EXECUTIVE SUMMARY

MONTHLY SUMMARY

Price trends are still influenced by a combination of competing factors. On the one hand, the reintroduction of a range of restrictions in Russia and abroad is adversely affecting demand, hindering economic recovery and creating disinflationary pressure. On the other hand, this extends the duration of supply-side shocks having a proinflationary effect. The accommodative monetary policy continues to support economic activity and domestic demand. According to our estimates, inflationary pressure adjusted for temporary and one-off factors stays close to 4%.

○ In November, annual inflation exceeded 4% and is likely to start going down no earlier than in the middle of 2021 H1, after reaching a local peak. This is partially explained by the low base effect. The pass-through to consumer prices of the ruble’s weakening since March 2020 has a slower and longer impact than previously. Considering this effect, we assume that the rise in consumer prices is still in line with the 4% seasonally adjusted inflation path, with the movements of prices for certain products and price index components remaining highly volatile.

○ High-frequency indicators for November generally suggested that economic growth discontinued, while trends across industries became more diverse. Specifically, individual industries, particularly the service sector, recorded a faster decline in demand as a response to the resurgence of coronavirus cases. Exports continued to rebound.

○ At the end of November, positive trends prevailed in the financial market as a result of rising global risk appetite amid the past US election and inspiring news about the development of vaccines.

IN FOCUS

• Since the beginning of 2020, Russia’s Ministry of Finance has increased borrowing in the domestic market to 5.1 trillion rubles, to be able to finance the state budget deficit. We believe that the funds currently raised by the Ministry of Finance are an important factor of replacing corporate borrowing with government borrowing, as investments in floaters (floating-rate coupon government bonds OFZ-PK) and corporate bonds differ in nature. Banks invest in floating coupon government bonds to cover interest rate risk. In contrast to corporate bonds, these investments involve no burden on bank capital and positively influence liquidity ratios.

• The Russian bond market has significantly expanded, while market segments have changed unevenly: the sector of government securities has increased the most owing to the extensive OFZ offerings by Russia’s Ministry of Finance. The sector of corporate bonds has also grown, although three times less.
As companies continue to demonstrate demand for borrowing, the corporate bond market, just as lending, seems to be an efficient instrument for borrowers to raise debt financing. This is evidenced by increasing primary offerings.

However, a lower liquidity of the corporate bond market compared to the OFZ market, coupled with low premia on primary offerings, makes corporate bonds less attractive for the most active investors (banks). Uncertainty about external factors, also generating various scenarios for the implementation of the monetary policy over the medium-term horizon, increases the probability of a rise in asset value volatility. This risk affects the relative attractiveness of corporate bonds for banks. Moreover, we believe it to be the main drag on the development of the corporate bond market that has reduced banks’ participation in primary offerings.

The liquidity of the corporate bond segment has worsened even more due to the specifics of the market recovery after the period of elevated volatility in March–April (no considerable expansion of credit spreads and decreased amounts of corporate bond purchases by banks being the most active market players).

An increase in Russian banks’ OFZ holdings reduces the liquidity surplus in the banking system, until the funds raised by the government are allocated to finance expenditures. Nonetheless, some banks may offset a possible temporary liquidity outflow, when needed, through repos with the Bank of Russia and the Federal Treasury or in the interbank lending market. In this case, investments in floaters have the lowest possible impact on the usage of banks’ market limits and are not expected to affect corporate bond purchases by trade and investment units.