MNI CBR Preview: October 2021

Details:

Monetary policy decision: 1330 local time / 1130BST / 0630ET, Friday 22nd October 2021.

MNI Point of View

The CBR are likely to opt for a larger rate hike of 50bps this month to face off a near-term inflation spike that's put price rises ahead of the bank's forecasts. Analysts are relatively evenly split in forecasting a 25 or 50bps rate rise, but even those that do see smaller 25bps hike also acknowledge the risk of a larger move.

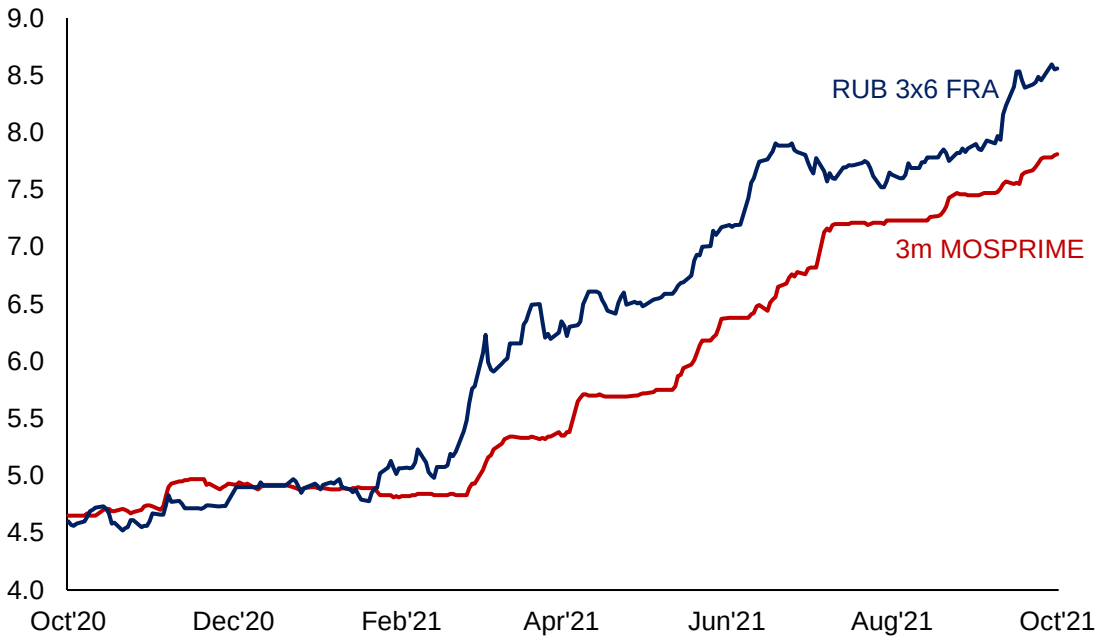
The recent acceleration in inflation makes tightening a near certainty this month, with both headline and core CPI continuing to trend higher across September. Headline and core printed at 7.4% & 7.6% y/y respectively - topping the CBR's forecast for a cyclical peak at 6.9%. Both a 25bps and a 50bps rate hike would likely meet the CBR's pledge to take more standard steps on the policy rate as the bank awaits a moderation of CPI into the second half of next year.

It's likely that the terminal rate for this tightening cycle will remain at around 7.50% regardless of whether the CBR choose to tighten by 25 or 50bps this month, with markets looking to gauge whether the board will front-load rate rises to head off inflation, or extend a sequence of 25bps rate rises over a few more meetings. A larger initial rate hike may address latent credibility concerns, as the Bank appear more responsive to the uptick in CPI.

On the other hand, a pledge to stick to a longer series of 25bps rate rises would take Nabiullina's promise for "more orderly" steps at face value and allow the CBR to avoid 'over-hiking' and retain an element of data dependency.

