# Russian inflation slows on restrained tariff indexation

Russian CPI continued to decelerate in July, and at 4.6% YoY was below consensus. However, this positive result was achieved only thanks to services, as last month's semi-annual indexation of tariffs was smaller than in July 2018. A further slowdown in CPI is still possible in 2H19, but food and gasoline prices will be the key watch factor

A man making a choice in a Russian supermarket

4.6%

Better than expected

Russian CPI growth, July (YoY)

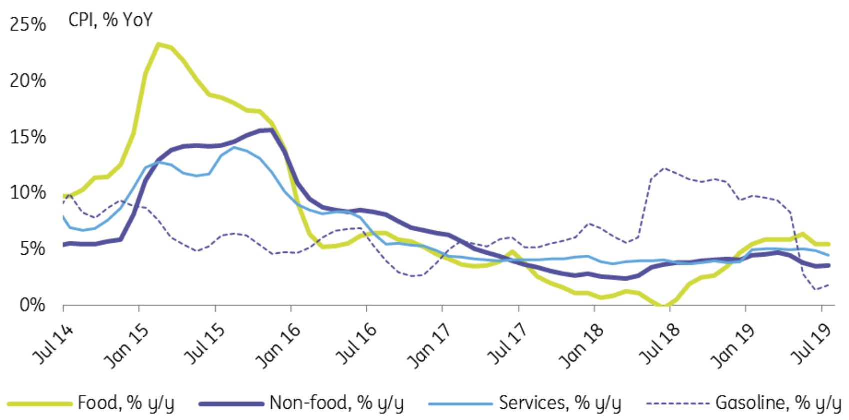
Down from 4.7% YoY in June

## Russian CPI slowed in July thanks to services segment

The slowdown in the Russian CPI growth from 4.7% YoY in June to 4.6% YoY appears positive at a first glance, as it is below the consensus forecast of 4.7% (and in line with our expectations). However, a closer look at the CPI composition suggests that only the services segment (c. 28% of the total CPI basket) showed deceleration in the growth - from 4.9% YoY in June to 4.5% YoY in July - thanks to a more restrained indexation of communal housing tariffs: by 2.4% in July 2019 vs. 4.0% in July 2018.

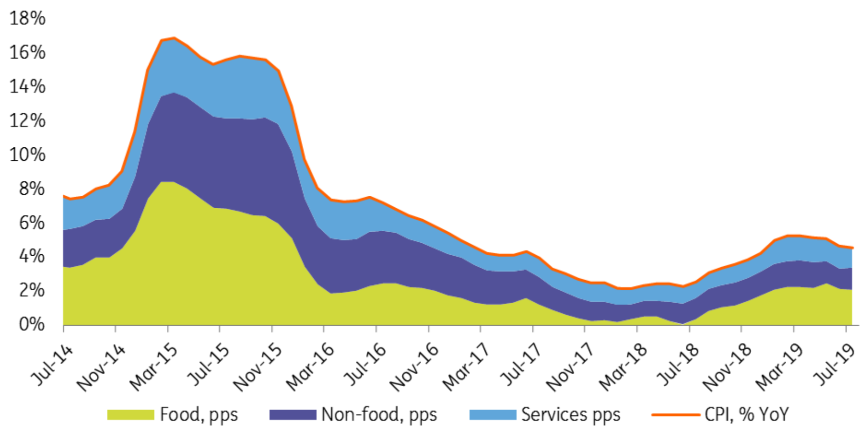
Other CPI components failed to show deceleration, as food (c. 38% of the CPI basket) price growth stabilised at 5.5% YoY despite a higher base effect, while non-food CPI growth accelerated from 3.5% YoY in June to 3.6% YoY amid a pick up in gasoline prices from 1.4% YoY to 1.8% YoY, respectively.

## Russian CPI growth by components (% YoY)




Source: State Statistics Service, ING

## Russian CPI growth by components (contribution to total, in pps)



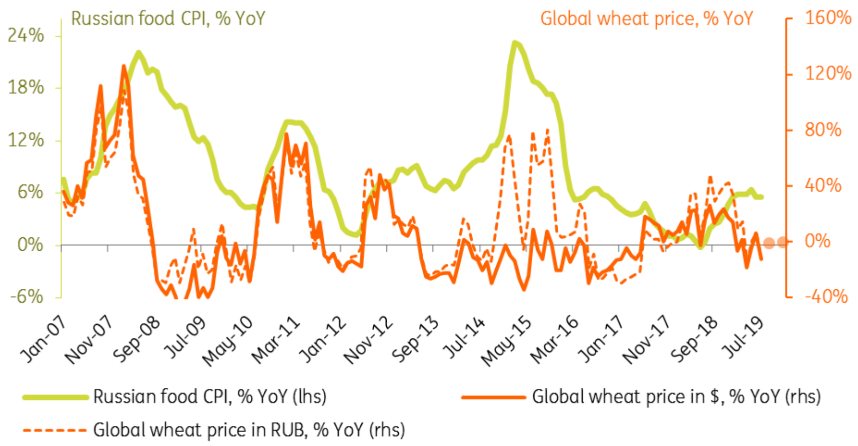

Source: State Statistics Service, Bank of Russia, ING

## Further slowdown possible on agri prices, base effect

For now, the overall CPI performance is not a threat to our 4.0% YoY forecast for year-end 2019, mainly thanks to the food segment that should post a material deceleration in the price growth thanks to the so-far favourable global agri price environment (we've written about that here) and the base effect. Nevertheless, we acknowledge some risk factors that might cause negative surprises:

- Food CPI may be negatively affected by the recent downgrades in the grain harvest/export expectations for Russia due to the mid-summer deterioration of weather conditions and massive wildfires;
- The recent acceleration of the gasoline price growth after the agreement between the government and oil majors expired on 1 July may indicate increased risks to the overall CPI growth;
- The recent RUB strength, which has been contributing to the disinflationary pressure locally, is now under question following the global risk-off
- The likely pick up in budget spending growth in 2H19 may remove some of the demand-related disinflationary pressure

## Global wheat price growth and Russian food CPI, % YoY




Source: State Statistics Service, Bloomberg, ING

## August to be the litmus test

The structure of July CPI growth increases the importance of the August numbers. A monthly deflation, which is warranted by seasonality and the recent weekly data, is required to alleviate our concerns regarding the CPI, especially in the agri segment. A lack of deflation in August would arrest the deceleration of the YoY CPI growth rates and may lower the likelihood of a further CBR rate cut on September 6, which so far remains our base case scenario.

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