

RF WEEKLY

12.05-20.05

RF economy's GDP projections converge to -10% in consensus reports, suggesting that the effect of sanctions is smaller than intended. Median estimate of 35 forecasters¹ (compiled by FocusEconomics) is 10.2%. The European Commission also published its forecast, expecting a 10.4% fall of Russia's GDP in 2022 (range: between -4.5% and -16%). At the beginning of war, when economists considered rapid implementation of tough sanctions feasible - the estimate ranged between 15, 30 or even 50% of economic loss.

GDP growth forecast for 2022 (2023)					
	2022 (2023)		2022 (2023)		2022 (2023)
RF GoV	-7.8% to -12.4% (1.3%)	IMF	-8.5% (-2.3%)	S&P	-8.5% (0.3%)
CBR	-8.0 to -10.0% ((-3,0)-0,0%)	EBRD	-10.0% (0%)	Barclays	-12.4% (-3.5%)
CBR Survey	-9.2% (0%)	World Bank	-11.2% (0.6%)	Fitch	-8.0% (-0.2%)
Morgan Stanley	-12.0% (1.5%)	FocusEconomics	-10.2% (-0.8%)		
European Commission	-10.4% (1.5%)	IIF Chief Economist	-30%		

RF central bank recognizes that managing economic situation is challenging for them - head of CBR called the crisis of 2022 "one of the most significant challenges facing the RF economy since the 90s"². Along with -10% GDP contraction, CBR baseline scenario suggests that exports of goods and services may fall by 17-21% in 2022 and imports to drop 32.5-36.5% in 2022.

On the backdrop of ruble appreciation, Russian authorities continue to cease currency restrictions. As noted above, imports have been falling faster than exports providing foreign currency for balancing exchange rate and allowing for relief in currency restrictions. Compared to 23 Feb ruble has appreciated by ~21% against dollar and by ~28% against euro, giving it the incongruous title of best performer which has been the highest rate of appreciation globally. On May 20, the dollar XE on the Moscow Exchange fell to 57.4 RUB/USD, record low since April 2018. The euro fell to 59.8 RUB/EUR. On May 16, CBR allowed individuals to transfer abroad up to \$50K a month (prior to that, the limit of \$10K was imposed). RF GoV allowed exporters not to sell foreign exchange earnings if they have existing import contracts. Previously, CBR allowed banks to sell FX cash to citizens (on Apr 18) and CBR softened currency controls to all exporters – time for mandatory sale of foreign currency was increased from three to 60 working days (on Apr 21). Yet, buying dollars or euro is still very difficult in RF which gave rise to black market. Bloomberg reports that black-market rates ranged from 73 to 76 rubles in Moscow on May 17 (data from currency exchange channels on messenger apps), while official XE equaled 63.35.

Inflation continues to grow, but on a slower scale. In annual terms, inflation in Apr increased to 17.83% compared to 16.69% in Mar. Annual inflation accelerated in the food sector (from 17.99% YoY in Mar to 20.48% YoY in Apr) and in the services (from 9.94% YoY to 10.87% YoY), in the non-food segment, the annual price growth rate slightly slowed down from 20.34% YoY to 20.19% YoY.

RF reserves continue to decrease, lost \$57.4 during the war. Russia's international reserves fell by additional \$7.4bn between May 1 and May 13. For more than two months of the war RF reserves dropped from a historically max level of \$643.2bn to \$585.7 bln (-\$57.4 bn or ~9%). In addition, last week the House of Representatives of the US Congress adopted a bill that prohibits the country's Treasury from providing RF and RB with dollars in exchange for their SDRs.

Bye-bye crypto. Binance has closed Russian transfers and withdrawals to foreign banks, regardless of country of residence. Coinbase cryptocurrency exchange restricted access for Russians to their accounts (with more than €10,000 on their wallets) under EU sanctions. While the US imposed sanctions against the Russian crypto-mining company Bitriver (TOP-3 in RF) on Apr 20.

Industry

RF started seizing assets of foreign companies (Siemens) leaving RF. Last week Siemens terminated service contracts with Russian Railway for maintenance, including maintenance of the Sapsan (high-speed electric trains). However, already on May 16, The St. Petersburg Arbitration Court decided to seize the Siemens equipment needed to repair the Sapsan and Lastochka high-speed trains and hand it over to the Russian Railways. Formally, the court invalidated the termination of the service contract and ordered the transfer to Russian Railways of equipment owned by Siemens, which is necessary for repairing trains. Despite this being the first such precedent, Russia has already denied returning leased aircraft. For example, Avolon (Ireland) lost \$304 mln due to Russia's refusal to return the aircraft. American Air Lease wrote off 27 aircraft left in Russia for ~\$800mln. United Arab Emirates (one of the world's largest lessors) has written off \$538mln of

¹ Including companies

² https://www.cbr.ru/Collection/Collection/File/40972/2022_02_ddcp.pdf

losses as a result of Russian airlines refusing to return aircraft in service due to Western sanctions. Also, Russia has hijacked 113 Irish AerCap Holdings aircraft (worth ~2bn\$) in response to sanctions.

