

ROUBLE FORECAST UPDATE

The rouble has lost c7% YTD against USD – more than we expected. The key factor for the weakness has been intensive capital outflow and a shortage of supply. As such, we have reassessed our full-year forecasts. After a weak first quarter, we expect the rouble to strengthen. We now forecast an average USD/RUB rate of 70 for 2023 (vs our previous forecast of 67).

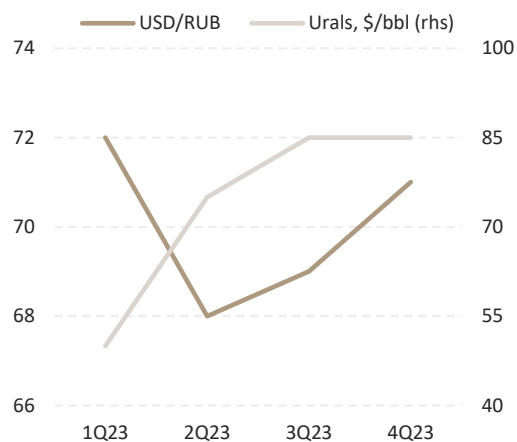
Population and banks drive demand for FX. The population's wave-like demand for currency is an important factor for the rouble. The increasing number of sanctions on Russian banks pushed citizens to transfer their funds abroad more actively. Monthly transfers have been on the rise since October, jumping to Rb1.3trn in December. In February, the population bought FX worth Rb72.6bn (net) after Rb111.3bn in January. Since capital controls for the population remain moderate, the further increase in geopolitical risks has driven capital outflow, which cannot be forecasted promptly. Highly-liquid FX bank assets increased to \$64bn in January (up \$14bn from December). Banks increased their FX by managing their open FX positions.

FX supply remains limited, exporter activity on FX market remains muted. Given sizable oil and gas taxation (MET totaled Rb0.trn and Rb0.6trn in January and February, respectively), net FX sales of exporters continues to fall. The CBR noted that the largest exporters reduced the volume of net FX sales to \$7.8bn in February (vs \$10.0bn in January). The budget rule increases FX liquidity for the yuan but this is still insufficient to support the rouble (Minfin sells Rb5.4bn per day – \$70mn against average daily trading volumes of about \$3.5 bn).

The rouble's share in exports rose sharply. According to the CBR, the share of 'toxic currencies' in FX settlements for foreign economic activity significantly decreased in 2022, while the share of Russian rubles and yuan increased. In early 2022, exports were mainly made in the FX of unfriendly countries (87% of all settlements were made in USD and EUR). By YE22, the share of 'toxic currencies' in payments for exports had fallen to 48%. In early 2023, the rouble's share rose to 34% and the yuan's to 16%. The currency structure of imports showed a heavy increase in yuan from 4% to 23% (the rouble's share fell slightly – from 29% to 27%). This means exporters now receive more roubles and less unfriendly FX, meaning lower activity on the FX market during tax season as they now have more roubles to pay with. However, the rouble FX rate remains sensitive to import flows.

We expect the rouble to appreciate to USD/RUB 70 on average in 2023. Given the rouble's weakness in 1Q23, we downgrade our full year USD/RUB forecast from 67 to 70. We believe that the anticipated rise in the Brent price in the coming months to \$100 and a rise in export FX sales due to the change in the oil benchmark will increase FX liquidity on the market. That will cause the rouble to appreciate from current levels. We expect the rouble to appreciate below 70/\$ in the coming months.

UPDATED FORECAST

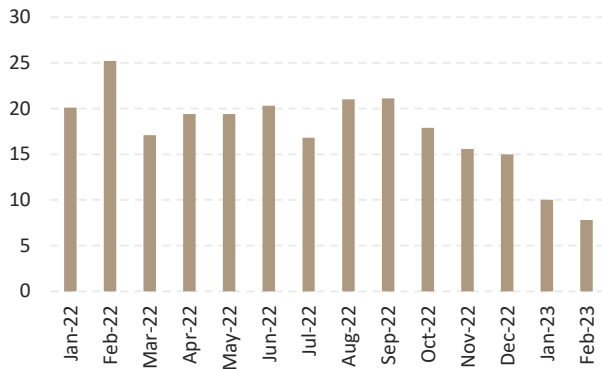


Source: CBR, Sinara Bank

Sergey Konygin
Chief Economist

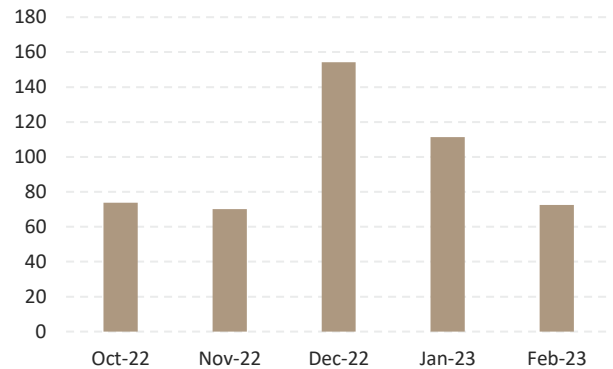
KEY CHARTS

EXPORTERS' NET FX SALES ARE FALLING, \$ BN



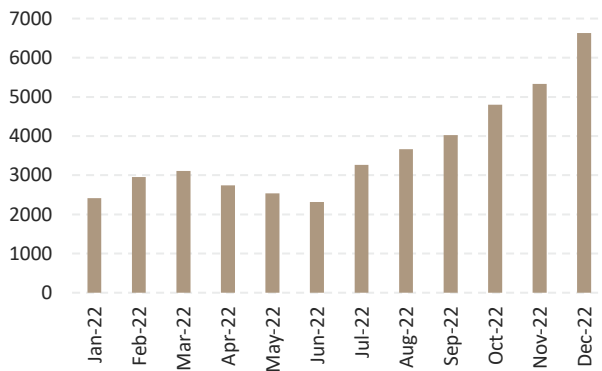
Source: CBR, Sinara Bank

POPULATION'S NET FX PURCHASES REMAIN HIGH, RB BN



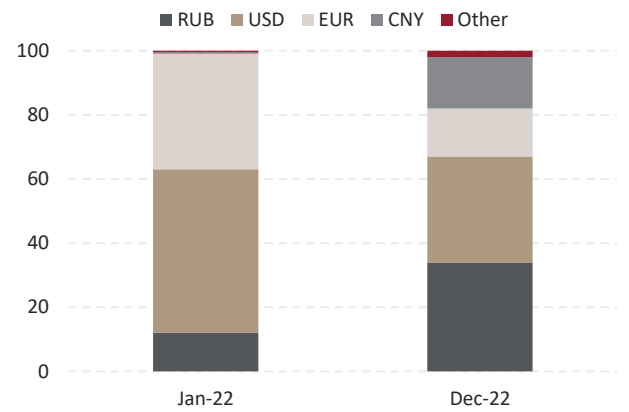
Source: CBR, Sinara Bank

TRANSFERS FROM CITIZENS TO NON-RESIDENT BANKS SHARPLY INCREASED, RB BN (ACCUMULATED)



Source: CBR, Sinara Bank

ROUBLE'S SHARE IN FOREIGN ACTIVITY SHARPLY INCREASED



Source: CBR, Sinara Bank

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