

Russia

Russian inflation slowed slightly to 6.5 % last year.

Although inflation fell slightly from 6.6 % in 2012 to 6.5 % last year, it still well exceeded the government's 5–6 % target range.

The rise in consumer prices accelerated slightly in the final months of 2013, driven largely by a 7.3 % y-o-y rise in food prices. Inflation was boosted in part by hikes in excise taxes, which are scheduled to continue over the next few years. Due to last year's tax hikes, prices of tobacco products rose nearly 30 % and alcoholic beverages nearly 15 %. Alcohol and tobacco make up over 6 % of Russia's consumer price index.

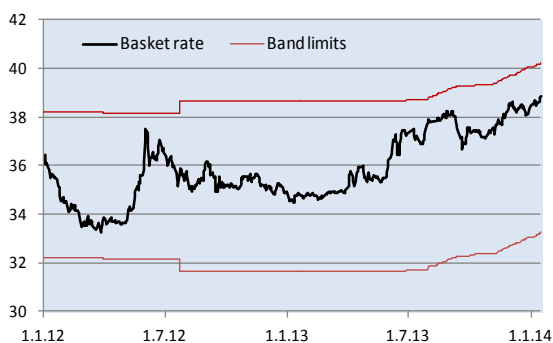
Prices of other foodstuffs rose just over 6 % last year. The largest price increases were seen for staple foods. The price of Rosstat's statistical basket of basic foodstuffs increased 10 %.

Prices of non-food goods were up 4.5 % last year, while prices of services increased 8 %. Services seeing the largest hikes were rates for energy and water, childcare, healthcare and passenger fares.

CBR continues to move away from ruble rate steering.

Technically this took place by easing the requirements for moving up or down the permitted range within which the ruble can fluctuate. Adjusting the band up or down provides the ruble with additional room to weaken or strengthen in response to market conditions.

Ruble value against currency basket, band limits, 1.1.2012–15.1.2014 (rising trend indicates ruble weakening)



Source: Central Bank of Russia

CBR exchange rate policy is based on steering the ruble's exchange rate relative to a euro-dollar currency basket. The ruble's exchange rate against the basket can move relatively freely within a seven-ruble range. Once the CBR's cumulative response to hold the ruble in its band reaches a certain level, the CBR capitulates and the band is adjusted.

The ruble's fluctuation band has been steadily shifted upwards since last summer, in response to pressures from the market. The CBR has kept the ruble's decline on a steady, but gradual, course through active intervention in the currency markets. During 2013, CBR net sales of foreign currency were about \$27 billion. At the end of November, the CBR's gold and foreign currency reserves stood at \$516 billion. Russia maintains one of the largest currency reserves in the world.

The CBR has gradually reduced its efforts to steer the ruble over the past three years and expects to adopt a free-floating ruble by 2015. A full float would allow the CBR to turn its focus to inflation targeting. The ruble is expected to weaken further this year.

Russian companies still have very few subsidiaries in Finland. The latest figures from Statistics Finland show that Russian owners held less than 40 of the approximately 3,000 foreign-owned subsidiaries operating in Finland in 2012. Subsidiaries of Russian companies operating in Finland tended to have fewer employees than subsidiaries of companies based elsewhere. The total number of persons employed by Russian subsidiaries was just 740 in 2012, about a third of the 2008 peak.

On the other hand, the net sales of Russian subsidiaries tended to be considerably higher than the average of subsidiaries of other countries. The average net sales of all foreign-owned subsidiaries operating in Finland in 2012 were €25 million, while the average for a Russian subsidiary was €100 million. The combined net sales of Russian subsidiaries in Finland exceeded €3.5 billion. The largest net sales for foreign subsidiaries in Finland were posted by Swedish companies (€6 billion) and US companies (€ billion).

Finnish companies are much more likely to set up subsidiaries in Russia than Russian companies are to set up subsidiaries in Finland. The most recent figures (2011) show that about 400 Finnish subsidiaries operated in Russia. In terms of labour force, the difference was even bigger as Finnish subsidiaries in Russia employed over 50,000 people.

