



Bank of Russia meeting preview: time for bolder moves?

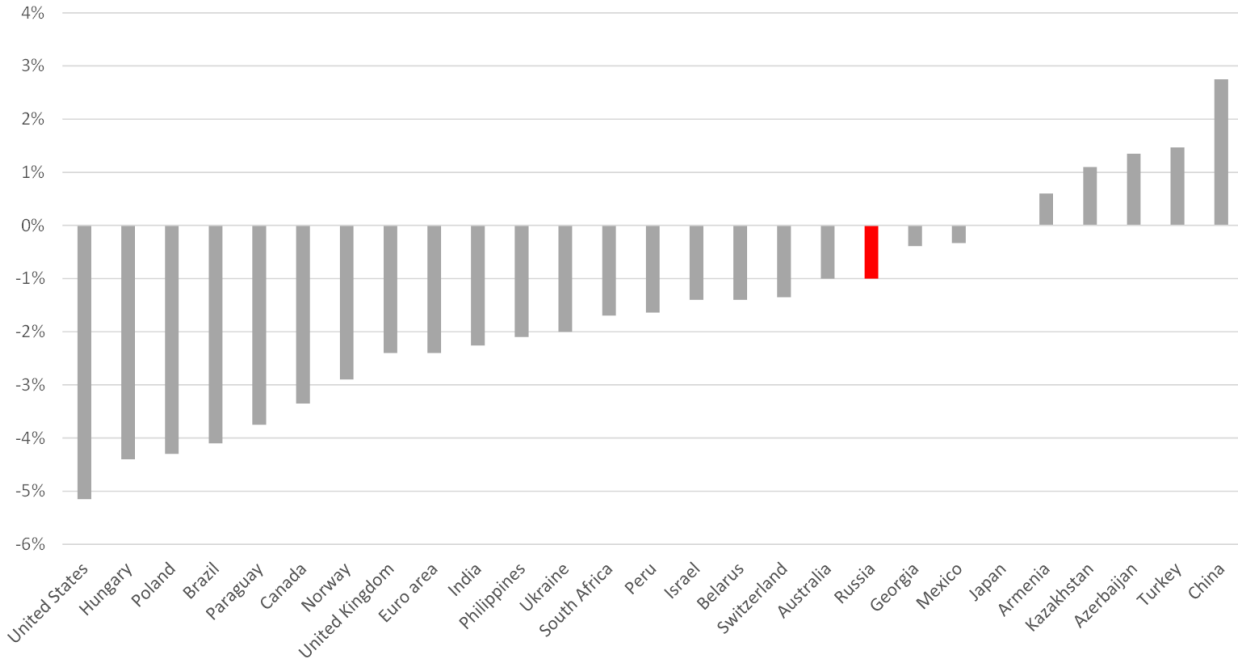
OUR BASELINE FORECAST

On July 23, the Bank of Russia will hold a core meeting and publish an updated medium-term macro outlook. At its June 11 meeting, the regulator made a big 50 bps hike bringing the key rate to 5.5% in response to persistently elevated inflation.

Since then, there has been no expected slowdown in price growth. At the June press conference chairwoman Elvira Nabiullina suggested that the peak of inflation has already been reached, and after the "plateau" inflation will gradually return to the 4% target. However, annual inflation in June was already estimated at 6.5% (the highest since 2016), according to Rosstat. The first 12 days of July saw consumer prices rising by 0.39%. Therefore, the annual figure has so far reached 6.55%. However, it is unclear how sustainable this trend could be. Despite a seasonal decrease in food prices typically seen in the summer, the effect of pro-inflation factors remains very strong. According to the July bulletin of the Bank of Russia, there are still no signs of lower inflationary pressure. It will take some time for disinflationary effects from the ongoing normalization of monetary policy (MP) to materialize for inflation to return to a sustainable slowdown trajectory. Analysts of the regulator even do not rule out that inflation has already peaked, taking into account the inertia of processes. All these factors add to the arguments in favour of an even bigger key rate hike.

Most market participants have recently updated their estimates and now expect a steeper and faster tightening of monetary conditions. We don't consider a 100 bps hike to be unlikely or unreasonable any longer. Given the macro data coming out, the need for active action, in particular, for fine-tuning of monetary policy by the Bank of Russia is becoming increasingly obvious. The regulator is also aware of this and makes appropriate statements. In her latest remarks, Nabiullina said there are suggestions to increase the key rate by 0.25-0.75 pt on July 23. Our previous end-year base forecast assumed hiking the rate to 6,25%. We have to admit that this estimate now looks overly optimistic, as the central bank is willing to gradually shift to a moderately tight monetary policy. **We do not rule out that the key rate may reach the 6.75-7% range by the end of the year.** In such a scenario, it is increasingly likely that further rate hikes will go beyond 50 bps. **In other words, a bigger 100 bps hike (to 6.5%) accompanied by "hawkish" rhetoric looks quite probable at the nearest core meeting this week.** However, this scenario has already been priced in. After the recent short OFZ selloffs, the one to three years bond yield was not lower than 6.6% per annum. Depending on the rhetoric and the figures in the revised medium-term forecast, the short rates growth and further flattening of the sovereign curve could continue.

REAL GLOBAL RATES BASED ON CURRENT INFLATION Y/Y, %



Source: Bloomberg, ITI Capital

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