

Russia: PMI manufacturing rises ahead of GDP figures

Russian GDP may surprise on the downside today, but the 2018 outlook still looks OK. The bigger story is faster policy normalisation



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52.1

Jan-17 PMI manufacturing index

vs 52 in Dec-17

As expected

PMI manufacturing edged higher in January

Russia's PMI manufacturing index rose marginally from 52 to 52.1 in January, which is the highest reading since July 2017, even though the dynamics have been rather range-bound since then. The improvement was mostly driven by the expansion of demand and new orders (both local and from abroad) which boosted production and depleted inventories.

The level of optimism rose to the highest in four months. Despite rising energy prices, input price pressures have softened and remained muted while output price pressures have also stayed subdued. Overall, the average for the PMI index almost reverted to the 3Q17 levels, suggesting some growth improvement after the (temporary) weakness in 4Q17 due to the OPEC+ deal-related effects and unexpectedly warm weather.

GDP growth in 2017 is due later today and might be weaker

Rosstat is to release its full-year GDP growth estimate later today (4PM Moscow time) and the Bloomberg consensus sees it near 1.7% (in line with ING forecast) with a forecast range of 1.4-1.9%. President Putin referred to 1.4% growth late Wednesday when meeting a French business group (according to Bloomberg), suggesting that the official report may be weaker-than-expected. Recall that the official MinEco forecast is 2.1%, but the ministry adjusted its estimate to 1.4-1.8% after the economic weakness over 4Q17.

We still see GDP growth near 2% in 2018

Despite the risk of weaker 2017 GDP growth, we still stick to our base-case view of the economy accelerating to around 2% in 2018. Why? Private consumption is seen recovering further on the back of the public wage hikes, improving confidence, strengthening growth in retail lending and low inflation. Investments will be driven by stabilising corporate profits (the drop slowed to 4% in 11M17 vs 8.8% in 9M17), firm business sentiment, which may improve after the March 2018 presidential elections, rising lending and easier financial conditions. Export growth will also continue as the fiscal rule will likely arrest volatility of the real effective exchange rate of the Ruble, while import growth is seen normalising after a strong recovery in 2017, due to a low base effect.

Faster policy normalisation is in sight

The Central Bank of Russia Governor Elvira Nabiullina commented today that a quicker move to a neutral policy rate (6-7%) looks likely now given "...lower devaluation risks related to external factors...higher oil prices". Hence, the prospect of rate cuts coming sooner-than-expected has increased, and we now see a 25bp rate cut at the upcoming CBR meeting next week (9 February) and another (at least) 25bp in March. The key rate may end 2018 near 6.5-6.75% depending on the speed of the CPI recovery and post-elections economic agenda. Clearly, all this makes the OFZ (government bond) story still very much appealing even after the three-day rally.