

RUB: Realising its value

USD-RUB forecasts

Q4 2021: 70.00
Q1 2022: 68.00
Q2 2022: 65.00
Q3 2022: 65.00
Q4 2022: 65.00

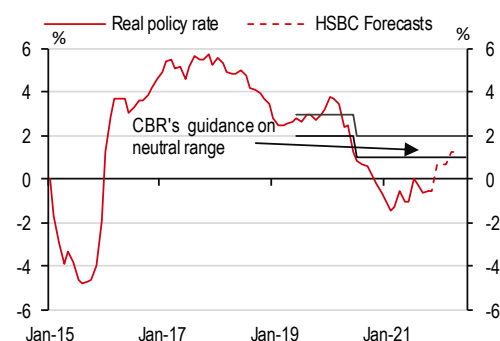
We believe that the rapidly normalising monetary policy and oil production will cause the RUB's valuation to normalise with USD-RUB falling to 65.0 in 2022.

CBR's will likely bring the real policy rate back into positive territory: Since the start of 2021, inflation has been a key macro challenge but the central bank's policy reaction has been appropriate. The CBR is very clear about its objective to bring the real policy rate back to neutral territory between 1-2% as quickly as possible. Such a policy objective will be achieved in 2022, in our view. Admittedly, inflation may continue to surprise in the near term. However, the CBR has shown no hesitation to adjust its policy rate accordingly and there is no reason to think that its reaction will change in 2022. It is worth noting that the CBR sees its policy rate in a range of 7.3-8.3% in 2022 (currently at 7.50%), which is illustrative of its policy bias. For us, such a conventional approach is clearly RUB-positive.

The current account surplus set to remain sizeable amid normalising oil production: The RUB should also be supported by a sizeable current account surplus. The OPEC+ agreement has limited Russia's oil production in 2021 and the full impact of higher oil prices has not been reflected in the FX market. However, we believe that the production is likely to fully normalise, returning to its pre-pandemic level during the course of 2022. We also assume that the RUB will benefit from Russia exporting a higher proportion of its production compared to 2021. Such trends are likely to ensure a comfortable current account surplus even if oil prices retreat somewhat. The CBR foresees a surplus of USD111bn with the oil price at USD65/barrel on average in 2022. Even if the HSBC economics has a more conservative forecast for the surplus, the surplus is likely to be anywhere between 3.5-5.5% of GDP. Admittedly, the CBR's FX policy will likely offset part of this surplus. FX purchases of about USD40bn in 2021 clearly limited the RUB's gains and a repeat in 2022 is likely. However, we believe that the size of the current account will outweigh the FX interventions and hence the CBR will only slow the pace of RUB appreciation.

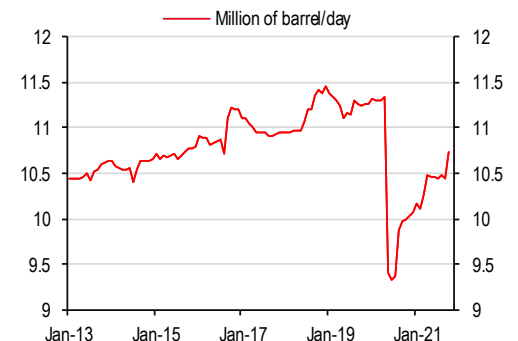
USD-RUB to return to its fair value range: In the latter part of 2021, the RUB's valuation has started to normalise according to our PPP model. Given the dynamics discussed above, we believe that such a normalisation should complete with USD-RUB returning comfortably to its fair value range.

1. Real policy returning to its neutral range should support the RUB in 2022



Source: HSBC, Refinitiv, Bloomberg, HSBC forecasts on based on the assumption that the policy rate stays unchanged

2. Russia's oil output normalisation should support the current account surplus



Source: HSBC, Refinitiv