

## Russia

**Moscow Exchange stocks have four rough months.** As of end-April, the Moscow Exchange's MICEX stock index had lost over 8 % since the start of the year, clearly underperforming most world stock markets. The decline reflects falling commodity prices as well as the uncertainty caused by the crisis of Cyprus. By sector, the only MICEX gainer has been the consumer & retail index whereas other sectors saw declines.

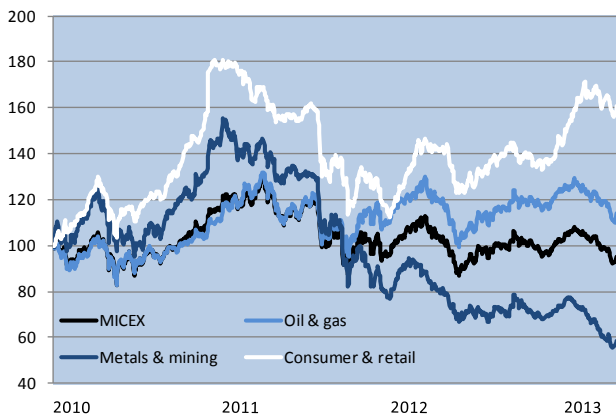
The oil & gas sector accounts for nearly half of the MICEX index. The sub-index has declined 10 % since the start of the year on falling oil prices. In the oil sector, from additional uncertainty have suffered the minority shareholders in TNK-BP Holding, the subsidiary of the TNK-BP venture acquired recently by Rosneft. Minority shareholders fear Rosneft will siphon off the assets of TNK-BP Holding and other subsidiaries instead of paying out dividends.

The banking and financial sector sub-index also slid 10 % since the start of the year. It currently represents just under a fifth of the MICEX index. The sector has been affected directly by uncertainty caused by the Cyprus banking crisis. The share issue of VTB bank announced this week, however, was relatively well received by the markets and according to VTB e.g. the sovereign wealth funds of Norway, Qatar and Azerbaijan have plans to participate.

The metals & mining sector now represents about 10 % of the MICEX index. It has fallen over 20 % from the start of the year. The decline reflects lower commodity prices that reduced 2012 revenues of metal firms. The sector index stands even well below its reading at the start of 2010.

The market capitalisation of Moscow Exchange-traded companies is over \$800 billion. However, the free-float is less than 30 % which is clearly lower than in most major exchanges. The Moscow Exchange nevertheless continues to evolve, e.g. by launching its first exchange-traded fund (ETF) this week.

**Moscow Exchange MICEX stock index and sector sub-indexes, 100 = January 11, 2010**



Source: MICEX

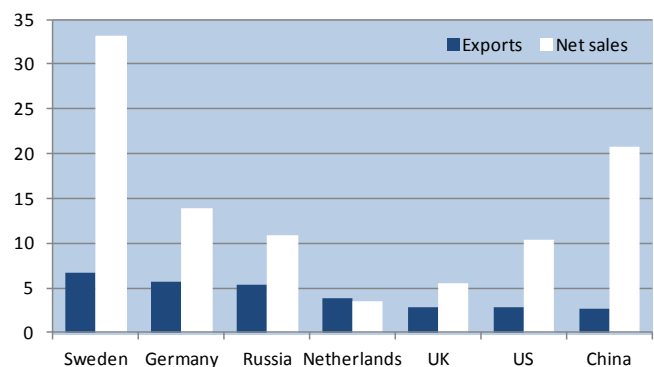
**Foreign subsidiaries of Finnish firms have expanded especially in Russia and China.** Figures released last week by Statistics Finland show that Sweden is still the most important location for the foreign subsidiaries of Finnish firms when measured in terms of personnel. However, the latest figures from 2011 show that China and Russia have moved into the number-two and three slots. In mainland China, Finnish firms operated subsidiaries employing in total over 70,000 people, while Finnish subsidiaries in Russia employed over 50,000. Chinese subsidiaries ranked second in net sales (€1 billion), while Russian subsidiaries ranked fourth (€1 billion). The numbers for personnel and net sales of Finnish subsidiaries located in China and Russia are considerably larger than similar figures for personnel and net sales of Finnish subsidiaries in all of South America or Africa.

China and Russia have increased in importance for Finnish firms at the expense of e.g. Finland's traditional European trading partners. Over the past decade, the net sales of Finnish subsidiaries based in EU-15 countries have only seen their net sales rise about 8 % and the overall share of EU-15 subsidiaries measured in net sales has fallen from nearly 60 % ten years ago to just over 40 % today.

In contrast, net sales of Finnish subsidiaries in Russia have increased more than ten-fold over the past decade and subsidiaries in mainland China have seen their net sales climb nearly five-fold. The value of Finnish exports to Russia and China over the past decade has also doubled. Finnish firms appear to prefer establishing businesses on the ground in China, while exporting is still relatively more important in business operations with Russia.

