

# MNI CBR Preview: March 2023

## Details:

**Monetary policy decision:** 1030GMT/1330 Moscow time, Friday 17<sup>th</sup> March 2023

**Press Conference:** 1200GMT/1500 Moscow time

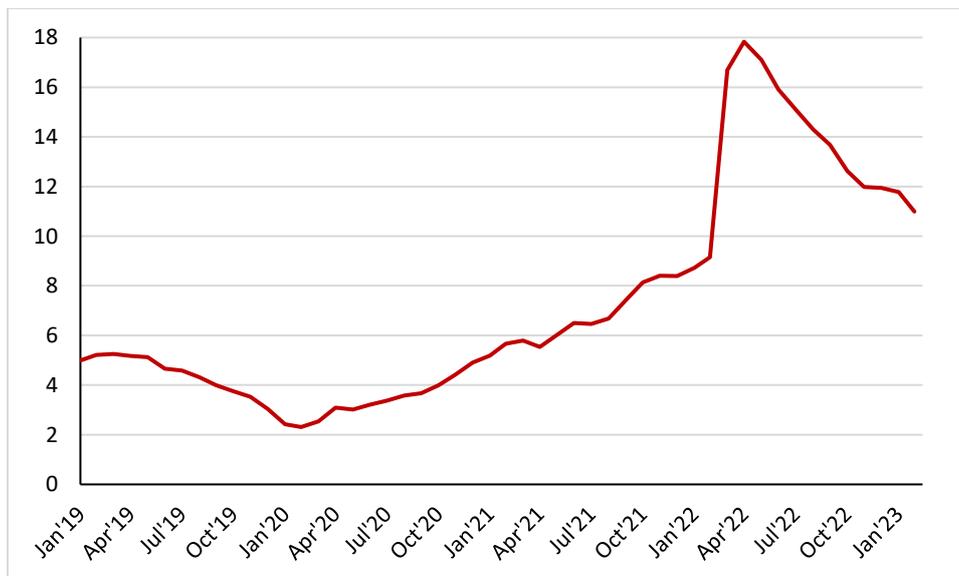
## MNI Point of View

The Russian central bank is expected to keep the key policy rate unchanged at 7.50% in March as pro-inflationary risks due to a tight labour market, weaker RUB and high and unanchored inflation expectations keep the Russian economy in an elevated state of uncertainty despite disinflation continuing its course in recent months. The CBR Board are expected to maintain their relatively hawkish policy stance amid pressure from the government earlier this year to indicate readiness to loosen policy and upgrade economic forecasts.

In its February meeting statement, the central bank stated that if pro-inflation risks intensify, the Bank will consider increasing the key rate at its upcoming meeting, warning that the medium-term balance of risks remains tilted towards pro-inflation risks and that short-term risks have increased again and still prevail over disinflationary risks. Since then, headline inflation eased slightly from +11.77% y/y in January to +10.99% y/y in February, helped by lower food inflation and an outright drop in goods prices, though remains well above the central bank's 4% target.

The CBR also published an update on its medium-term forecasts in February, and given the current monetary policy stance, they see annual inflation at 5.0-7.0% in 2023 before returning to 4% in 2024. Annual inflation is likely to temporarily fall below 4% due to high base effects. The Bank's baseline scenario forecasts GDP growth at (-1.0)-(+1.0)% in 2023 and 0.5-2.5% in 2024.

**Figure 1: Russia CPI (Y/Y) Set for Large Decline on Base Effects**



Source: MNI / Bloomberg

Inflation risks do not yet justify a rate hike, while the pace of disinflation and poor activity data does not warrant restarting the easing cycle. Therefore, the CBR are likely to cautiously remain on hold at least until April when the Bank updates its economic forecasts.

