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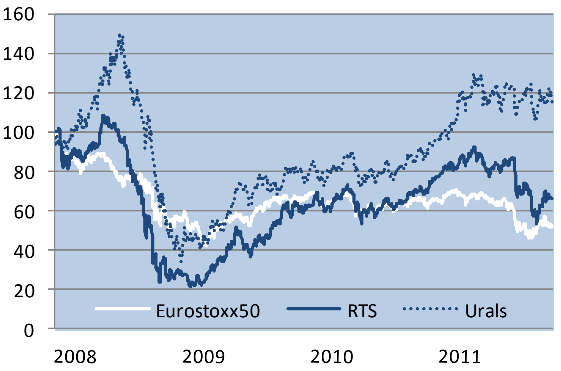
Russia

Prices on Russia's stock markets now track international stock markets more closely than before. In recent weeks, Russian share prices have been on the rise after hitting their 2011 low point in early October. However, volatility has remained strong as in most of the world.

Trends on the Russian stock exchange have traditionally followed the world price of crude oil, but in recent months the linkage appears to have weakened. For example, the price of Urals oil in mid-November was nearly a fifth higher than at the start of this year, yet the RTS and the MICEX share indices have been about 15 % lower relative to the start of the year. Russia's stock markets this year have been tracking moves on international stock exchanges more closely than earlier; e.g. the Eurostoxx50 index and the MSCI's 21 emerging market index were down in mid-November more than 20 % from a year ago.

Eurostoxx50 and Russian RTX stock indices, Urals price, 2008−2011, Jan. 3, 2008=100



Source: Bloomberg

Stock market reforms. Last summer, Russia's most important exchanges, the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) agreed to merge. The MICEX's biggest shareholder is the Central Bank of Russia. Preparations for the unification of the exchanges are currently underway, with the merger to be completed early next year. The goal of the merger is to strengthen Russian markets and make them attractive to foreign investors. The merger should also encourage more Russian firms to list and offer shares in domestic markets.

Russia's stock markets have fairly low volumes, most trading is concentrated around firms involved in the energy and finance sectors, and investors are scarce. In recent years, Russian firms have preferred to arrange IPOs on big international exchanges (particularly London), rather than domestically. Dealogic, which tracks international capital markets, reports that in 2010 and 2011, only about 30 % of Russian share offers were domestic.

The MICEX says the unified securities exchange is to become the world's third largest exchange by market capitalisation by 2015, a goal that would require the current market cap to treble. Having a large securities exchange is seen as supporting Russia's aspirations to make Moscow an international financial centre.

A second step towards becoming an international financial hub was the creation of one centralised electronic share depository. Its creation was pushed forward by the merger of exchanges, as both exchanges maintain separate share registers. The project has been delayed for years by squabbles among various actors in the financial markets. A law on establishing a centralised share depository was finally approved last week by the Duma. The law enters into force at the start of next year and the depository will begin operations in 2013.

A centralised depository means that hundreds of tiny securities depositories will stop registering shares quoted on stock exchanges. One problem has been that some of these depositories have registered ownership of non-existent securities in the names of their clients. Non-existent shares, in turn, have been used e.g. to make bank capitalisations appear larger than in actuality – a phenomenon exposed in recent bank insolvencies.

Russia, Belarus and Kazakhstan aim at a new phase in economic cooperation. Since the trio founded their own customs union in 2010, they have pursued an ambitious schedule to widen their cooperation. At a meeting of the presidents of Russia, Belarus and Kazakhstan in Moscow on November 18, the leaders confirmed that their countries will move over from customs union to a common economic space on January 1, 2012.

At the same event, the leaders of states also agreed that their countries would by 2015 transform the common economic space into a Eurasian Union similar to the EU. The creation of a Eurasian Union was first proposed by prime minister Vladimir Putin in October this year.

Free movement of goods, services, capital and labour will be gradually introduced within the common economic space starting in January 2012. Further areas where gradual unification takes place include member country economic policy, competition legislation, industrial policy and agricultural policy.

The Eurasian Union would in addition to further unifying economic policies engage in cooperation in policy-setting generally. A highlight in economic integration would be the introduction of a common currency, although no concrete proposals to this effect have yet been made.