Finnish subsidiaries in China are larger on average than those located in Russia. Subsidiaries in China in 2011 had average net sales of nearly €100 million and just over 300 employees whereas subsidiaries in Russia had net sales of €30 million and 130 employees. Finnish companies have just over 400 Russian subsidiaries and over 200 Chinese subsidiaries.

**Finnish exports and net sales of foreign subsidiaries in Finland's largest export countries in 2011, EUR billion**



Sources: National Board of Customs, Statistics Finland

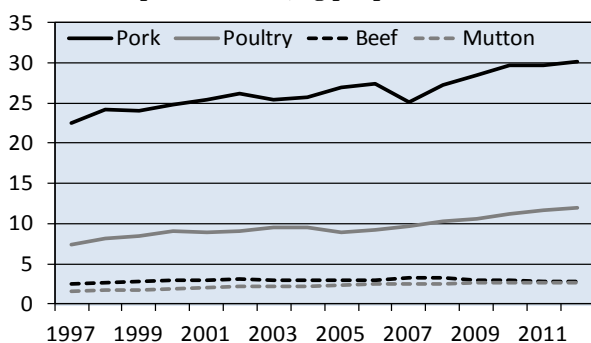
## China

**Chinese eating more meat.** The UN Food and Agriculture Organization (FAO) reports the Chinese are now eating nearly 50 kilograms of meat a year, or about 10 kg more per capita than in 2000. Much of the increase in meat consumption reflects the fact that Chinese are getting richer, which tends to change dietary habits. Chinese meat consumption is approaching the developed world average of 65 kg a year. Much of the meat consumed in China is pork; China accounts for about half of global pork consumption. In addition to pork, poultry consumption, mainly chicken, has increased sharply. The developed world in contrast prefers to stick with white meat, with consumers generally eating more chicken than pork. Beef consumption is significantly higher in the developed world than in China.

Domestic meat production has risen substantially in recent years. National Bureau of Statistics figures show that 700 million swine were slaughtered last year, or 35 million more than in 2011. Production has been hurt, however, by serious epidemics such as the 2007 blue ear disease outbreak that caused a sharp drop in pork production. Pigs dying *en masse* from the disease are a big problem for producers. Even if the state reimburses farmers 80 yuan (€10) per swine for proper disposal, some seem to find it easier to toss their dead animals in the river. Shanghai residents were surprised in March when the bodies of over 16,000 dead pigs showed up in the nearby waters of the Huangpu River. In April, another hundred deceased pigs were found floating in the Liuyang River in Hunan province. Some news reports claim diseased swine have also been butchered and sold for consumption.

Despite efforts to ramp up meat production in China, the country has failed to keep up with meat demand. Meat imports have risen sharply in recent years. In 2006, China imported as much meat as it exported. In 2011, meat imports were three times higher than meat exports.

**Meat consumption in China, kg per person**



Source: FAO

**Bird flu concerns mainly affecting the Shanghai region.** Products containing commercially raised poultry have been removed from hotel and school menus, and demand for chicken in particular has dried up. The international fast food chain KFC (Kentucky Fried Chicken) reports that fears related to the H7N9 flu virus have caused a major loss of business at its outlets. Share prices of many big Chinese food producers have also dropped. Some Chinese firms have asked their workers to avoid travel. Nevertheless, no panic over an impending pandemic has occurred. Nearly all cases so far have been limited to the Shanghai region.

The World Health Organization (WHO) reports 128 laboratory-confirmed cases of H7N9 and 26 deaths as of Thursday (May 2). The single case outside China in Taiwan involved a person who had recently travelled to China. The number of infected individuals is still very small compared to previous epidemics. For example, the SARS coronavirus epidemic resulted in 5,328 cases in China with a total of 349 fatalities. The initial pandemic of the novel H1N1 flu virus in 2009 that was first identified in Mexico, ultimately infected about a hundred thousand Chinese in its first wave. H1N1 cases are still reported in northern China. Official figures in China likely underreport the incidence of flu; most cases (even flu-related deaths) never make it into the official statistics.

In the current novel H7N9 flu outbreak, Chinese public health officials have been praised for their swift response and transparency. Officials clearly learned lessons from the SARS epidemic, which started with officials initially denying the outbreak altogether, thereby allowing infected individuals to travel internationally and making containment of the epidemic extremely challenging. In the current instance, international experts have been involved from the start. WHO experts are on site trying to identify reservoirs and vectors of the virus. The WHO posts infection [updates on its website](#).

Health officials believe transmission of H7N9 between people is very rare. Although the origins of the virus are still unclear, studies are currently focused on commercial poultry operations and producers have been asked to operate with due caution. Officials note that since poultry markets in Shanghai have been shut down, the spread of the disease in the region has slowed. With the virus apparently isolated, the WHO is not calling for increased border inspections to prevent the spread of H7N9. The situation could change if the virus mutates. Human-to-human spread would increase the risk of a global pandemic, as was the case when SARS virus cases began to show up outside China.