

Shocking spike in September inflation; may feed into Bank of Russia's hawkish bias

Russian CPI jumped by a shocking 0.3% in just one week, bringing the inflation rate to 7.3% YoY from 6.7% in August and seriously challenging Bank of Russia's year-end forecast of 5.7-6.2%. Although the central bank downplayed the importance of weekly CPI, our call for a 25 basis point hike in the key rate at the October meeting is becoming optimistic



The most recent weekly inflation print in Russia delivered a shockingly high 0.3% [print](#) for 21-27 September. This is a significant spike compared to the more normal 0.0-0.1% result in the previous weeks. In fact, the recent spike is similar to the one seen in the first days of July, when there is a regular increase in the regulated tariffs for housing utilities.

Looking into the structure of the weekly consumer price growth, it appears that it was broad-based, with elevated upward pressure seen in high value foods, such as meat and dairy, a variety of non-food items, including children's clothes, household appliances and chemicals, and the cost

of popular tourist trips to Turkey.

It appears, that Russia is now dealing with the consequences of the [additional social payments](#) the government disbursed ahead of the Parliamentary elections held on 17-19 September. To remind, a total of RUB700bn, or 1% of the annual household income, was paid in favour of pensioners, military personnel, and families with school children at the end of August and early September. Initially we believed the total inflationary effect would be limited to around 0.3 percentage points spread over a couple of months, but the sharp spike in the CPI immediately after the elections suggests that the sensitivity might have been increased by the possible previous artificial restraint on retail prices for the socially-sensitive items.

We also note that the acceleration in the local CPI is supported by the global context of commodity and freight price increase. According to our estimates, each 10% increase in agricultural prices (wheat, sugar, sunflower oil) translates into a 0.4 percentage point increase in the local CPI, while the similar increase in the global freight rates adds 0.1 percentage point to Russian inflation. Overall, a 10% increase in the local producer price index (PPI) adds around 1 percentage point to the local CPI with a 3-month lag.

Yet another deterioration in CPI and key rate outlook

The spike in Russian CPI to 7.3% year-on-year by the end of September poses a serious challenge to our 6.3% forecast for the year-end, and, more importantly, to the Bank of Russia's forecast range of 5.7-6.2%. This means that the September CPI shock may have negative implications for monetary policy in the near term. While the Bank of Russia has already somewhat downplayed the importance of the weekly data by (justly) calling them 'noisy', we believe the monthly data release on 6 October is not very likely to give much grounds for full dismissal. Now our base case scenario for the 22 October policy meeting is a 50 basis point hike in the key rate to 7.25%, with a possibility of neutral to moderately hawkish signals, depending on the CBR's assessment of the cost- and demand-side inflationary risks for the medium term.

A 25 basis point hike, which is now an optimistic scenario, would require more emphasis on potential medium-term disinflationary factors, such as stabilisation of inflationary expectations (currently still at an elevated level) and the slowdown in monetary supply growth. The strongest argument in favour of a more cautious approach to key rate hikes is the new wave of Covid-19 infections in Russia amid high mortality and sluggish 33% vaccination rate.

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