



Iskander Lutsko | Chief Investment Strategist  
[Iskander.Lutsko@iticapital.com](mailto:Iskander.Lutsko@iticapital.com)

Olga Nikolaeva | Senior Fixed Income Analyst  
[Olga.Nikolaeva@iticapital.com](mailto:Olga.Nikolaeva@iticapital.com)

# CBR: new rescue package and money market overview

On April 3, Russia's Central Bank Governor Elvira Nabiullina held an important news briefings. The regulator will start holding them every Friday at 14:00 Moscow time with a focus on money market performance, macroeconomics and effects from implementation of stimulus measures.

## ANNOUNCED MEASURES

### ON PROVIDING LIQUIDITY

- On April 6, the Bank of Russia will hold a "fine-tuning" repo auction in the amount of 500 bln roubles, with the first part of transactions to be conducted on the day of the auction, the second part on April 8, 2020, the Central Bank informed.

### RETAIL AND SME

- Support for SME via easing in lending conditions and one-time deferrals in retail loan payments for six months if income drops 30% y-o-y

### FINANCIAL INSTITUTIONS

- Easing liquidity regulations, additional rouble liquidity via extending the CBR's Lombard list for REPO operation
- CBR considers relaunching long-term REPO operations, though current interbank liquidity remains in surplus and stable
- CBR may relaunch FX-REPO as was in the beginning of 2015 if there is shortage of USD liquidity, however there are very few signs of it now as external debt has dropped by \$110 bln and reserves rose by over \$60 bln since then

## MONEY MARKET OVERVIEW

### IMPACT ON INFLATION: SHOCKS TO BE TEMPORARY

- Inflation will accelerate; however the spike will be short-term, CPI would fall below 4% annual rate as the crisis is driven by demand shock. In other words, disinflationary risks from falling demand prevail over inflationary risks from declining supply.
- The weekly inflation in March (17-23) has doubled w-o-w
- Russia's CPI accelerated to 2.5% y-o-y in March up from 2.3% in February 2020, While investors expected CPI to pick up 2.7%.

#### COMMENT ON CBR KEY RATE: RATE CUT IS BACK ON RADAR

- CBR is looking to cut rate as market volatility will ease, our base-case scenario for June is a 25-bps cut to 5.75%, provided no major negative news and no additional shocks.
- Following the most recent meeting on March 20, CBR confirmed that market climate improved, and volatility has subsided after unprecedented QE and stimulus measures announced by the US, European and other global central banks.

#### IMPACT ON ECONOMICS: DOWNTURN EXPECTED IN Q1 AND Q2, PICKUP IN Q3

- The rule of thumb is that one month of quarantine costs up to 1.5-2% of annual GDP, but accumulated impact will depend on how long the quarantine measures will last. Recovery is expected in Q3, so overall decline will be normalized. Expected monetary easing will also help prevent a steeper GDP slowdown.
- Economic slump will accelerate if financial crisis pushes more companies into bankruptcy.