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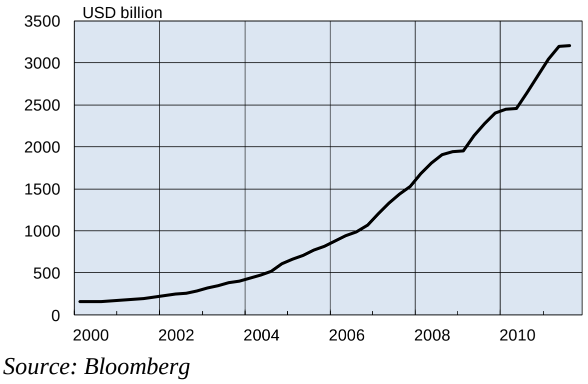
China

Growth in China's currency reserves slowed in the third quarter. Growth in China's foreign currency reserves measured in dollars nearly flat-lined in the third quarter after posting high growth late last year and in the first half of this year. In September, the reserves actually fell $61 billion, due in part to the fact that in September the euro weakened 6 % against the dollar. Another underlying driver of the shift was a likely decline in net capital inflows into China. As China holds some 30–40 % of its foreign currency reserves in non-dollar-denominated instruments, fluctuations in other major currencies, particularly the euro and the yen, impact the size of the reserve calculated in dollars. China's foreign currency and gold reserves stood at $3.2 trillion at the end of September.

According to preliminary 3Q balance-of-payments figures, the surpluses in the current account and FDI remained large, while other capital inflows to China were close to zero in net terms. Presumably, this not only reflected Western banks repatriating assets from China to deal with their domestic capital and liquidity needs but also was a sign that uncertainty in China's housing and financial markets, combined with lower economic growth, has reduced interest of foreign investors in Chinese assets.

China's foreign currency and gold reserves, USD billion



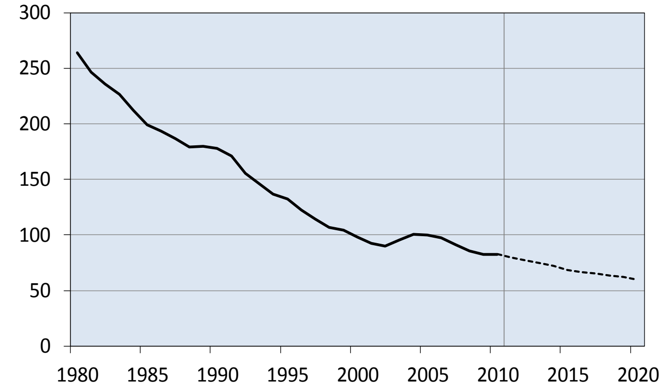
Source: Bloomberg

China tests effectiveness of different environmental policy approaches. Local news sources report measures to limit greenhouse emissions will be tested in the cities of Chongqing, Peking, Shanghai, Shenzhen and Tianjin, as well as the Guangdong and Hubei provinces. Specific information on the measures used to limit environmental impacts was not revealed, but the discussion focused on both voluntary and mandatory emissions targets, as well as carbon trading schemes. The trials would begin by 2013.

China is the world's largest source of greenhouse emissions, accounting for about a quarter of all global greenhouse gas emissions. As part of its climate-change negotiations, China committed to voluntarily reducing greenhouse emissions by 40 % relative to GDP by 2020 compared to its 2005 level. Under the current five-year plan, the goal is a 17 % reduction. China's greenhouse gas emissions relative to GDP contracted sharply during 1980–2000, but as the low-hanging fruit of environmental fixes have been taken, further improvements in reducing environmental impact have been harder to achieve in recent years.

Considered long term, China's emission goals are hardly ambitious. If China's GDP growth continues at the current pace of 9 % a year, emissions would rise more than 70 % above the current level in absolute terms by 2020, even if they fall about 40 % relative to GDP.

China's CO_2 emissions to GDP and target trend, 2005=100



Sources: British Petroleum and IMF

Boom in Finnish raw material exports to China. Customs Finland reports that China is Finland's biggest Asian trading partner, although China's position is no longer strengthening. Finland's exports to China in the first eight months of 2011 were valued at nearly €2 billion and the county's share of Finland's total exports was almost 5 %. Half of exports consisted of machinery & equipment. A quarter of exports were raw materials, which have increased rapidly this year. In the January-August period, wood pulp amounted to 12 % of exports and furs 8 % − increases of over 100 % from the same period a year earlier. In addition to goods exports, Statistics Finland reports exports of services from Finland to China last year were worth about €1 billion.

In the January-August period, Finland imported nearly €3 billion in goods from China, with China accounting for about 7 % of total imports. Imports were dominated by phones (about 20 %) and other equipment, machinery and transport vehicles (40 %). Clothing and footwear accounted for slightly over 15 %. The annual value of imported services in recent years has hovered around €0.5 billion.

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