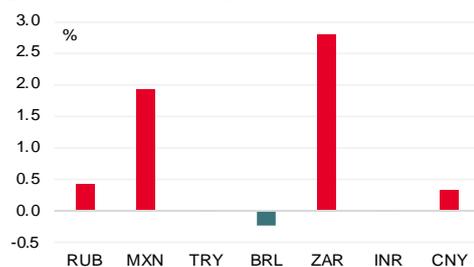

**Main Indicators**

	Last	1wk	ytd
USD/RUB	71.7	2.7%	-3.4%
EUR/RUB	83.1	2.6%	-8.4%
EUR/USD	1.159	-0.1%	-5.2%
DXY	93.9	0.1%	4.4%
Brent, \$/bbl	84.7	-1.5%	63.5%
Gold, \$/t oz	1794	-0.7%	-5.3%

**EM currencies last week \***


\* '+' = depreciation, '-' = appreciation

**Russian Weekly**
**Foreign Currency Market**

**The ruble stumbled after a strong month.** The previous week was unlucky for USD/RUB and EUR/RUB pairs which did a dead-cat bounce from annual lows (69.4 and 80.7), respectively, to 71.0 and 82.0. Despite some persistent challenges for the EM currencies, the spike was mostly driven by a quick change of liquidity flows after the end of October tax period last Wednesday. Correction of commodity prices also pushed the RUB back: the Brent stepped back from \$87/bbl to \$83.5-84.5/bbl amidst of an unexpected increase in the weekly US crude stocks as well as Iran's intention to relaunch negotiations on a nuclear deal at the end of November.

Bearing in mind improved pricing of the commodities, we updated our outlook for the USD/RUB to 71.50-73.0 and EUR/RUB to 81.8-84.4 through the end of 2022. With these levels we do not suggest return of the USD and EUR below 70.0 and 82.0 on a sustainable basis, because the stronger REER may challenge the current account and rising fears of accelerated policy tightening by the leading central banks may spur capital outflow.

For the week ahead, we see meetings of the FOMC (on 3 November) and the OPEC+ (on 4 November) as the most important. The FX market is hyped up about potential curtailing of the Fed's bond buying program this month, so any hawkish surprise on that side may trigger 'flight to the greenback' again. On the OPEC+ side clouds are gathering as global community is calling for a more pronounced increase of production volumes. Finally, the MinFin is due to announce monthly FX intervention on 8 November. We expect a figure north of RUB 317-327bn in the last two months – likely RUB 330-350bn – that could anchor the USD/RUB in the range 70.7-71.7 and the EUR/RUB in the range 81.7-82.9.

	Last	1wk	ytd
\$ UST'10, %	1.56	-0.08	0.64
€ BUND'10, %	-0.10	0.01	0.47
\$ Russia'29, %	2.47	0.00	0.35
OFZ 5y (26229), %	8.43	0.32	2.91
OFZ 10y (26228), %	8.32	0.36	2.29
OFZ 15y (26225), %	8.28	0.29	1.84

**Russian local sovereign bonds last week**

**Fixed Income**

**The OFZ segment remained in a distress.** Despite quite modest activity of the MinFin on the primary side, the secondary market entrenched its capitulation following a 'cold-shower' guidance from the CBR on 22 October. While the curve inverted over 2y10y horizon (-13bp vs 4bp pre-CBR), the whole curve shifted to the north by 20-30bp over the shortest and the longest ends (up to 2 years and beyond 10 years) and by 40-50bp over the belly (from 3 to 30 years).

In absolute terms, all the yields are traded now at or above 8.20% - the levels we have seen last time on the outbreak of the pandemic and, on a more consistent basis, in 2H18-1H19. Nonetheless, elevated and more persistent inflation is the backdrop that market is trying to get used to. So the CPI headline rate running to 7.9-8.0% yoy and another piece of news about global risks for food inflation reported over the last week were a bone of contention.

Weaker ruble and steeper 2y5y UST curve are the other two risks worth to be monitored ahead of the FOMC meeting (due on 3 November) as the global background is becoming shaky. We do not see much room for adjustment of the FOMC guidance or communication as the dot plot is due to be updated only next month. However, the pricing of a hike by the Fed in June-July is becoming a solid threat to the fixed-rate world, even if domestic inflation reaches a long-expected plateau.



## Main Indicators

	Last	1wk	ytd
Ruonia o/n % (1-day lag)	7.35	0.35	3.08
USD/RUB swap o/n, %	6.79	-0.51	2.05
₽ Mosprime'3m, %	8.48	0.15	3.56
\$ Libor'3m, %	0.13	0.01	-0.11
USD/RUB Xccy 1y, %	8.70	0.41	4.47
USD/RUB basis 1y, bp	-105	7	-23

## Russian Weekly

### Money Market

**Ruble liquidity market is riding a roller-coaster following the unexpected key rate hike by the CBR.** The structural balance of RUB liquidity turned almost null last week (RUB 72bn on the bottom) as banks have redirected all the available deposits to fulfill nostro accounts during the tax payment season. The case may be proved as temporary on the upcoming weekly depo auction from the CBR: a perfect buffer for the averaging purposes was gathered month-to-date (RUB 3.5tn average from 13 October), so at least RUB 1.0tn might be easily tied up at higher depo rate for the coming week.