#### IMPACT ON USDRUB AND OFZS: AS GOOD AS IT GETS

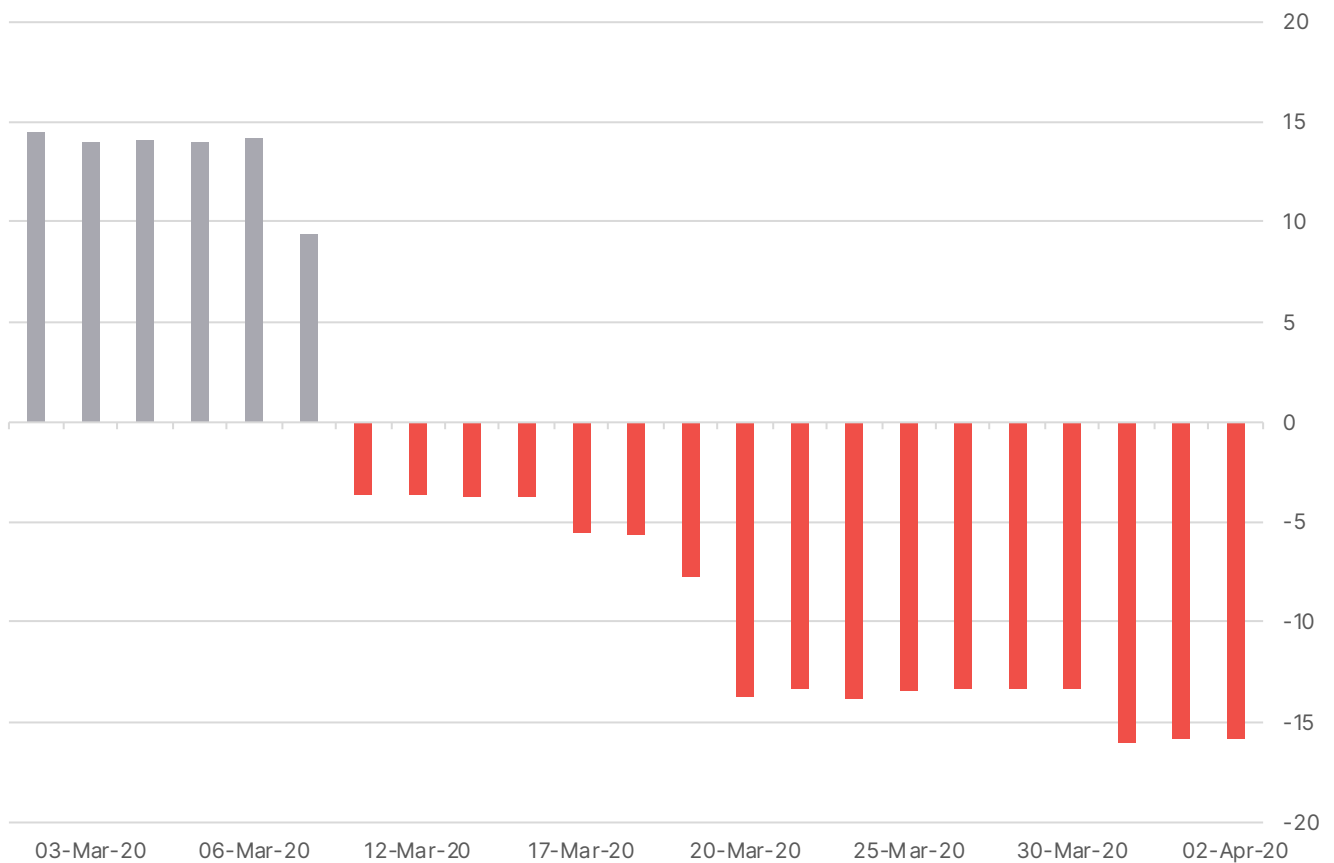
- MinFin continues to sell FX as part of the budget rule that applies if Urals price drops below \$42/bbl According to CBR statistics, Minfin sold 175 bln roubles in USD equivalent, or roughly \$2.4 bln since March 11
- That said, long OFZ yields dropped by 160-200 bps, implying a 14-16% price growth since March 18
- If Brent prices normalize at 45/bbl, implying Urals just above 42/bbl, USDRUB could stabilize in the 72-68 range
- So after market recovery we expect a 90 bps drop in long OFZs yields, or a 8-10% price pick-up to February 20 levels before major sell-off

### MACRO SIMULATION ANALYSIS

Urals, \$/bbl	15	20	25	30	35	40	45	50	55	60
Inflation, y-o-y, average	6-8	5.5-7	3.5-4.5	4	3-4	3-4	3-3.5	3-3.5	4	4
GDP real, y-o-y, %	-(3-4)	-(1.5 - 2)	-(1-1.5)	-(0.5-1)	-0.5	0-0.5	1-1.5	1.5-2	2-2.5	2-2.5
Average ₪/\$	95	85	80	74	71	68	67	65	63	60