In recent months, the CBR has placed outsized importance on demand-side factors in high-frequency growth data as key drivers of upside risks to forecasts - which have been consolidating lower since April but found some support in September. Industrial production continued to slide in September (4.7% y/y), while services/manufacturing PMIs recovered to 50.5 & 49.8 respectively - reinforcing the deceleration of demand pressures back in line with potential.

Figure 1: Russian money markets pricing a tighter policy outlook as CPI climbs



Source: MNI/Bloomberg

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In the prior statement, the CBR pointed to both labour market pressures alongside supply-demand imbalances as a primary driver of inflationary risks - necessitating a “more hawkish signal.” With demand-side factors receding, supply bottlenecks, labour market pressures & energy prices seem to be the predominant drivers of above forecast inflationary pressures into year-end.

These will feed directly into the refreshed projections this month. Markets see 2021 growth expectations as most likely unchanged at 4-4.5%, slowing to 2-3% next year. It’s the inflation forecasts that are likely to see the most notable revisions, and markets expect the CBR to sharply revise their forecast higher from its last projection of 5.7-6.2%. Inflation is then seen falling sharply into H2 next year and converging on the CBR’s forecast of 4.0-4.5%.

Central Bank Data Watch

MNI CBR Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI YoY	% y/y	7.4	6.5	↑	5.8	↑					1.95
CPI Core YoY	% y/y	7.6	6.6	↑	5.4	↑					1.51
PPI YoY	% y/y	28.6	35.3	↓	10.8	↑					0.54
Oil Price (Brent Active)	$/bbl	85.23	72.37	↑	60.22	↑					1.51
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Markit Russia Manuf PMI	Index	49.8	49.2	↑	51.1	↓					0.49
Markit Russia Services PMI	Index	50.5	56.5	↓	55.8	↓					-1.12
Industrial Production YoY	% y/y	4.7	11.9	↓	-3.6	↑					0.01
Trade Balance NSA	$bn	17.11	10.33	↑	9.25	↑					0.80
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Money Supply Narrow Def	% y/y	14.41	14.05	↑	13.77	↑					1.19
Citi Russia Terms of Trade	$	69.47	59.44	↑	47.83	↑					1.76
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales Real YoY	% y/y	5.3	27.3	↓	-1.2	↑					0.29
Consumer Confidence	Index	-19.0	-26.0	↑	-11.0	↓					0.16
Unemployment Rate	%	4.4	4.9	↓	5.7	↓					-1.31
Real Wages YoY	% y/y	2.2	7.8	↓	0.1	↑					-0.48
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (MOEX)	Index	4286	3842	↑	3542	↑					2.05
Russia 10-Year Yield	%	2.39	2.48	↓	3.05	↓					-0.68
Russia Yield Curve (2s-10s)	bps	164.9	157.1	↑	178.2	↓					-0.09
BIS Effective Exchange Rate	Index	77.25	76.21	↑	74.01	↑					1.33

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

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Summary of Analyst Views

- The median forecast looks for a 25bps hike to 7.00%. Nonetheless, analysts are relatively evenly split between seeing a 25 and a 50bps rate rise. A small minority of analysts look for a larger hike of 75bps.
- Those looking for a 25bps rise generally see further tightening later in the year, seeing the CBR raise rates a further 25bps at the Dec 17 meeting.

Analyst Views (Alphabetical Order)

Bank of America: Sees 25bps hike, but 50bps is a risk

- We see the risk of a 50bp rate hike this week, but keep our view that the CBR will deliver a more modest 25bp increase.
- Accelerating inflation clearly keeps the pressure on for further tightening. However, slower expected inflation from November, risks of a new lockdown as well as a tentative economic slowdown should help to prevent more aggressive tightening.
- The CBR will likely maintain very hawkish policy guidance to leave the door open for further rate hikes if inflation proves to be more resilient than expected.

