

Russia: Rising CPI in December may tip the scales for CBR

Weekly CPI data released this Thursday suggests 2018 inflation can exceed our 4.0% forecast and hit the upper range of the central bank target of 3.8-4.2%. This, combined with surprisingly large monthly net capital outflows of \$16 bln for November, raises the likelihood of key rate hike this Friday and guarantees a more hawkish tone in the commentary



Central Bank of Russia, Moscow

Last Friday, we indicated an unchanged 7.5% key rate as our base case scenario for December 14, while citing negative surprises in the weekly CPI in December as the first risk factor to this view. This risk seems to have just materialised, with December 4-10 CPI reported at 0.21%, and December 1-10 at 0.29%. Should the average daily CPI growth remain at the current 0.029% level, the full-month CPI could hit 0.8-0.9% MoM, or 4.2-4.3% YoY.

Given that the CBR previously indicated 3.8-4.2% YoY as the YE18 target range, the December inflationary trend may actually provide the monetary authorities with a formal argument in favour of a cut. However, the CBR still has room to manoeuvre in interpreting the numbers, as weekly CPI is calculated based on a narrow food-heavy basket of items, while non-food and services, which

are more indicative of FX- and demand-side price pressures, could show a more restrained result (as was the case in November).

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Other news which could be taken as an indirect argument in favour of a rate hike includes the fresh balance of payments statistics released yesterday. The data suggests a massive net private capital outflow in November of more than \$16 bln, which is the highest monthly outflow since February 2015 and may reflect an accumulation of FX assets by banks with non-residents. The weakness in Russia's balance of payments could serve as an additional factor calling for higher rates for ruble instruments.

Overall, we are still not 100% sure the CBR will decide to increase the rate on December 14, as the broader set of arguments, including calm external markets and natural tightening in the local monetary conditions we mentioned yesterday, prevent a definitive call for a hike. However, it is clear that the likelihood of a hike has definitely increased, and more hawkish rhetoric is to be expected.

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