Source: ITI Capital

### MINFIN DAILY FX-INTERVENTIONS VIA CBR, ₪ BLN



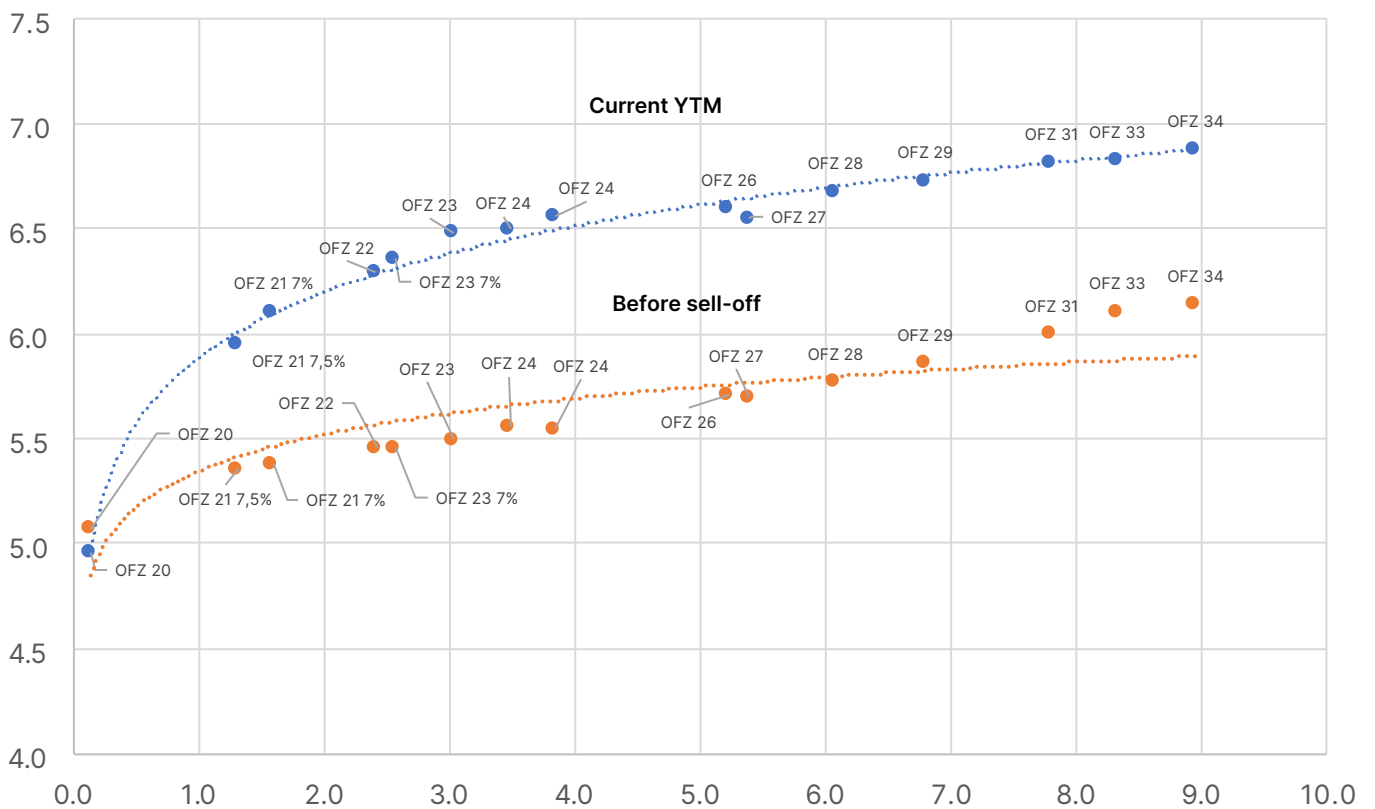
Source: Bank of Russia, ITI Capital

### FX-SALES BY MINFIN INCLUDING \$30 BLN PROCEEDS FROM SBERBANK

Urals, \$/bbl, 2020	Brent, \$/bbl	FX-Sales/Buying, \$ bln/month	FX-Sales/Buying incl proceeds from Sberbank, \$ bln/month
12.4	15	-3.5	-6.0
17.4	20	-3	-4.8
22.4	25	-2.2	-3.5
27.4	30	-1.7	-1.7
32.4	35	-1	-1
37.4	40	-0.3	-0.3
42.4	45	0.4	0.4
47.4	50	1.1	1.1
52.4	55	1.9	1.9
57.4	60	2.6	2.6
62.4	65	3.3	3.3
67.4	70	3.9	3.9
72.4	75	4.6	4.6

