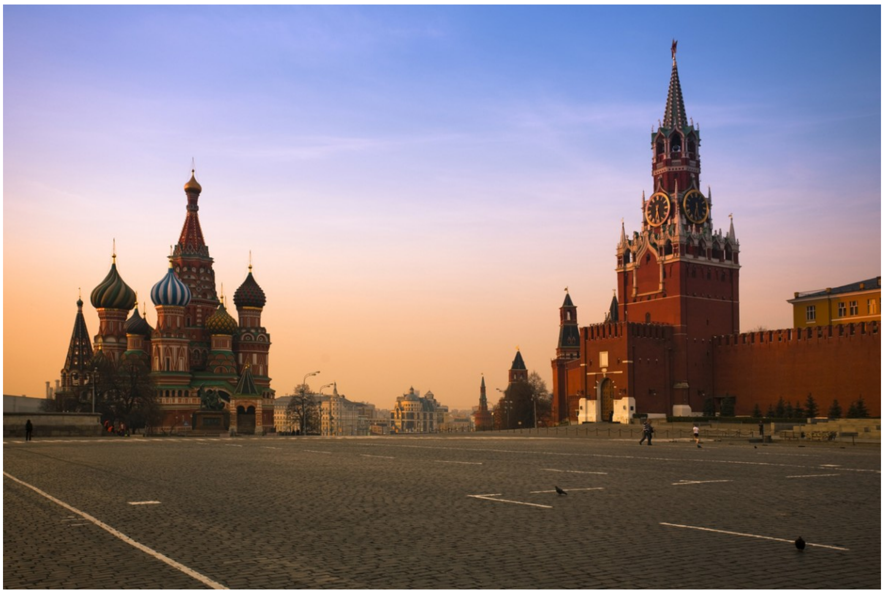
Russia: Strong current account supports our ST positive view on RUB

Russia's current account surplus of US$11.8 billion for January is in line with our expectations. This, combined with a benign external environment, reinforces our constructive short-term view on RUB. However, starting in 2Q19 the Russian currency may face more headwinds



Source: istock

$11.8 bn

As expected

Current account surplus in January 2019

vs. net private capital outflow of $10.4 bn

According to preliminary estimates by the Central Bank of Russia (CBR), the current account surplus in January reached US$11.8 billion, which is perfectly in line with our US$12 billion expectations. This surplus was sterilized by the net private capital outflow of US$10.4 billion, which we attribute to the growth in corporate international assets, and the Finance Ministry's FX purchases of US$1.9 billion.

We see the following implications from those figures:

- The current account surplus of US$11.8 billion for January 2019 is very close to the January 2018 figure of US$12.9 billion despite an almost US$10/bbl decline in the Urals oil price, which we attribute primarily to the weakening in the imports. After posting 19% YoY growth in 1Q18, it must have contracted in 1Q19. While positive for the balance of payments, we see it as a confirmation of higher dependence of Russia's growth story on net exports - amid weakening consumption and possibly investment trends.
- The net private capital outflow of US$10.4 billion in January 2019 is higher than the January 2018 amount of US$7.0 billion, which is a cause of concern, as it might reflect lower appetite for capital locally, challenging our US$20-30 billion full-year forecast of net capital outflow. However, we note that the large capital outflow and FX purchases exceeded the current account surplus but did not prevent RUB's 6.1% appreciation to USD in January, outperforming its peers. This suggests, that the Russian state bond market (OFZ) might have seen foreign portfolio inflows this year after suffering US$9 billion outflows in April-December 2018. A softening in the US Fed and CBR rhetoric, as well as positive newsflow on Russia's sovereign ratings (including the upgrade from Moody's last week and possible revision from Fitch this Friday), may come as a mild support factor for portfolio flows in the short term.
- We continue to see a US$27-30 billion current account surplus for 1Q19 which, combined with portfolio inflows should be enough to cover the net capital outflow from the private sector and FX purchases, and even with the catch up on the backlog from 2018 are staying within US$4 billion per month. This makes us comfortable with our expectations of USDRUB at 64-65 for the next 3 months, as we mentioned in the latest edition of FX Talking.
- At the same time, by mid-year the seasonality of the balance of payments should result in the current account surplus shrinking to US$3-5 billion per month amid the Finance Ministry's FX purchases and private capital outflow, leaving the rouble vulnerable to a possible reversal in portfolio flows, which may arise in case global expectations of easing in the global trade tensions prove too optimistic, the Fed returns to a more hawkish stance due to a strong labour market, and/or Russia faces unfavourable developments on the sanctions front.

https://think.ing.com/reports/fx-talking-clear-and-present-danger/

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