Sanctioned Sovcomflot is selling its fleet to repay loans: 23 sold of 134 fleet. Such deals should be watched as they can potentially allow RF to channel the fleet to other RF-friendly owners to circumvent sanctions on RF ships.

Over the last two weeks media has been widely reporting Sovcomflot` plans to sell up to 1/3 (at least 40 of 134). SOE needs foreign currency to pay the loans³ after sanctions prevent it from paying \$8.28m on eurobonds. As of May 17, 23 vessels sold. Only some buyers are known: 5 tankers to Dubai-based Koban Shipping and 4 gas carriers to Singapore's Eastern Pacific Shipping (~\$700mln deal), says WSJ, Evangelos Marinakis-controlled Capital Maritime & Trading affiliates have bought up four LNG dual-fueled aframax tankers⁴. In addition, some previous deals to expand fleet didn't materialize⁵.

Russian authorities try to prevent a shortage of lead on the Russian market. On May 14, RF GoV introduced an export licensing (if exported outside the customs territory of the Eurasian Economic Union) for lead waste and scrap, as well as unprocessed lead, with the exception of semi-products of the production of non-ferrous metals containing precious metals for the period of May 15 – Nov 15. Lead is essential for the production of batteries and is widely used by automotive manufacturers.

RF mobile operators, afraid of equipment breakdown, plan secondhand purchases of network equipment. After Nokia, Ericsson and Huawei left Russia, Russian mobile operators are considering purchasing used network equipment. If equipment is not found, quality of mobile comms in RF and disruptions are expected by the end of the summer.

The secret of Russian soldiers stealing “washing-machines” from Ukrainians has been revealed: chips from dishwashers and refrigerators are now used military equipment - US Secretary of Commerce.

Oil & Gas

Russia plans raising the transport fees on hydrocarbons for EU to compensate for frozen funds. EU and US discussing their tariffs on RF energy too. Similarly to gas-for-rubles scheme, RF will treat failure to comply with cessation of supplies. In its turn, the EU discusses cap natural-gas prices to avoid “unbearably high” costs if RF significantly limits or cuts off the flow, says Bloomberg (European Commission is currently mapping out energy-market intervention measures as part of a package to replace Russian gas)⁶. At the same time US Janet Yellen⁷ has been proposing price caps and tariffs for the application in the EU at the G7 meetings.

At a closed meeting the European Commission “approved” the scheme of payment for Russian gas proposed by Putin, says Bloomberg. Companies will be allowed to open Gazprombank accounts in euros or dollars, where the money will then be automatically converted into the ruble accounts. Previously it was reported that 20 EU companies have already opened accounts in Gazprombank to pay for gas from RF, another 14 requested a list of documents for opening such accounts.

West Africa, small OPEC players increase oil sales to EU. Israel, Azerbaijan increases gas sales. Saudi and OAE abstain. Algeria lacks capacity. West African oil companies are increasing sales in the EU, says Bloomberg. Of the OPEC member countries, “minor players” show the largest increase in shipments to EU ports. West African oil shipments to the EU reached an avg of 1.23 mln bar/day in Mar and Apr, up 40% from the same period last year and the highest level since Feb 2020. Israel is increasing natural gas production on the shelf and seeks to reach an agreement on its supply to the EU in the coming months, says Reuters. Bulgaria will be able to receive gas from Azerbaijan in full from July 1 according to Bulgarian Prime Minister. On the contrary, Saudi Arabia and the United Arab Emirates, two largest producers in the OPEC, have refrained from making additional deliveries to Europe despite having the capacity. Algeria doesn't mind increasing sales but lack investment and capacity.

Poland, Bulgaria and now Finland - cut off from RF gas for refusing ruble payments, but able to replace it. On May 20, Gazprom announced its plan to stop gas supplies to Finland this Saturday. Earlier, same measures were adopted against Poland and Bulgaria. Poland's reliance on RF gas was 46%(imports to domestic consumption), Bulgaria for 73%, Finland for 68% in 2020. The Russian gas cut-offs did not cause any disruptions of energy supply in these three countries.