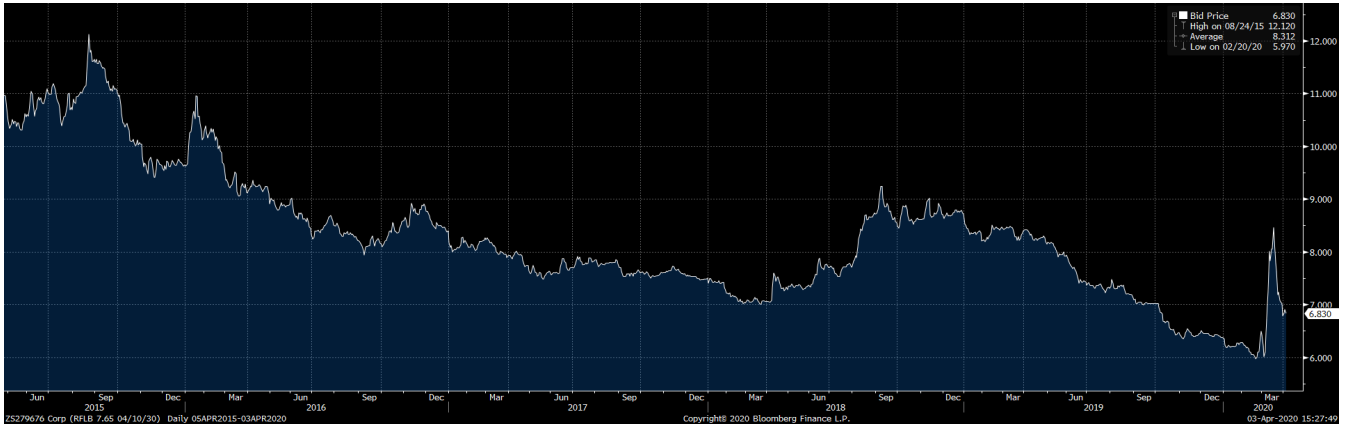
Source: Bloomberg, ITI Capital

### RUSSIAN OFZ YIELD CURVE



Source: Bloomberg, ITI Capital

USDRUB INTRADAY PERFORMANCE AFTER THE OIL PRICE SPIKE AND CBR COMMENTS TODAY



Source: Bank of Russia, ITI Capital

## CONTACT LIST:

### Trading

Alexey Saltykov | Head of Trading | [Alexey.Saltykov@iticapital.com](mailto:Alexey.Saltykov@iticapital.com)

Mikhail Durov | Fixed Income Trader | [Mikhail.Durov@iticapital.com](mailto:Mikhail.Durov@iticapital.com)

### Sales

Aleksandr Panfilov | Head of Fixed Income Sales | [Aleksandr.Panfilov@iticapital.com](mailto:Aleksandr.Panfilov@iticapital.com)

### Research

Iskander Lutsko | Head of Research, Chief Investment Strategist | [Iskander.Lutsko@iticapital.com](mailto:Iskander.Lutsko@iticapital.com)

Olga Nikolaeva | Senior Fixed Income Research Analyst | [Olga.Nikolaeva@iticapital.com](mailto:Olga.Nikolaeva@iticapital.com)

Irina Fomkina | Research Analyst | [Irina.Fomkina@iticapital.com](mailto:Irina.Fomkina@iticapital.com)

Kirill Sosov | Research Analyst | [Kirill.Sosov@iticapital.com](mailto:Kirill.Sosov@iticapital.com)

Nikita Kosykh | Research Analyst | [Nikita.Kosykh@iticapital.com](mailto:Nikita.Kosykh@iticapital.com)

Oleg Makarov | Chief Editor | [Oleg.Makarov@iticapital.ru](mailto:Oleg.Makarov@iticapital.ru)

### CONTACT DETAILS:

ITI Capital Limited  
Level 33 Tower 42,  
25 Old Broad Street,  
London EC2N 1HQ,  
United Kingdom

### PHONE:

+44 (0) 20 3889 8333

+44 (0) 20 3889 8331

### WEB:

[iticapital.com](http://iticapital.com)

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