## CBR 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	11.0	12.0	↓	14.3	↓					0.07
CPI Core YoY	% y/y	12.7	15.1	↓	17.7	↓					-1.46
PPI YoY	% y/y	-4.6	0.8	↓	6.1	↓					-1.24
Oil Price (Brent Active)	\$/bbl	80.10	86.58	↓	89.19	↓					-0.62
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	53.6	53.2	↑	51.7	↑					1.36
Markit Russia Services PMI	Index	53.1	48.3	↑	49.9	↑					1.02
Industrial Production YoY	% y/y	-2.4	-2.6	↑	-0.5	↓					-0.18
Trade Balance NSA	\$bn	9.14	18.86	↓	24.39	↓					-1.83
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	16.70	15.73	↑	14.38	↑					2.27
Citi Russia Terms of Trade	\$	63.41	80.39	↓	93.89	↓					-1.28
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	-6.6	-10.0	↑	-9.0	↑					-0.62
Consumer Confidence	Index	-22.7	-20.9	↓	-18.2	↓					-0.12
Unemployment Rate	%	3.6	3.9	↓	3.9	↓					-1.67
Real Wages YoY	% y/y	0.6	-1.4	↑	-3.2	↑					1.00
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market (MOEX)	Index	2289	2175	↑	2400	↓					-0.92
Russia 10-Year Yield	%	9.73	9.38	↑	8.46	↑					0.80
Russia Yield Curve (2s-10s)	bps	229.0	219.0	↑	146.0	↑					0.97
BIS Effective Exchange Rate	Index	122.00	145.80	↓	149.55	↓					-1.91

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 (Alphabetical Order)

### Bank of America: Expect Rates to Remain Unchanged Despite Continued Disinflation

- Bank of America say a fairly hawkish earlier stance should prevent any material discussion of a renewed easing despite continued disinflation.
- Meanwhile, the level of uncertainty may continue to support a general cautious stance on future policy guidance with hawkish bias.

### Goldman Sachs: Expect Rates to Remain Unchanged, Hiking to Begin in Q2

- Goldman Sachs expect the central bank to hold rates unchanged at 7.50% but maintain a hawkish stance in its guidance. The yearly inflation prints have been falling for almost a year, but the momentum, however, has been on the rise in recent months.
- Among these risks are the deterioration in inflation expectations of households and businesses; the continued tightness in the labour market; the acceleration in fiscal spending as well as the faster-than-initially expected recovery of consumer demand since the beginning of the year.
- While these risks appear to remain in force, the CBR has also allowed RUB to trade weaker since November, seizing an opportunity to support the budget and the profitability of export companies. This will likely create an additional source of inflationary pressure building in the upcoming months as the depreciation start passing through the consumer prices (primarily the currency-sensitive non-food goods).
- Fiscal policy will likely remain loose this year and into 2024, given the conflict and the presidential elections next year, but the desired inflation path can be accomplished through monetary policy. Goldman forecast the

monetary authority to initiate a hiking cycle from the second quarter on and raise rates to an above-consensus 9% by the first quarter of 2024.

#### **JP Morgan: Expect Rates to Remain Unchanged in March and Later in the Year**

- JP Morgan say the inflation picture remains benign, at least for now, despite a tight labour market, budget relaxation, currency weakness and other pro-inflation factors.
- Without signs of durable increase in actual inflation, JP Morgan suspect the board will prefer to stay put at the upcoming meeting this Friday, and later in the year.
- JP Morgan continue to see inflation running at the low-end of CBR's inflation forecast range this year (5-7%).

#### **UniCredit: Expect Rates to Remain Unchanged, Could Hike 25bp in April**

- UniCredit expect the central bank to leave its key rate unchanged at 7.50% next week. In its February decision statement, the CBR noted that it would consider hiking rates if pro-inflation risks intensified. In UniCredit's view, the evolution of inflation did not justify a rate hike yet.
- However, this will likely change in the following months. Consequently, the CBR could raise the key rate to 8% this year, starting with a 25bp move as early as April, when the central bank will also publish its updated forecasts.