On the fiscal side, supply of depo and repo by the MinFin looks fairly generous over the business week from 1 to 3 November (RUB 20bn net), but will become tighter next week (-RUB 330bn net). Probably, the ministry will start disseminating regular spending to soften withdrawal of liquidity. Nonetheless, the closer we move into the year-end the more questions we have about MinFin's strategy of carrying them over the year. Otherwise, maturity profiles of depo and repo facilities look very steep and bear much risk for funding markets: only RUB 325bn of deposit (out of RUB 2.9tn) and RUB 300bn of repo (out of RUB 2.0tn) carried into 2022.

The last, but not the least concern for the coming two-three months is a skittish pricing of the key rate trajectory. The 3m3m implied key rate drifted above 8.2% (+62bp) since 21 October, which might be a fantastic level given the wide guidance for the meeting in December (25-100bn). However, the 6m9m and, especially, 9m12m stretched into unimaginary levels - 9.42% (+106bp) and 10.05% (+154bp). Should those levels remain persistent in coming weeks, the medium-term funding conditions might collapse to 3-months only, thus, enhancing all the fiscal pitfalls for the market.

Indicator*	Last	Prior
Markit PMI Mfg	Oct 51.6	Sep 49.8
Markit PMI Services	Sep 50.5	Aug 49.3
Car Sales, % yoy	Sep -22.6	Aug -17.0
CPI, % yoy	Sep 7.4	Aug 6.7
CBR Reserves, \$bn	Sep 614	Aug 618
Trade Balance, \$bn	Aug 17.1	Jul 21.2
Budget Balance, ytd ₽tn	Sep 1.4	Aug 0.9
Ind. production, % yoy	Sep 6.8	Aug 4.6
Retail Sales, % yoy	Sep 5.6	Aug 5.3
Unemployment Rate, %	Sep 4.3	Aug 4.4
Real Wages, % yoy	Aug 1.5	Jul 2.2
GDP, % yoy	2Q21 10.5	1Q21 -0.7
CA Balance, \$bn	3Q21 40.8	2Q21 19.9

### Macroeconomics

**No signs of cooling consumer activity in September.** According to Rosstat, retail trade turnover increased by 5.6% yoy in September (+0.9% mom sa) helped both by a steady growth in food turnover (3.0% yoy, +0.8% moms) and accelerated non-food goods sales (8.0% yoy, +1.2% mom sa vs +1.0% mom in August sa). In both cases, a positive impact of social transfers to families with children and pensioners (distributed in September and August) was likely a strong driver. Consequently, the aggregate consumption (including services and public catering) gained 7.7% yoy (+0.8% mom sa).

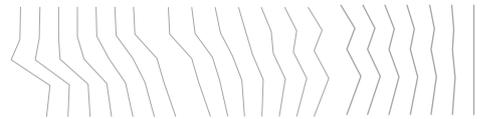
As for the labor market and welfare, the provided data was rather mixed. First, the employment recovered from a stagnation in August and drove the unemployment rate to 4.4% sa. The labor force participation rate rose to 68.5%, that is still below the top levels of the last decade (69.8% in 2015), but is in line with 2017-2018 levels. Second, real wages decelerated to 1.5% yoy in August (2.2% yoy in July) due to a slowdown in the nominal wages growth amidst of the negative effect of higher inflation. Finally, real disposable income showed an immediate increase by 8.1% yoy in 3Q21 thanks to higher allocation to payrolls (+15.2% yoy) and social benefits (+20.2% yoy). Entrepreneurial income also recovered solidly (+25.7% yoy), though its share remained well below the pre-pandemic level. To sum up, consumption kept growing fast as long as the injected 'stimulating' have been absorbed by spending (rather than savings of distributed transfers), but it may drastically slowdown in the coming months as the fiscal and monetary stance is getting tighter

## Outlook

Indicator	4Q21	1Q22	2Q22
Brent, \$/bbl	70.0	67.5	65.0
USD/RUB	71.5	72.0	72.5
EUR/RUB	84.4	83.5	82.7
GDP, % yoy	2.9	4.0	0.2
CPI, % yoy	7.3	6.7	5.8
Key rate, %	8.00	8.00	8.00
OFZ 10y, %	8.20	7.85	7.75

Rosbank Research Team, [research@rosbank.ru](mailto:research@rosbank.ru)

\* recent updates highlighted with red



## Appendices

Date	Event	Forecast	Expected impact
<b>November 3</b>	FOMC meeting	SG: 0.00-0.25% Consensus: +0.00-0.25%	A guidance of the Fed with respect to QE tapering will be closely watched – any hawkish turn or update of the key rate signal might spook risky sentiment.

### Café et Croissant

**Weekly – October 25** ([eng](#))

**Weekly – October 18** ([eng](#))

**Weekly – October 11** ([eng](#))

**Weekly – October 4** ([eng](#))

### Markets and economics

**OFZ Auction Alert – October 13** ([eng](#))

**Russian forecasts update – October’21** ([eng](#))

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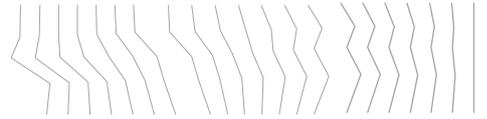
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Appendices

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