8 February 2018

# Flash Comment

## CBR rate decision preview: enough room for a 25bp cut

- **We expect Russia's central bank, the CBR, to cut the key rate by 25bp to 7.50% on 9 February, as headline inflation continues to deliver post-Soviet history's lowest prints, while the external environment remains supportive for Russia on a friendly assessment by the US Treasury Department.**
- **While monetary easing is set to remain cautious, we do not fully exclude a 50bp cut ahead of the presidential election in Russia.**
- **We expect the CBR to cut further gradually, hitting 6.75% by end-2018 in our conservative scenario and 6.00% by late-2019.**

### Assessment and outlook

This Friday at 11:30 CET, the CBR is due to announce its monetary policy decision. Together with Bloomberg consensus we expect a 25bp cut to 7.50%. Markets have been pricing in a more aggressive cut already.

We see the following **reasons supporting our call for a 25bp cut.**

- In January 2018, headline inflation has fallen to its new post-Soviet lowest level of 2.2%. While we expect a slight rise in CPI during 2018, anchoring around the CBR's target of 4.0% looks firmer than in 2017.
- A 'Russia friendly' assessment of Russian government debt and financial instruments by the US Treasury Department has calmed RUB markets, eliminating an additional external factor for RUB volatility. The oil price in RUB remains high and stable.

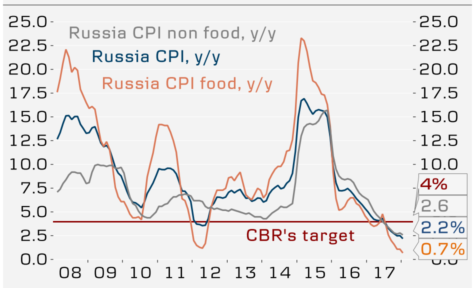
We see that the CBR has some room for a 50bp cut (though our forecast is for 25bp) as the real rate remains far above the acceptable corridor of 2.50-3.00%, the correction in global markets has stopped and the upcoming monetary policy decision will be the last one before the presidential election in Russia on 18 March.

### Market implications

We continue to see CBR's cuts as RUB neutral or even positive: falling inflation is driving demand for Russia's local debt, OFZs; demand remains solid after the US assessment; and improving economic prospects support local stocks. Despite lower carry appeal, we still see good opportunities for carry traders as we expect the real rate to hover around 3.0% in 2018, continuing strengthening of the RUB on stabilised oil price and improving macro fundamentals.

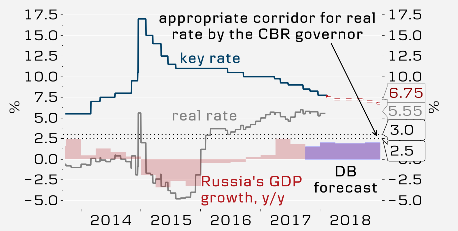
An unexpected 50bp cut would accelerate OFZ and RUB demand on better prospects for Russian stocks. We expect the CBR to follow its monetary easing path, hitting 6.75% by end-2018 and 6.00% by late-2019. Major risks for a less dovish CBR would come from geopolitics and a tumbling oil price.

**Falling inflation keeps door wide open for generous rate cuts**



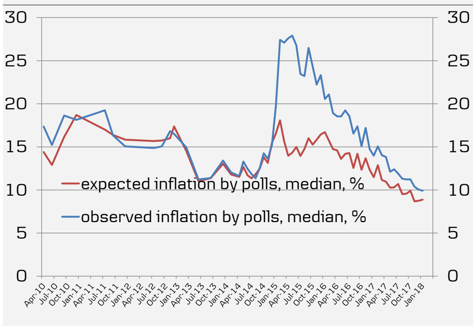

*Source: Bloomberg, Macrobond Financial, Danske Bank*

**CBR has plenty of room to ease through 2018-19 on prevailing high real rates**




*Source: CBR, Bloomberg, Macrobond Financial, Danske Bank*

**Inflation expectations remain sticky, supporting more cautious stance by the CBR**




*Source: CBR, Danske Bank*

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**Report completed:** 8 February 2018, 12:06 CET

**Report first disseminated:** 8 February 2018, 13:15 CET