

Flash Comment

CBR rate decision preview: unchanged in pre-cut mood

- We expect the CBR to keep the key rate unchanged at 11% on 10 June.
- We expect the CBR to start preparing markets for rate cuts in Q3 16.
- We expect the CBR to cut 150bp in 2016.

Assessment and outlook

This Friday (10 June 2016) at 12:30 CET, Russia's central bank (the CBR) is due to announce its monetary policy decision. We expect it to keep the key rate unchanged at 11%, as does consensus, while the constituents of consensus have become divided, with almost half of contributors leaning towards a 50bp cut.

We believe that the stabilising RUB and improving external conditions on expectations of a delayed Fed rate hike and a surging oil price will support a softening tone from the CBR, despite disinflation ending. Yet, deterioration of the high base effect is underpinning the CBR's cautiousness this time. The RUB spot has diverged significantly from the crude rally recently, strengthening on average 0.3% against the USD and losing 0.8% against the EUR over the past 30 days. The Brent oil price average has risen 9.3% over the same period.

While the market is not pricing rate cuts this Friday, we share this view emphasising that risks for our forecast are on the downside. As the CBR kept the key rate unchanged at its latest meeting on 29 April 2016, the central bank's tone was somewhat softer than previously. The CBR introduced conditionality to resuming monetary easing 'should inflation risks fall as much as to ensure with greater certainty that the Bank of Russia achieves its inflation target', which remains at 4% y/y by the end-2017. Inflation posted 7.3% y/y in May. Yet, we expect inflation to accelerate to 8.1% y/y at the end-2016 on a low base effect, while the CBR is also seeing 'elevated inflation risks'.

Within the past few weeks, CBR governor Elvira Nabiullina reiterated her concern about rising inflation risks if the Ministry of Finance's fiscal discipline is not strict enough. She also warned that a sharp cut to the key rate soon could accelerate inflation without creating significant economic growth. As quarter-on-quarter seasonally adjusted GDP data continues to hover around zero and the worst for Russia's economy seems to be over, the CBR is avoiding any extra pressure to cut on marginally improving economic conditions.

Yet, we believe that in its statement on Friday the CBR will start preparing the market for a key rate cut in July if external conditions continue to improve on the same path. Otherwise, we believe any oil price weakening and deterioration in global risk sentiment would shift the cut into Q4 16. We still see the key rate falling to 9.5% by the end of 2016.

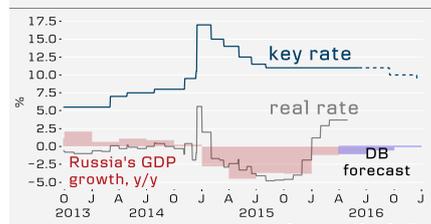
We do not see any significant impact on the RUB if the CBR keeps its policy rate unchanged in line with our expectation. Yet, we expect to see a negative reaction (although temporary) in the RUB, if the CBR cuts this Friday. However, we expect the positivity on upcoming economic growth to gain momentum on lower rates in H2 16 and be supportive of all three asset classes (the RUB, Russian stocks and the fixed income market) in the medium term.

Disinflation has stopped...



Source: Macrobond Financial, Danske Bank Markets

...while tight monetary policy is ending soon on stabilising external conditions



Source: Macrobond Financial, Danske Bank Markets

Danske Bank RUB forecasts

		EUR		USD	
		Danske	Forward	Danske	Forward
RUB	18-May-16	73.6		65.3	
	+1M	72.7	74.3	65.0	65.9
	+3M	70.2	75.6	62.7	66.9
	+6M	68.4	77.6	60.0	68.4
	+12M	67.4	81.3	57.1	71.1

Source: Danske Bank Markets

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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