³ There were two main waves of sanctions directly against Sovcomflot: the end of Feb (EU (restrictions on securities and money market instruments; prohibition on new loans); Canada (broad dealing ban)) and Mar (EU (any transaction ban); UK (asset freeze); Switzerland (restrictions on securities and money market instruments; transaction ban); Norway (export ban); Liechtenstein (money and capital markets ban, loan or credit ban, transaction ban). While on Apr 7, Shell suspended operation of two LNG carriers leased from Sovcomflot due to sanctions risks. In addition, the UK (beginning of Mar) and the EU (beginning of Apr) closed access to their ports for Russian vessels. As a result, back on April 26, the company was unable to pay on the Eurobonds.

⁴ [TradeWinds](#)

⁵ Daewoo Shipbuilding and Marine Engineering (DSME, South Korea) canceled an order for 1 out of 3 LNG vessels for Sovcomflot, worth \$270 million, as they did not receive the 2nd advance payment from Sovcomflot. According to Korean media reports, the DSME and Sovcomflot agreements on 2 other vessels are still in effect, but they will face a similar problem with prepaid payments. The total value of the contract for 3 vessels, signed in 2020, is \$800 million.

⁶ [Bloomberg](#)

⁷ [FT](#)

Although Finland imports most of the gas from Russia, RF gas accounts only about 6% in its total energy consumption. Finland, thus, can substitute gas with other sources of energy and switch to gas supplies from neighboring countries. Bulgaria and Poland are the only two European countries with Gazprom contracts due to expire at the end of this year, and both said they would not hold talks to renew this deal and have an alternative option of supply. In particular, Poland has been boosting the capacity to receive LNG at newly commissioned terminal and has announced it is going to impose contractual fines to Gazprom.

RF imposed sanctions on 31 UK and EU companies formerly controlled by Gazprom. One of the results - Yamal-Europe pipeline through Poland to loose RF gas transport. On May 3 and May 11 Putin signed decrees which imposed sanctions on a number of foreign companies, including Gazprom Germania and 29 Gazprom Germania subsidiaries in different countries, and EuRoPol GAZ, which owns the Polish section of the Yamal-Europe gas pipeline. Poland authorities to abandon the use of the Polish section of the Yamal-Europe pipeline owned by EuRoPol GAZ⁸.

Lukoil bought 100% LLC «Shell Oil». Contract value not known, but Shell had lost ~\$8.1bn while exiting RF. Shell has completely stopped selling fuel in RF, shops and cafes continue to work. Over the past month, the company has gradually left the Russian market: recalled personnel from its joint ventures with Russia's Gazprom (including the Sakhalin II), then - management and technicians, closed all gas stations. In May, Shell sold Lukoil 100% LLC «Shell Oil» in RF, including 411 petrol stations and the lubricant plant in the Tver region. Shell spent \$ 4.24 bln in Jan-Mar 2022 due to refusal to participate in Russian energy projects and wholesale purchases of fuel from RF. Also, due to the withdrawal from Russia, the company was forced to write off \$3.9bn. Chinese state companies wanted to buy Shell's stake (27.5%) in the Russian oil and gas project Sakhalin-2, but now the fate of this deal is unknown. In its turn, Japan is afraid to leave Russian energy projects (in particular, Mitsubishi and Mitsui own 22.5% of the Sakhalin-2 oil and gas project) as other major players from China will take its place - Bloomberg, Nikkei Asia.

Russian imports to Germany in Mar increased by 77.7% YoY, reaching €4.4bn in result of increase of energy prices. Even though, the volume of imports of oil and natural gas from Russia decreased by 27.8% YoY, while its money value increased by 56.5%.

Russia blackmailed Finland with electricity for NATO membership plans - unsuccessful. Russian SOE, Inter RAO, announced that it will stop supplying electricity to Finland from May 14 as they didn't receive ruble payments. Around 30% of RF's export came to Finland (8,2 bn kWh, ~\$0.4bn) that covers approximately 10% of electricity consumption in Finland⁹. Finnish grid operator (Fingrid) reported that these amounts are substitutable by imports from Sweden and also by domestic production.

Sanction Loophole

Sanctioned Russian "oligarchs" can use Hawala – informal payment system linked to the terrorism financing. It allows the transfer of money abroad, while maintaining anonymity, remaining almost beyond the regulators' control.

Russian motherboard manufacturer selling products with China's KaiXian Microprocessor, Zhaoxin10. This may indicate that the Chinese company Zhaoxin is selling chips to Russia, which are dual-use goods and are banned by US, EU and allied sanctions. The chips could be used by the Russian military to create advanced weapons.

⁸ <https://www.hydrocarbons-technology.com/projects/yamal-europegaspipe/>

⁹ In 2021 Russia produced 1131 bn kWh of electricity and consumed domestically 1106 kWh. In 2021 Russia exported 21,77 bn kWh of electricity for \$1,33bn value.

¹⁰ <https://wccftech.com/intel-amd-ban-sees-russia-turn-to-chinese-chips/>