Barclays: Expects 25bps hike, but cannot rule out larger 50bps move

- Expects the CBR to deliver a 25bp hike, albeit a 50bp hike cannot be excluded given inflation momentum. The September jump was mostly driven by one-off factors, and dynamics of deposits and consumer lending have gradually started to reflect some signs of adjustment to previous policy tightening.
- We expect the Bank of Russia to continue its hawkish communication leaving the door open for further rate hikes, should inflationary pressure remain elevated.

Goldman Sachs: To hike rates by 50bps and retain hiking bias

- Updated view expects the CBR to raise rates by a 50bps against their prior view of 25bps. The market, in their view, is pricing a 50bp hike. GS continue to believe that we are close to the end of the hiking cycle, with inflation likely to turn in Y/Y terms prior to the next meeting on December 17. They now see a final 25bps hike in December. The market instead is pricing another 75bp of hikes in the December and February meetings.
- They revised the call for this meeting as inflation has overshot their, the CBR's and the consensus forecasts in the last few weeks. Thus, the latest inflation print likely came as a surprise to the Bank as well. In line with GS' assessment, the CBR commented that two-thirds of the increase was due to seasonal food prices. However, the print also saw service price inflation increase more broadly, rising for the first time since Aug-19, a dynamic that is likely to draw the CBR's attention.
- Food inflation is not something the CBR can control through reining in demand. However, it is important for inflation expectations and, in our view, the CBR's main concern is now expectations rather than the output gap.
- The CBR's guidance that it will consider further hikes if necessary has not changed since the last meeting. While prior to the last meeting there were signs that momentum in underlying inflation was peaking, with the three-month average of truncated seasonally adjusted inflation having turned lower from June, the latest print has reversed that trend.
- GS think this will lead the CBR to hike more than they had initially thought. That said, the CBR continued to signal that it believes we are somewhere close to the peak of inflation, and they think it will not want to overreact to the latest prints.
- As such, GS now expect the Bank to hike by 50bps this month, but keep the option open to hike again in the future. They have also pencilled in a 25bp final hike for the December meeting, adding 50bp in total to our forecast, roughly equivalent to the inflation surprise.
- GS continue to forecast the first 25bp cut in late Q2 (later than consensus) by which time the rate net of inflation should be strongly in restrictive territory.
- Expects the CBR to raise its guidance for average rates for 2022 from +5-6% by 25-50bp to reflect the higher starting point of inflation and likely rates than it had pencilled in back in June.

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JPMorgan: Expects CBR to step up pace of tightening

- Expects the CBR to step up the pace of tightening again—hiking 50bp following a 25bp hike last month—as inflation surpassed expectations substantially in recent weeks.
- That said, the composition of inflation—skewed toward supply-side factors—as well as softer growth data and a stronger currency suggest that risks are skewed toward a smaller hike. In either case, JPM think the board will leave the door open for further hikes at the turn of the year.

Morgan Stanley: Sees 25bps hike, but market leaning toward larger move

- The CBR will deliver another interesting meeting as expectations are split between a 25bp hike, which is in line with our economist, and a 50bp one. The market is leaning towards a larger move, which would be against the latest guidance by the central bank to move in standard steps and lead to another hawkish surprise.
- As usual, forward guidance will be important to watch in order to understand how much the central bank is willing to tighten. More specifically, we will be watching the language around inflation dynamics.

UniCredit: Favours a milder 25bps hike, but 50bps remains an option

- In Russia, given the recent acceleration in inflation, the CBR will most likely hike, the question is how by much – 25bp or 50bp are on the table. On the surface, the rapid increase in the headline number (7.4% yoy in September) calls for bolder action, as the CBR has done before.
- But the components analysis shows that most of the acceleration was due to temporary factors outside the CBR's control (e.g. food prices growth due to the unusually cold weather and an increase in global prices), while recent survey indicators (such as the September manufacturing PMI) point to a reduction in factor cost pressure.
- Therefore, we think that a milder, "signal-like" 25bp hike will be preferred, although 50bp still remain a likely option.

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