MNI CBR Preview: October 2022

Details:

Policy decision due October 28th at 1130BST/0630ET. New medium-term forecasts due, followed by a press conference with Nabiullina at 1300BST/0800ET.

MNI Point of View

The Russian central bank is expected to keep the key policy rate unchanged in October as risks to growth, supply side woes and ongoing war worries counter inflation concerns. The September CBR statement and the Nabiullina press conference detailed a bank that's satisfied that policy rates of 7.50% are neutral, and a board that sees less room for rate cuts going forward.

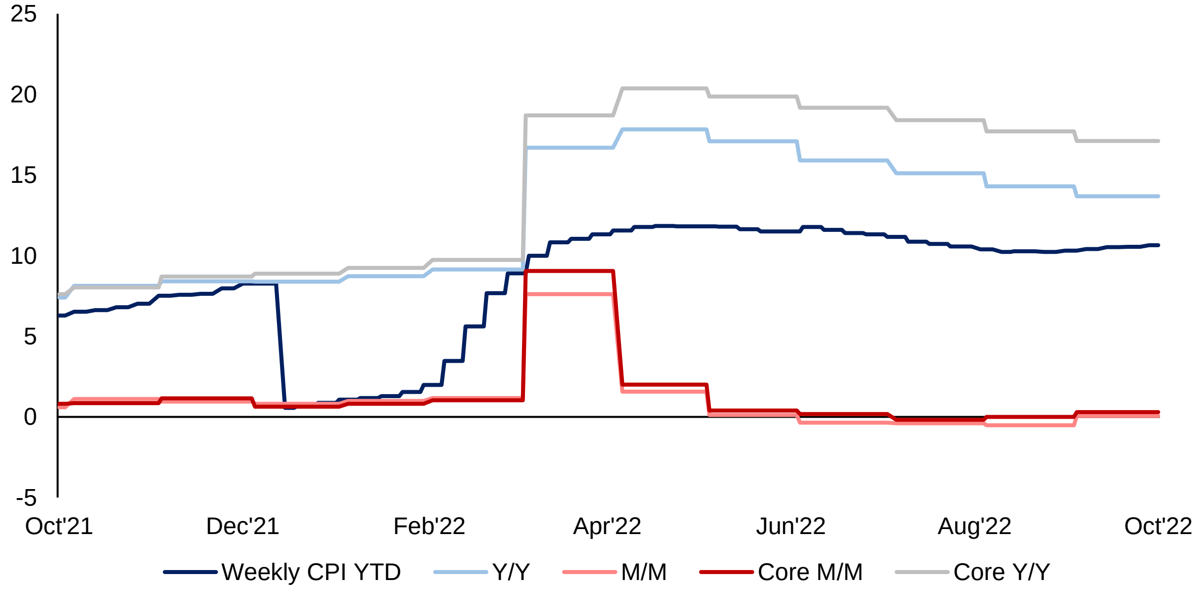
With this policy set, and the information available as of September 16th meeting, the bank was content to see their forecasts showing inflation slowing to a clip of somewhere between 5 and 7% next year. This saw price rises much closer to their 4% target in 2024, but a series of structural and supply-side changes will have clouded the bank's view this month. This argues in favour of no change to policy this month and no changes into year-end.

The week following September's decision, President Putin announced partial mobilization across Russia, effectively withdrawing as many as 300,000 from the working age population – making for a considerable structural shift in assumptions for the CBR. This, allied with an easing of disinflationary pressure, makes a strong case for the bank's focus to shift away from prices and the currency and toward growth and supporting the domestic economy.

Adding to risks surrounding the war in Ukraine, one-off factors that weighed on prices across the Summer months are expected to dissipate – namely the pressure on staple food prices after a bumper harvest season.

Further arguing against the need for further rate cuts is the continued signs of stability among expectations surveys, that limits the extent to which the bank can move on rates for the rest of the year. The CBR's expectations survey this week showed household inflation expectations rose to 12.8% from September's 12.5%, a solid recovery from the 10.8% 18-month low noted in July.

