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Russia

Oil and gas production increased in 2010. Russian crude oil production increased 2 % last year to 505 million metric tons, returning to levels last seen in the early 1990s. In coming years, Russia's oil output is not expected to increase substantially due to the lack of investment in development of new fields. While many OPEC producers operate well below full capacity, Russia operates its producing fields at maximum.

Russia's largest oil producer, state-owned Rosneft, pumped 112 million tons of oil last year and accounted for over a fifth of total Russian oil production.

Balance-of-payments figures show the value of crude oil exports climbed some 33 % last year, due largely to a sharp rise in world oil prices. The rising trend in oil prices continues this year; at the beginning of February, Urals-grade crude was just under $100 a barrel. Oil prices were last at such levels during the commodity price spike that occurred in 2008 just before the world economy went into recession. Crude oil generated $134 billion of Russia's export earnings last year.

Russia's total crude oil exports last year amounted to around 245 million tons, approximately the same amount as in 2009.

The Port of Primorsk, located in the Gulf of Finland, has become Russia's largest oil shipping terminal. Last year it transhipped 72 million tons of crude oil. The Port of Novorossiysk, Russia's largest freight-handling port, transhipped 42 million tons of crude oil last year. Export volumes at both ports contracted about 5 % in 2010. Oil exports grew at the Far Eastern ports of the Sakhalin Island and Kozmino. The Port of Kozmino, located on the shores of the Sea of Japan near Vladivostok, opened in 2009. The ESPO (Eastern Siberia – Pacific Ocean) oil pipeline, which is currently under construction, ends in Kozmino. From there, oil will be loaded onto tankers and shipped to Asian markets. Oil is currently reaches Kozmino by rail.

Russia exported some $70 billion worth of oil products last year, an increase of 45 % from 2009. In January 2011, shipping of export oil products began from the new oil product terminal at the Port of Ust-Luga on the Gulf of Finland.

After falling in 2009, natural gas output rose last year by 11 % to 649 billion m^3. The 2009 drop in international demand was the cause of lower production that year; in 2010, production was just 3 % below pre-crisis levels. Gas giant Gazprom accounts for nearly 80 % of Russia's natural gas production.

In 2010, the volume of natural gas exports increased about 6 % to around 170 billion m^3. The value of exports was up by 15 % y-o-y to $48 billion. The volume of Russian exports of natural gas peaked at 207 billion m^3 in 2005.

Moscow plans to accelerate divestment of municipal properties. As soon as Sergei Sobyanin was named Moscow mayor last October by president Dmitri Medvedev, the former presidential chief of staff began shaking up Moscow's municipal administration and is currently embarked on preparing a new economic strategy for the city. The extent of planned reforms in economic policy were foreshadowed last December with the appointment of Andrei Sharonov, a former deputy economy minister and CEO of the Troika Dialog investment bank, to the post of deputy mayor responsible for economic issues.

Moscow's new administration has undertaken extensive plans to sell off city assets. The hope is to sell stakes in over 230 companies over the next two years and raise at least 200 billion rubles (€5 billion) from the sales. Moscow's rush to divest conforms to the Russian government's exhortation to regions and municipalities several months ago to increase their divestment efforts. The sell-off should also help the city dig its way out of its current fiscal hole. Without income from property sales, the City of Moscow's 2011 budget anticipates a deficit of about 150 billion rubles (€3.7 billion).

The broad sales programme is a distinct departure from the polices of Yuri Luzhkov, Moscow's previous mayor. According to deputy mayor Sharonov, Moscow will ultimately divest everything except companies involved in providing critical municipal services. Sharonov criticised his predecessors' policies, which extended city business operations into new fields and constrained development of the private sector businesses.

In addition to some 350 municipal companies, the City of Moscow holds large stakes in over 400 corporations (of which the city holds the majority stake in 140). For example, Moscow holds a 74 % stake in the Vnukovo Airport, Russia's third busiest airport. It also has a 22 % stake in oil-driller Sibir Energy and owns 27 % of United Bakers (a holding company that includes 15 companies and is a large player in the food industry even by European standards). Among others, the United Bakers portfolio includes three of Russia's best-known confection producers. The city also owns stakes in Intourist Travel Agency, the Radisson-Slavyanskaya Hotel, the Metropol Hotel and the Gostinyi Dvor Department Store.

Moscow's decision to sell off its 50 % stake in Bank Moskvy, Russia's fifth largest bank, has raised eyebrows far and wide. The city has agreed to sell its stake to Russia's second largest bank, state-dominated VTB, without competitive bidding. Russia's largest private bank, Alfa-Bank, is interested buying the stake and has pushed for officials to arrange a fair, competitive bidding. Experts lament the city's plan to sell Bank Moskvy without competitive bids.

