Russia to catch up FX purchases, adding headwinds to ruble

Russia will intensify its FX & gold purchases to $7.2b in November, more than expected, to account for the extra $1.5b of oil and gas budget revenues received in October from the sharp spike in commodity prices. The increase in intervention will now take place amid a correction in the markets, adding headwinds to the ruble in the near-term

A worker checks Russian 1,000-ruble banknotes at the Moscow Printing Factory

518b

November FX purchases, RUB

up from RUB318b in October

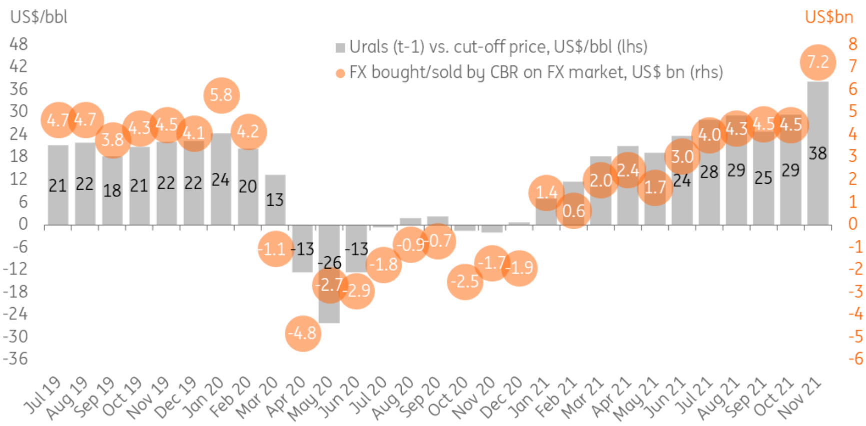
Higher than expected

FX intervention to catch up with commodity prices

The Russian Finance Ministry announced today that monthly FX & gold purchases will increase from October's RUB318b to RUB518b in November, corresponding to a sharp increase from

US$4.5b to US$7.2b (Figure 1) at the current FX rate. The November announcement is significantly higher than our US$5.7b expectation, which was around the median consensus. That said, the Finance Ministry's expectation for November oil & gas revenues of the budget (which are the basis for the FX purchases) are at RUB410b, in line with expectations. This means that the FX & gold purchases surprise is assured by the upward US$1.5 b revision to the October oil & gas revenues. In other words, last month, the Finance Ministry apparently underestimated the oil & gas revenues it was due to receive in October (as a reminder, the October announcement was below expectations) and now has to catch up.

Figure 1: FX purchases to jump to $US7.2b in November to catch up with the sharp increase in commodity prices



Source: Finance Ministry, Refinitiv, Bank of Russia, ING

Ruble to fight an uphill battle in November, but may still end the year constructively

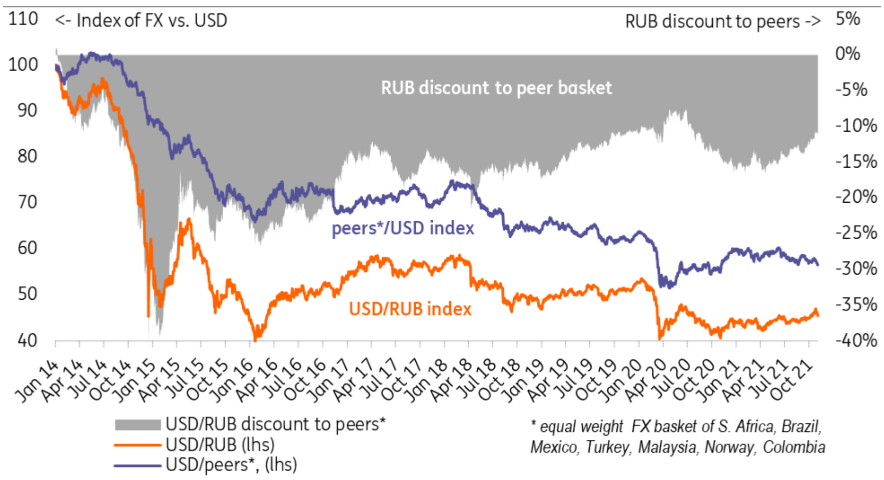
The intervention announcement means that the Bank of Russia's hawkish monetary policy signal was not the only contributor to the ruble's spectacular 2.5% appreciation to USD in October and the decline in RUB's discount to peers from 12% to 11% (Figure 2). The noticeable backward revision in MinFin's October oil & gas revenues suggest that last month's FX & gold purchases were not strong enough to offset the rapid increase in oil and gas prices. At the same time, the situation in November appears to be a mirror image, as this catch-up in interventions will take place amid the ongoing correction in the commodities market. This means that FX & gold intervention will create some headwinds to the ruble in the near-term.

We believe the increase in the Russian FX & gold purchases amid increased global market volatility surrounding inflationary risks and the Federal Reserve's stance, anti-Covid lockdowns in Russia, increased foreign policy tension and accelerated capital outflows from OFZ (local currency public debt) in the last couple of weeks on higher local inflation concerns, may contribute to the ruble's underperformance in November.

At the same time, for the year-end and early 2022 we remain constructive, as the expected current account surplus of US$10-15b per month is still large enough to offset the negative effect of FX purchases and capital outflows, and the market may receive additional support if and when the government confirms local investments out of the sovereign fund amounting to US$12b per year in 2022-24, which would lead to a reduction in the overall FX purchases by that amount. We see 4Q21 USD/RUB trading in a wide range of 70-75, with a possibility of reaching the lower bound by year-end.

The longer-term view for 2022 is subject to uncertainties related to both local and global factors. On the local side, private capital outflows and deteriorating inflationary expectations are important to watch. On the global side, the potential strengthening of the USD is the key risk.

Figure 2: Ruble appreciated to USD by 2.5% in October and narrowed its discount to peers by 1 pps to 11%



Source: Refinitiv, ING

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