Russian ruble gets less support than expected from current account

The shrinking of the current account surplus to US$6bn in February was a negative surprise given the spike in oil prices. This was somewhat mitigated by the halving of private capital outflows to US$4bn, but the return of foreign asset accumulation by the private sector suggests that local confidence remains a challenge to the ruble's appreciation

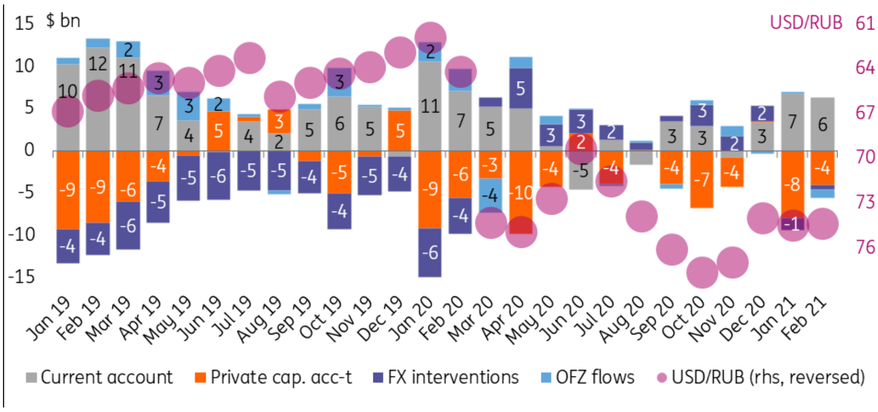
A worker collects Russian 1,000-ruble banknotes at the Moscow Printing Factory

Based on the Bank of Russia's preliminary estimates of the year-to-date balance of payments, the current account surplus shrank from US$6.8bn in January to $6.3bn in February, while net private capital outflow declined from US$8.0bn to $4.0bn, and that's sending mixed signals.

- We are negatively surprised by the shrinking of the current account surplus amid a material US$7 increase in the Urals price to $62/bbl in February. This may suggest a negative effect of reduction in oil exports guided previously for the month (which, however, is contradicted by the higher than expected budget fuel revenue collection reported by the Ministry of Finance earlier) or faster than expected recovery in imports growth. While the February customs data is not yet available, January non-CIS imports growth of 2.8% YoY challenges our flat YoY imports assumption for 1Q21. Overall, the support to the FX market from the current account is turning out to be smaller than expected.

- The fiscal-rule FX purchases by the Central Bank of Rusia/Minfin in February 2021 were low at US$0.6bn but will increase to US$2.0bn in March.
- Additional pressure is coming from foreign portfolio outflows from the local state debt market (OFZ), which have likely reached US$1.0 bn in February after tepid US$0.2 bn inflow in January. The global bond market nervousness combined with renewed foreign policy concerns around Russia and higher than expected CPI in Russia prevent a positive outlook on the portfolio flows in the near term. At the same time, the upcoming cut in Russia's borrowing plans and the market's likely overestimation of CBR's hawkishness could be somewhat supportive in the longer run.
- On the bright side, the net private capital outflow dropped from US$8.0 bn in January to US$4.0bn in February, preventing ruble depreciation last month. However, there are two caveats. Firstly, the size of the capital outflow remains elevated, with 12-month trailing sum still at US$45bn vs. just US$28bn current account surplus. Secondly, the structure of the outflow, based on the CBR commentary, is now back to an accumulation of foreign assets (vs. reduction of non-debt foreign liabilities in 2020), which to us is a sign of challenging local confidence context.

Current account failed to benefit from higher oil prices in February



Source: Bank of Russia, Refinitiv, ING

The February balance of payments reading confirms that the FX market is unable to directly benefit from the higher oil price environment, and the level of uncertainty is high due to foreign policy challenges and the renewed preference of the private sector for accumulating foreign assets. Meanwhile, we reiterate our call that Russia's relatively strong state finances should allow Russian assets to weather the current global market volatility better than its EM/commodity peers.

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