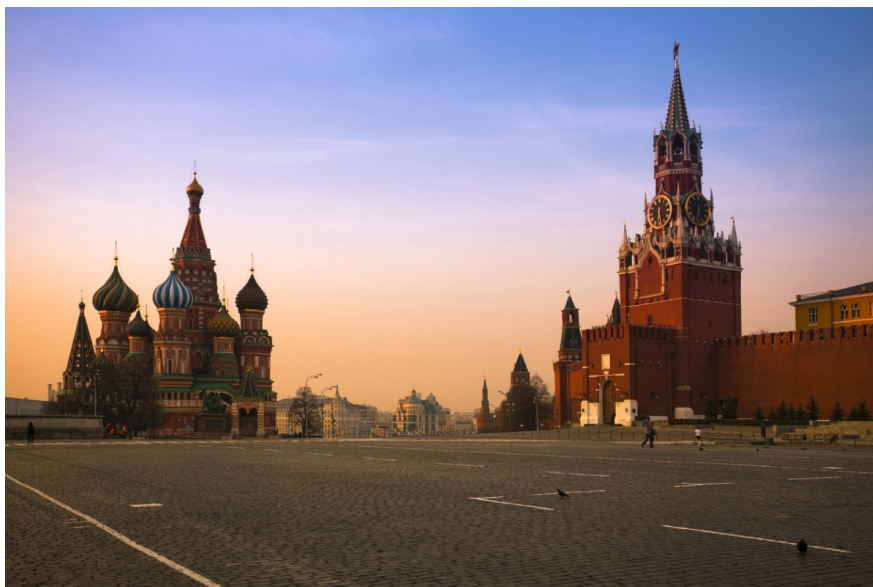


Russian Balance of Payments numbers mildly supportive of the ruble

Russia's strong current account surplus in October amid frozen FX interventions has helped strengthen the ruble. Further gains are possible, but there are risks



Source: istock

\$12.3 bln

October current account surplus

\$87.9 bln YTD

Current account unsurprisingly strong in October on high oil price

Russia's strong current account surplus of \$12.3 bln in October amid frozen FX interventions helped the ruble strengthen by 2.6% m/m to an average of RUB65.9/USD in October. Further strengthening by the end of the year is possible but subject to risks related to private net capital outflows (\$10.1 bln in October) and weak OFZ portfolio flows on Emerging Market and Russia-

specific risks.

Bank of Russia reported a current account surplus of \$87.9 bln for 10M18, which suggests a \$12.3 bln surplus in October, up from \$8-9 bln per month seen in 3Q18. This result is not surprising given the high \$80-85/bbl Brent oil price seen at the beginning of last month after a \$75-80/bbl range seen throughout 3Q18. The October result is in line with our view that the 4Q18 current account surplus may reach \$30-35 bln under the Brent average of \$70-75/bbl.

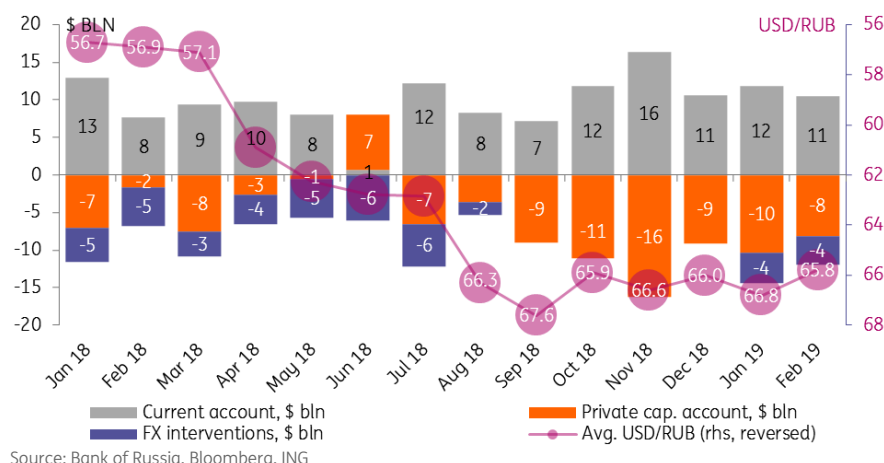
Remember, unlike the situation of 9M18, when the \$76 bln current account surplus was 47% sterilised by the \$36 bln FX purchases on the open market in favour of the Finance Ministry, in 4Q18 the current account surplus is not sterilised. In fact, the lack of FX interventions in October enabled the average monthly ruble exchange rate to appreciate by 2.6% m/m (RUB1.7) to RUB65.9/USD in October. This performance was stronger than that of Russia's EM and commodity peers, which according to our estimates posted only a 1.4% appreciation to USD over the similar period.

Capital account weakened in October, limiting the scope of RUB appreciation

Our key concern, however, is with the capital account, which seems to be weakening; the net private capital outflow (by banks, companies and private individuals) accelerated from \$6-7 bln in 3Q18 to \$10.1 bln in October, the highest monthly figure since March 2017. As with the case of the 3Q18 balance of payments ([see our report](#)), we believe this reflects accelerated corporate foreign debt redemption, which however couldn't have exceeded the scheduled \$6 bln gross redemption, and some additional outward FDI, mirroring low local demand for investments and persisting sanctions' concerns.

Acceleration in private capital outflow prevents the ruble from benefitting materially from the strong oil-driven current account and the temporary halt in FX interventions, making the local currency increasingly dependent on the local state bonds (OFZ) which have seen total foreign capital outflows of \$8 bln since April this year on general EM risk-off and Russia-specific concerns.

Monthly balance of payments (private flows) and USD/RUB exchange rate



As a result, we continue to see USD/RUB returning into the RUB60-65 range by year-end 2018 based on current account fundamentals; the persistent uncertainty regarding EM risk appetite and the possible tightening of Russia sanctions pose an obvious risk to this view.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.