

# Flash Comment

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## Russia: RUB strengthens versus basket

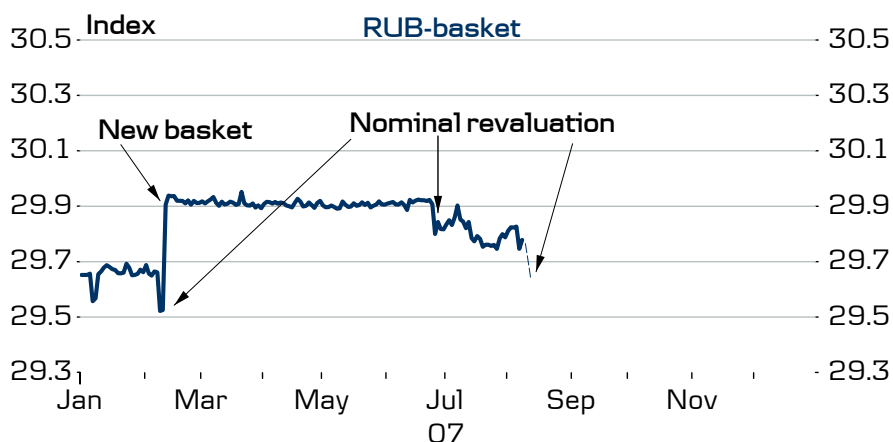
The Russian central bank has this morning allowed the rouble to appreciate 0.6% versus the dual-currency basket consisting of EUR (45%) and USD (55%). This is a significant move and we expect the appreciation trend to continue for the remainder of 2007 and into 2008. We continue to recommend being long in the RUB versus the basket.

Today's action is a move to fight inflation, which has moved above the 8% y/y target in the last two months. This week's m-o-m inflation numbers for July indicate that y-o-y numbers for July (published later this month) will be 8.7% y/y.

Looking ahead, inflationary pressures will continue to build for a number of reasons. We have already on numerous occasions highlighted that liquidity growth is excessive and probably fuelling inflation. Other than that, expect a less positive development in food prices this summer, as the harvest forecasts in Russia and the Ukraine continue to be revised down as the impact of the drought becomes clearer. On the fiscal front we note that policy is loosening significantly ahead of parliamentary and presidential elections. As well as fiscal spending increasing rapidly, private spending is also very strong, fuelling pressure on prices and the labour market – real wage growth is close to 20% y/y, which is probably somewhat higher than productivity growth in Russia.

In our view, the inflation outlook justifies further strengthening of the rouble. We expect the appreciation trend to continue for the remainder of 2007 and into 2008, and we project 2-3% strengthening over the next year. Hence a rouble position looks relatively attractive, as seen from a risk-spreading perspective.

RUB appreciation in 2007 continues



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