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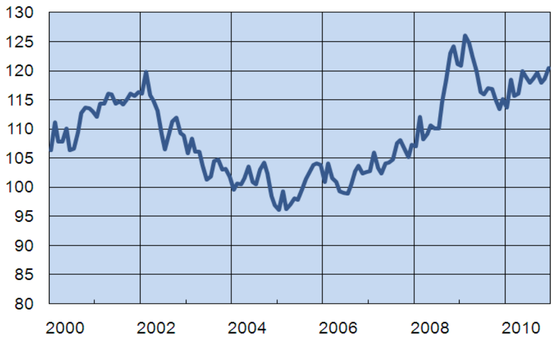
China

China's central bank increases reference rates for deposits and credits, effective Feb. 9. Following Wednesday's quarter-percentage-point increase, the 12-month deposit rate is now 3.0 % and the credit rate 6.06 %. The People's Bank of China has aggressively tightened monetary policy in recent months in its efforts to get inflation under control. Consumer price inflation hit 4.6 % in December, which means the current deposit reference rate is still negative in real terms. Monetary tightening is expected to continue in coming months.

The official US treasury department February report on the state of the world economy and currency policies notably refrained from accusing China of currency manipulation. The toned-down assessment staves off the threat of a possible trade war. The report comments on China's deliberate efforts to limit appreciation of the yuan's nominal exchange rate and affirms the US government's belief that it would be healthier for the world economy if the yuan was allowed to appreciate faster. However, the report notes that yuan's real exchange rate (which takes into account differences in inflation rates among countries) has appreciated faster as inflation in China has been running some 5 % higher than in the US. The treasury department report also observes that China is in the process of phasing out currency controls, and thus expects the yuan to become more sensitive to market forces.

The yuan's nominal exchange rate relative to the US dollar has continued to appreciate slowly. On Thursday (Feb. 10), the official exchange rate in Shanghai (CNY) was 6.59 yuan to the dollar. On the less regulated Hong Kong currency markets, the off-shore exchange rate (CNH) was 6.57. Over the past year, the yuan nominally appreciated 3 % against the dollar and nearly 10 % against the euro, which has been plagued by troubles in the eurozone's heavily indebted member states. The Japanese yen gained about 7 % against the yuan last year.

Real trade-weighted yuan exchange rate, index 2005 = 100



Source: BIS

Severest drought in 60 years puts China on course for major crop failures this year. The situation is especially critical in major wheat-producing areas, where drought effects may be aggravated by the arrival of warmer spring weather. In China, crop failures will put pressure to further hike food prices, which already soared last autumn. The drought in China is reflected in global wheat prices, which have now hit record levels.

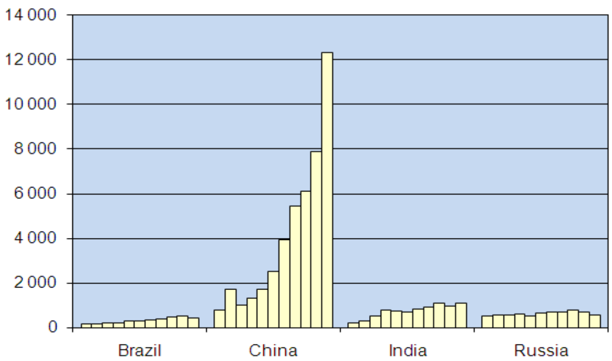
While access to water is a common issue in developing countries, China's water problems have been exacerbated over recent decades because water supply has failed to keep up with rapid economic growth and population growth. In addition, pollution has degraded as much as half of China's existing water supplies, which are unevenly distributed across the country. Generally, the north is the driest part of the country, while water is more abundant in river valleys and the south, where monsoon rains augment surface waters.

China's central administration will target water supplies as a key area of emphasis in the new five-year plan. The state will spend 4 trillion yuan (€440 billion) on water projects over the next decade. The last 5-year plan saw spending on water projects double.

China becomes the world's fourth biggest international patent-seeker. The World Intellectual Property Organization (WIPO) this week released preliminary figures on international patent filings last year made under the Patent Cooperation Treaty (PCT).

The number of international patent applications globally was up 5 % last year to 162,900 filings. China's filings increased to over 12,300 (a 56 % leap from 2009), surpassing Korea as the world's fourth most active international patent-seeker. China accounted for about 8 % of international patent filings worldwide. That was still well behind the US, which accounted for 28 % of filings. Japan had at 20 % share and Germany 11 %.

Number of PCT patent filings in BRIC countries, 2000–2010



Source: WIPO

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