Figure 1: Fading of one-off disinflationary factors playing out in CPI metrics



Source: MNI/Bloomberg

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

Any rollback in sanctions pressure that could open the Russian economy seems highly unlikely at present, with Kremlin officials doubling down on the ‘special operation’ in Ukraine, despite widespread reports of material territory losses across the past two months and a less than harmonious roll-out of mobilized troops.

CBR Central Bank 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	13.7	15.9	↓	16.7	↓					0.97
CPI Core YoY	% y/y	17.1	19.2	↓	18.7	↓					-0.16
PPI YoY	% y/y	3.8	11.3	↓	26.9	↓					-1.09
Oil Price (Brent Active)	$/bbl	92.40	100.58	↓	95.51	↓					-1.52
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	52.0	50.9	↑	44.1	↑					1.01
Markit Russia Services PMI	Index	51.1	51.7	↓	38.1	↑					0.43
Industrial Production YoY	% y/y	-0.1	-2.4	↑	5.4	↓					-0.27
Trade Balance NSA	$bn	21.17	19.96	↑	17.13	↑					0.30
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	15.27	14.20	↑	15.34	↓					1.98
Citi Russia Terms of Trade	$	84.97	94.16	↓	88.94	↓					-0.94
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	-8.8	-10.1	↑	5.5	↓					-1.04
Consumer Confidence	Index	-22.0	-23.0	↑	-21.0	↓					0.15
Unemployment Rate	%	3.8	3.9	↓	4.1	↓					-1.13
Real Wages YoY	% y/y	-3.2	-7.2	↑	1.9	↓					-0.50
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (MOEX)	Index	2114	2205	↓	2704	↓					-1.77
Russia 10-Year Yield	%	9.21	8.22	↑	10.73	↓					0.44
Russia Yield Curve (2s-10s)	bps	301.0	128.0	↑	33.0	↑					1.47
BIS Effective Exchange Rate	Index	114.37	115.67	↓	61.27	↑					0.78

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

Analyst Views (Alphabetic Order)

Barclays: Likely unchanged, but can’t rule out further cut

- At the CBR’s recent meeting, Governor Nabiullina noted that room for further cuts has narrowed and that the cutting cycle is close to ending.
- Annual inflation continued to slow in September, easing 0.6pp to 13.7% y/y, but monthly and weekly prints have returned to growth (+0.5pp to 0.1% m/m) after three months of deflation. Since mid-September, weekly inflation data also indicate that the deflationary trend that dominated during summer is fading.
- As the external environment deteriorated and geopolitical risks increased, the economic contraction in Russia accelerated in September, though the trends differed across sectors. Partial mobilisation of military reservists (announced at the end of September) is further constraining economic activity via additional restrictions on the supply side and a reduction in the labor force.
- We thus expect the CBR to keep its key rate unchanged at 7.50% and stay on hold till Q2 23. However, given the shift in its focus to growth, we would not rule out the possibility of another 25-50bp cut.

JP Morgan: Likely on hold after September signal

- The CBR at the last policy meeting signaled the approaching end to its tightening cycle, hinting to a pause in coming months. September inflation data, if anything, was slightly worse than anticipated due to firmer momentum in services — related to labor market strength and solid growth in wages.
- CBR's messaging on inflation risks has also remained cautious since then. Mobilization and further increase in geopolitical risks have (again) clouded the outlook for growth and inflation, and, in such environment, we think the CBR will prefer a wait-and-see approach.

UniCredit: Expects rates unchanged for prolonged period

- We expect the central bank to keep its policy rate unchanged. We think the cut it implemented at its last meeting was the last before a prolonged period of unchanged policy in order to allow the CBR to monitor inflation dynamics and gauge the effect of previous policy decisions.
- The period of abnormally low monthly inflation is almost over, with the price growth rate starting to accelerate. In seasonally adjusted period-on-period terms, inflation is likely to remain above target for the next several quarters, especially given the inflationary risks from growth in fiscal spending and looming regulated tariff increases later this year and in 2023.
- Thus, we expect the CBR to hold the key rate in restrictive territory, above the former neutral bank rate of 5-6%.

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB