

Russian balance of payments: not feeling it yet

Russia's current account in 1Q20 reached a sizeable US\$22bn surplus, strengthened by a drop in imports and lack of dividend outflow. However, it will feel more pressure in 2Q20 on low oil prices and a potential cut in oil supplies, which is a main risk factor for the ruble. The good news is that Russia's capital account appears benign



Source: iStock

US\$21.7bn

Better than expected

1Q20 current account surplus

-34% YoY

1Q20 Balance of payments: it could have been worse

Russia's balance of payments was strong in 1Q20, with 1) a current account surplus reported at

US\$21.7bn, 34% lower year on year but exceeding the US\$10-20bn forecast range; 2) net private capital outflow reaching only US\$17bn, down 50% YoY; 3) state local debt market (OFZ) seeing a small net inflow of US\$1.2bn for the quarter. Acknowledging a number of positive developments, we see a number of risks for the ruble in 2Q20, coming mainly from the current account side.

- Fuel export revenue totaled US\$48bn in 1Q20, down 15% YoY, similar to the 23% YoY drop in the average Urals price to US\$49/bbl. Meanwhile, the current Urals price, which recovered from US\$11/bbl in the beginning of the quarter to US\$24/bbl in anticipation of the new OPEC+ deal, still suggests that the average quarterly oil price in 2Q20 will be well below the 1Q20 average. In addition, the said deal, which prescribes a 23% (-2.5 MMbpd) cut in Russia's oil production in 2Q20, creates risks that Russia's fuel export revenues per US\$1/bbl of Urals price will decline, depending on how the cut will be allocated between domestic and export deliveries, which are currently split 55/45 respectively.
- Non-fuel exports (45% of total merchandise exports) were up 2% in 1Q20 vs. flat in 2019, however going forward it may come under pressure on metals prices, which have fallen 10-20% YTD on the drop in demand.
- Merchandise imports were flat YoY in 1Q20 after 2% growth in 2019, while services imports dropped 6% YoY. This is only the beginning, and 2Q20 will see the full effect of the 21% USDRUB depreciation seen over 1Q20, as well as foreign travel restrictions, which are likely to remain in place for the most part of 2Q20. We see merchandise imports dropping by 20% YoY in 2Q20, and imports of services collapsing by 50% YoY – being a support factor for the balance of payments and local consumption in the near term.
- Net investment income (dividend) outflow totaled only US\$4bn in 1Q20, nearly half of the 1Q19 sum, which we also take as the beginning of a trend. Over the last weeks there were numerous reports of the largest corporates suspending dividend payouts, which seems logical in the current environment. From the current account perspective 2-3Q are supposed to see the biggest net dividend outflows (in 2Q-3Q19 they totaled US\$20bn and US\$15bn, respectively), but this year we expect the amount to be at least halved due to the financial stress on the corporate sector.

The Russian current account will require average Urals price of US\$35-40/bbl to be zero in 2Q20. Under [ING's house view](#), which is not too optimistic for this quarter (US\$20/bbl Brent), the Russian current account deficit may reach US\$15bn in 2Q20. We see it as a main risk for ruble this quarter. While in the near-term the ruble may be supported by the positive newsflow related to the new OPEC+ deal, later in the quarter the effects of lower oil and metals export volumes may kick in.

At the same time, our longer-term expectations for 2H20 are more constructive for two main reasons: first, in case of some [global recovery](#) in 2H20, the Russian current account will benefit from stronger commodities on both prices and volumes, while still benefiting from suppressed imports and lack of dividend outflow; second, the balance of payments outside the current account is likely to be supportive even in the near-term, being the main upside risk to our [pessimistic USDRUB80-85 forecast for 2Q20](#):

- The Central Bank of Russia is currently selling FX at around US\$150-200m per day at the current Urals price, which includes FX sales as per fiscal rule (Urals price of US\$20-25/bbl corresponds to a monthly budget oil revenue under-collection of US\$2.5bn, justifying daily FX sales of US\$100m per day) and [sales](#) attributable to the transfer of the 50% equity stake in Sberbank, Russia's largest lender, from the CBR to the government. The deal has been

valued at RUB2.1tr, which suggests a total of US\$26-28bn will be sold on the local FX market. The CBR had earlier indicated that it will be selling the FX related to this deal when Urals is under US\$25/bbl, lowering RUB's sensitivity to the oil price shock. Depending on the oil price scenario, we expect the CBR to sell US\$10-15bn of FX in 2Q20, including US\$6-9bn as per the fiscal rule.

- Private capital account appears strong in 1Q20, with the corporate sector and households increasing foreign assets by just US\$6bn vs. US\$24bn in 1Q19. This is in line with our [initial assessment](#) that the ruble is facing little pressure from the private sector thanks to the already high accumulated net creditor position and lack of safe havens for the Russian capital in the current global turmoil.
- The pressure on the foreign portfolio investment flows seems to have subsided, as after a record-high US\$3.5bn outflow from OFZ in March, April daily data suggest a flattish performance so far. With strong macro stability indicators, including public debt of under 15% of GDP, 10% GDP of liquid fiscal savings, so far modest fiscal stimuli announced, and high real rates, the Russian debt market remains fundamentally attractive for global investors. At the same time, Russian assets will not be immune to a second round of global panic, if it comes. Also local stories, including the potential [increase in borrowing plans](#), will be a watch factor going forward. We do not see a threat from a potential extra 1% GDP of fiscal stimulus (in addition to the already announced 2%) as it can be partially financed with proceeds from the SBER deal (CBR will return RUB1.6tr of its proceeds back to the government), however one cannot exclude a higher appetite for fiscal support in the future.

Overall, for now we reiterate [our recent take](#), that the ruble is likely to face a great deal of volatility both ways in the coming weeks, with a high risk of depreciation later into the quarter, if the outcome of the new OPEC+ deal fails to make a long-term impression on the commodity market. At the same time, in 2H20 we expect USDRUB to return to the 70-75 range based on expected stabilisation of oil prices, a continued drop of imports of goods and services, lower dividend outflow, as well as CBR FX sales and benign local capital flows.

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