

Russian CPI spike creates case for another 50bp key rate hike

Higher-than-expected CPI of 6.0% YoY in May amid a strong recovery in consumer activity should reinforce inflationary concerns of the central bank. We raise our year-end 2021 CPI forecast to 5.0% and 11 June key rate forecast to 5.50%. With the CBR's macro assumptions for 2021 still intact, the most likely key rate ceiling should be in the 5.5-6.0% range



The Central Bank of Russia headquarters in Moscow

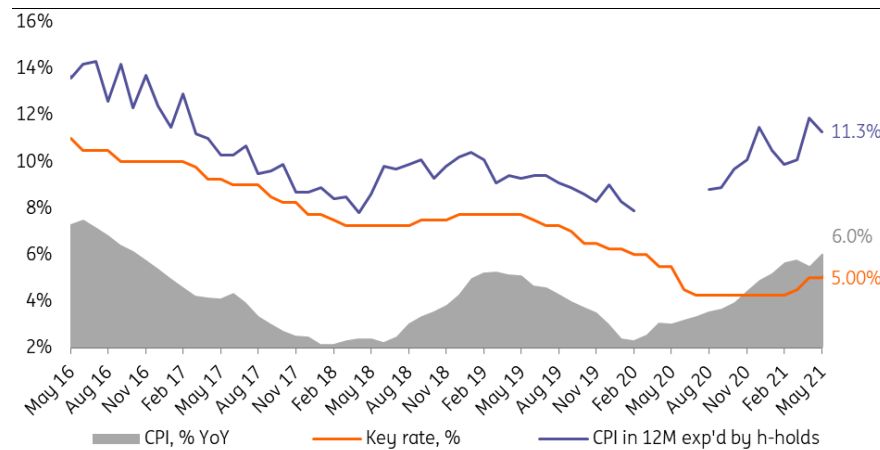
Inflationary pressure in Russia exceeds expectations

Russian CPI spiked by 0.5 percentage points to 6.0% year-on-year in May (Figure 1), which is a 4.5 year high. Last month's result exceeds the preliminary data by 0.1ppt and market expectations by 0.2ppt. The pick-up was assured not just by the lower base effect in the food segment, but also due to broad-based pressure in the non-food products segment, which contributed 2.1ppt to the overall CPI (Figure 2), the highest contribution in 4 years. The strongest price pressure was seen in construction material, related to the construction and renovation boom supported by the subsidised mortgage programme that has recently been prolonged. In addition, the services segment also saw some increased price pressure, mostly related to the local tourism expenses. The local tourism is likely to remain a pro-inflationary factor into the summer, as the outward

tourism to Turkey is not available. Egypt is conjectured to be re-opening soon, which is unlikely to matter much given the off-season there.

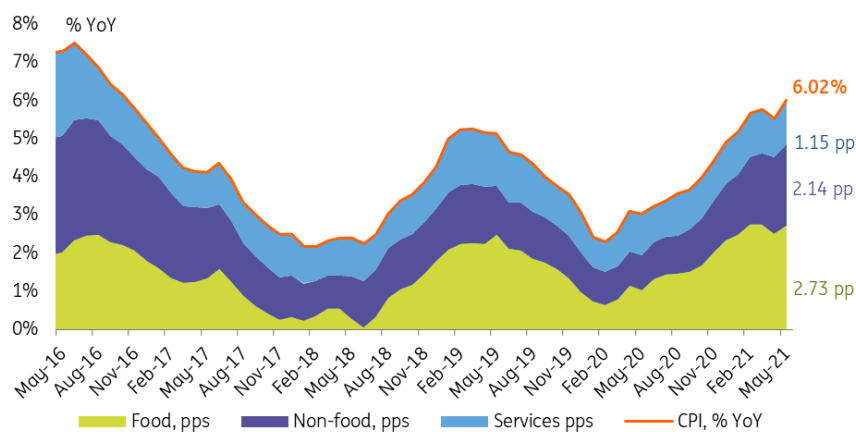
Taking into account [strong local consumer recovery](#), spiking PPI (Figure 3), and global context of elevated inflationary expectations related to supply-side constraints (including those in semiconductor production), we raise our CPI expectations for the year-end 2021 to 5.0%.

Figure 1: CPI hit a new high of 6.0% YoY in May, consumers' inflationary expectations stable but elevated



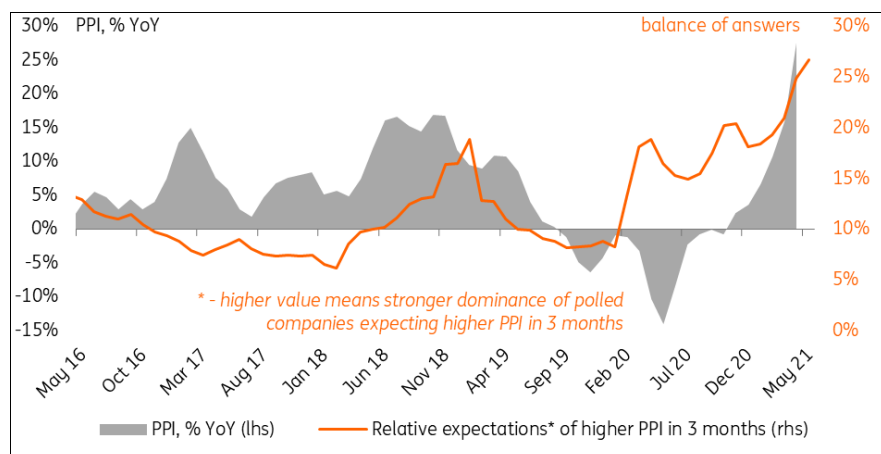
Source: Bank of Russia, Rosstat, ING

Figure 2: Contribution of non-food CPI is the highest since 2017, suggesting broad-based pressure



