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The Bank of Russia delivered a rate cut, set for further easing

Bank of Russia has cut the rate in line with our forecast amid a faster real inflation slowdown (annual inflation in January slowed to 2.4%). Households and businesses inflation expectations remain moderate. **Overall, the Central Bank has adopted a neutral stance**, as it left its 2020 inflation target (3.5–4%), **but the tone was very dovish hinting further cuts this year** due to short-term disinflationary risk.

The key rate has dropped to the lowest since March 2014 (pre-sanctions level). Inflation has low since august 2018. Additional budget social spending and demographics announced in January won't have a "considerable pro-inflationary impact", the central bank said.

INFLATION SLOWDOWN DRIVERS:

1. Inflation is sliding faster than expected amid consumer lending slowdown and food and other goods and services prices decline yoy.
2. If the situation develops in line with the baseline forecast, the Bank of Russia holds open the prospect of a further key rate reduction at the upcoming meetings.
3. We expect next rate cut at the March 20, 2020 meeting.
4. The rate is projected to be cut by 25 bps, to 5.75%, if the global markets climate does not deteriorate, to 5.5% at the meeting on July 24 — and to 5.25% at December 18
5. We expect two more cuts — to 5.25% if inflation slows down in line with the baseline scenario and global economy slowdown does not accelerate.
6. Trade wars risks have reduced.

INFLATION GROWTH DRIVERS:

1. The risks of a food market U-turn cannot be ruled out, since it is difficult to assess the correlation of temporary and permanent factors in this market.
2. Moreover, monetary policy easing may induce further upward pressure on inflation that tops CBR expectations
3. The risks of further global economic slowdown remain, including due to geopolitical factors, increased global commodity and financial markets volatility, which could affect exchange rate and inflation expectations
4. Coronavirus outbreak will fuel global uncertainty in the coming quarters
5. Additional social outlays announced in January won't have a "considerable pro-inflationary impact, but this year's inflation trends will be shaped by the pace of budget spending, the central bank said.

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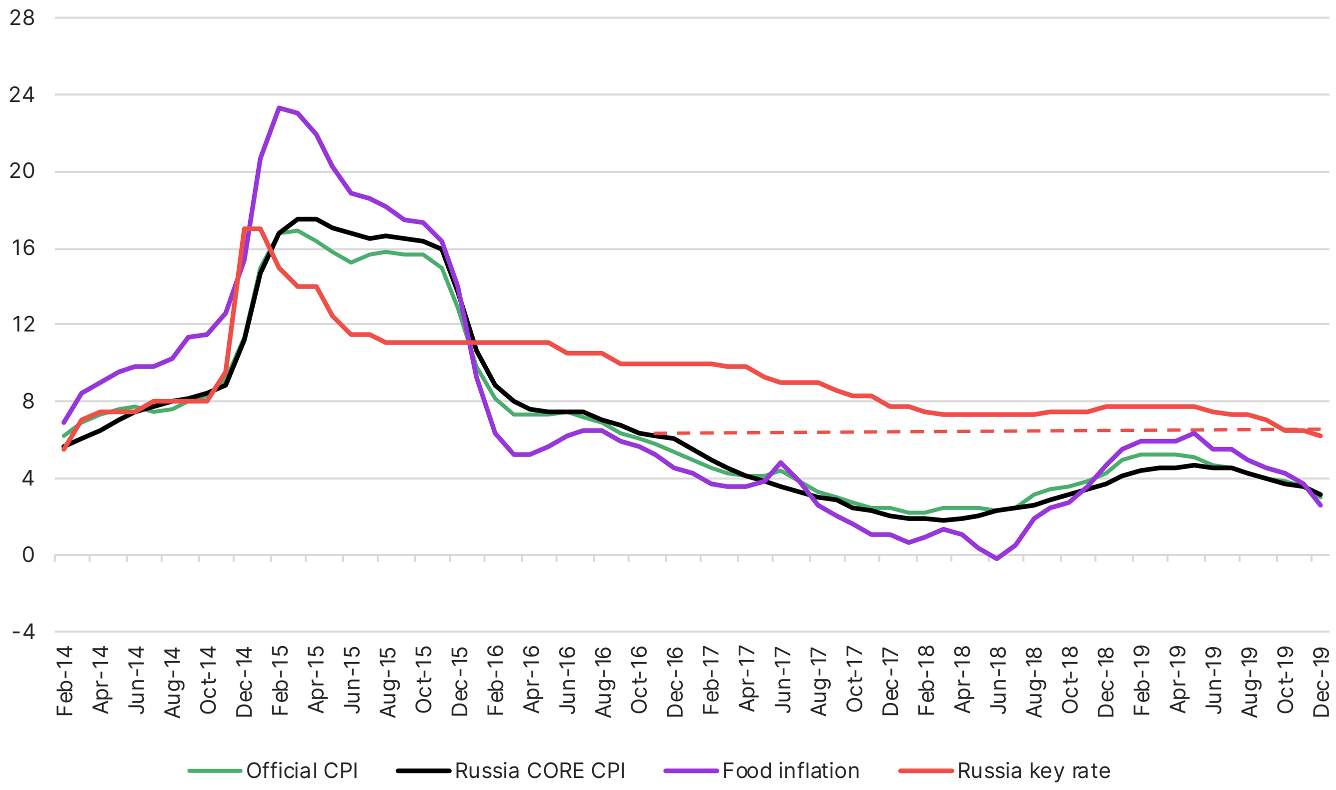
INFLATION AND KEY RATE



Source: Bloomberg, ITI Capital

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