29 January 2016

Flash Comment

CBR rate decision: unchanged, blame the oil

- **Russia's central bank keeps its key rate unchanged at 11.0%.**
- **The CBR lists new 'scapegoats': oil, China and the Fed.**
- **The CBR does not rule out further tightening.**
- **We expect 2016 GDP to shrink 2.1% y/y.**

Assessment and outlook

Russia's central bank kept its key rate unchanged today (29 January) at 11.0% as we and consensus expected. The main reasons given by the central bank to hold rates were 'another oil price slump', high levels of consumer price growth rates and a higher risk of accelerated inflation despite continuing disinflation. The CBR estimates that inflation will fall below 7% y/y in 12 months from the latest 12.9% y/y (December 2016) while reaching a 4% y/y target by late 2017. According to the CBR, January 2016 inflation is falling to approximately 10% y/y.

As pro-inflationary pressure increases on RUB's recent weakening, the CBR blames oil, the slowing Chinese economy and Fed's rate hike for increasing the likelihood that inflation may accelerate in Q2 16, mentioning that 'should inflation risks amplify, the Bank of Russia cannot rule out a tightening of its monetary policy'. Thus, we believe that resuming monetary easing could easily be postponed to H2 16 if crude does not rebound significantly (over USD40/bl). We see the current extra hawkish monetary stance continuing to depress Russia's economy, especially the banking sector, worsening the momentum in the environment of low oil prices.

Surprisingly, this time the CBR did not mention any risks from Russia's trade restrictions against Turkey while the last time the central bank estimated that the tension will add 0.2-0.4pp to inflation up to early 2016. We maintain our view that the geopolitical environment is not yet set in favour of sentiment improving towards Russian assets.

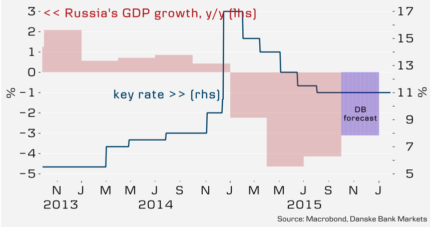
The next rate meeting will be held on 18 March 2016. We expect the CBR to remain hawkish and keep rates unchanged if the oil price stays low.

RUB is following the oil price

The rouble weakened 0.9% against the USD and 0.7% against the EUR within an hour of the decision while the Micex stock index fell 0.3% as markets remain pessimistic about Russia's economic prospects. We expect 2016 GDP to fall 2.1% y/y if crude's year average stays at USD31/bl.

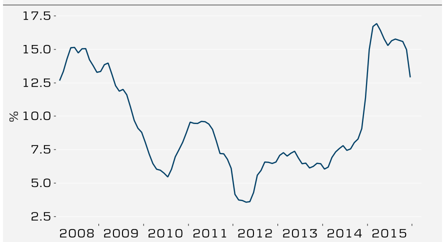
Given the continuing oil price weakness, we remain bearish on the RUB, expecting the USD/RUB to hit 82.00 in 3M, 84.50 in 6M while sliding to 72.00 in 12M as the country's current account surplus remains strong.

CBR holds on inflation fears...



Source: Macrobond Financial, Danske Bank Markets

...while inflation is slowing down



Source: Macrobond Financial, Danske Bank Markets

Economist, Trading Desk Strategist
Vladimir Miklashevsky
+358 10 546 7522
vladimir.miklashevsky@danskebank.com

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of the research report is Vladimir Miklashevsky, Economist, Trading Desk Strategist.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in this research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.