Source: Bank of Russia, Rosstat, ING

Figure 3: Corporate inflationary expectations at historical highs, PPI close to 30% YoY



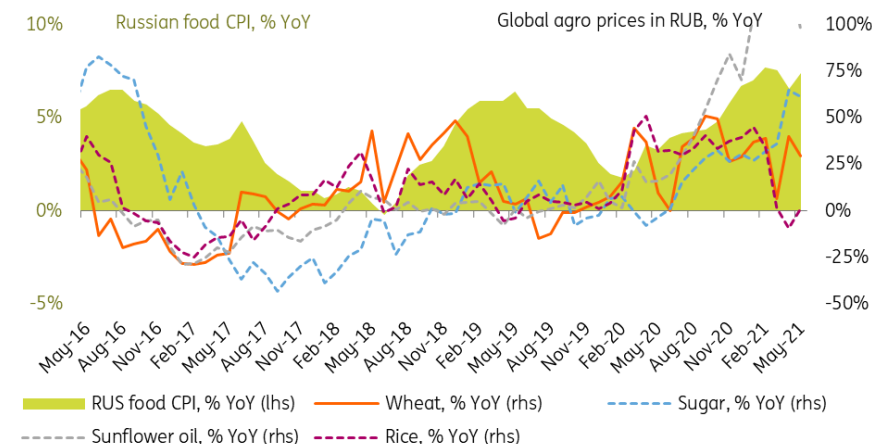
Source: Bank of Russia, Rosstat, ING

CBR is now probably leaning towards another 50bp hike this Friday, medium-term signal remains under question

The higher-than-expected CPI trend combined with a rebound in consumer lending growth amid still weak deposit dynamics should reinforce the Central Bank of Russia’s resignation to exit the loose monetary stance sooner rather than later. While until the end of last week we took a 25 basis point hike as our [base case](#) for the 11 June meeting, now we believe a jump to the 5.50% level in one 50bp step to be a more likely scenario.

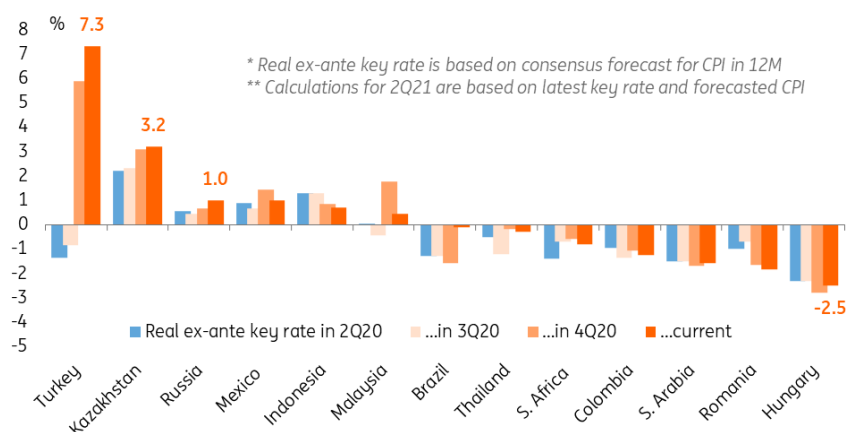
The medium-term key rate target, which we have so far [seen](#) at 5.50%, is now also under upward pressure. But we would not exclude that this Friday the CBR will accompany the rate decision with a softer medium-term signal. The current CPI and GDP dynamic is so far in line with the CBR’s forecasts for 2021 (4.7-5.2% and 3.0-4.0%, respectively), and those assume that the most likely nominal key rate ceiling for this year is within the 5.5-6.0% range. Assuming the eventual stabilisation of the global agro prices (Figure 4), CPI should return to 4.0-4.5% by mid-2022, keeping the current real rate (based on expected CPI in 12 months) comfortably within the designated 1-2% range. This should keep Russian real rates among the highest in the peer space (Figure 5). Meanwhile, the balance of risks to that view is again leaning towards higher rates in case of continued negative surprises on CPI locally and in the EM space.

Figure 4: Global food price growth is still high, but is no longer accelerating



Source: Rosstat, Refinitiv, ING

Figure 5: Russian real rate is top-3 among peers, and is within the CBR's neutral 1.0-2.0% range



Source: National sources, Refinitiv, FocusEconomics, ING

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 www.ing.com.