders). Second, around $1.1 bn was bought by subsidiaries of foreign banks in Russia, mostly in the last 3 days of October, which could be part temporary risk-aversion ahead of US elections. Third, the focus of the local mass-media on the elections may have led to additional demand for FX from households. Finally, we do not exclude that additional capital outflow by households could have been provoked by revisions in double-taxation treaties between Russia and popular havens and the upcoming increase in local taxation on high earners.

Figure 1: Massive capital outflow of $9bn removed support from RUB in October



Source: Bank of Russia, ING

October balance of payments data suggests that our constructive view on the ruble is supported by a surprisingly strong current account (thanks to stable oil demand from China, gold sales to the UK, and renewed weakness in imports), continued FX sales by the CBR, and portfolio inflows into OFZ. Meanwhile, local capital outflows remain a risk factor. A RUB return to the 70-75 range is possible if at least part of the October capital outflow proves one-off and related to US elections and upcoming changes in taxation. Also, stable external risk-appetite and no surprises related to Russia-specific foreign policy remain pre-requisites.

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