Personnel employed by foreign subsidiaries (1,000 persons)



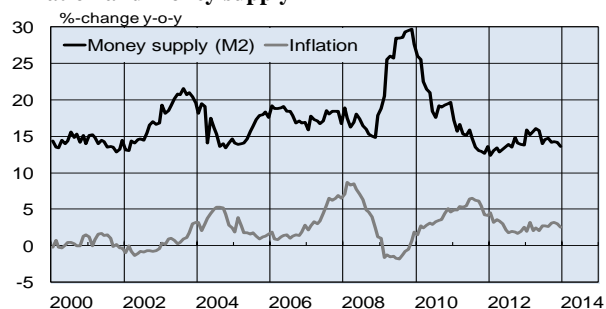
Source: Statistics Finland

China

China's inflation slowed in December. The National Bureau of Statistics reports December consumer prices were up just 2.5 % y-o-y, a rather sharp drop given 12-month inflation September-November hovered around 3 %. A notable factor was the slowdown in the rise in food prices in December relative to earlier months. Prices of non-food items remained on their long-term trend below 2 %. Inflation remained rather stable during whole last year compared to previous years. In producer prices, the long slide continued in December.

Growth in the broad money supply (M2) slowed in December to below 14 % y-o-y. The lower growth apparently reflected minor monetary tightening measures of the People's Bank of China and measures to rein in growth of the grey financial sector.

Inflation and money supply



Source: Bloomberg

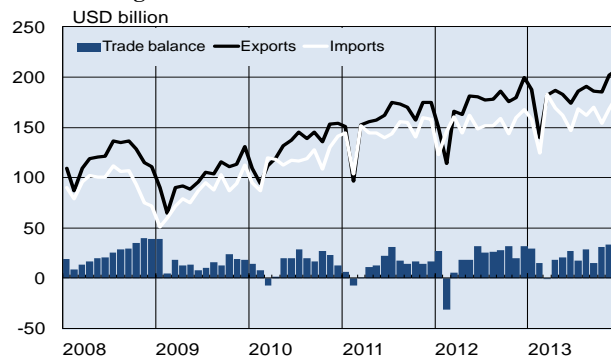
Processing-and-assembly exports no longer increasing in China. Customs officials report that the value of goods exports last year totalled \$2.21 trillion. Export growth overall remained at 8 %, but exports to ASEAN countries and elsewhere in Asia grew above that pace. Exports to Japan contracted, however. Exports to the EU and the US showed fairly low growth overall, although they picked up late in the year. Machinery and equipment, which constituted about 40 % of China's total exports, rose over 10 %.

Most of the growth in total exports came from exports of products made entirely in China. Growth in exports of products based on imported components for final processing and assembly flatlined. This reflects the fact that due to rising production costs in China, industries dependent on labour-intensive processing and assembly have moved their operations to countries with lower cost levels.

China's goods imports last year amounted to \$1.95 trillion, with import growth accelerating to 7 %. Imports from the US grew fastest (15 %), while import growth was lower from Asia (5 %) and the EU (4 %). Imports of machinery and equipment rose rapidly. Machinery and equipment constituted about 30 % of Chinese imports, while mineral prod-

ucts represented slightly over 20 %. Largely due to the drop in commodity prices globally, growth in the value of imports of mineral products remained low.

China's foreign trade 2008–2013



Source: Bloomberg

People's Bank of China cracks down on bitcoin trading to prevent skirting capital limits.

Interest in the bitcoin virtual currency spiked in China late last year, making the country the world's biggest bitcoin market. Chinese consumers and banks fell over each other trying to get in on the action. Shanghai-based BTC China, a bitcoin exchange, accounted for about a third of all bitcoin trading globally in November. BTC China is one of many bitcoin exchanges that enabled trading bitcoins in yuan.

Although bitcoin trading is still a marginal phenomenon (the entire global market is worth about €7–8 billion at the moment), the rapid increase in bitcoin transactions forced China's central bank to clarify its stance on the virtual currency. The PBoC banned banks from engaging in bitcoin transactions in early December. It then followed up by forbidding bitcoin exchanges to take yuan deposits, sending the bitcoin's value plummeting. The PBoC is wary of bitcoin trading on principle; officials have little control over cross-border transactions that could be used to circumvent capital controls. The restrictions were further motivated by the fact that bitcoins offer anonymity useful in conducting illegal drug sales and money laundering.

Most bitcoin demand growth in China, however, apparently stems from its attractiveness as an alternative investment vehicle, not its ideological charms. Regulations now prevent Chinese banks from offering yields on money-market savings above set bank deposit rates. Many still consider bitcoins a speculative investment; few firms are yet ready to accept bitcoins as a means of payment.

Most traders try to make their money off bitcoin volatility. The increase in bitcoin trading in the second half of 2013 led to skyrocketing bitcoin prices. The Bitcoin Average for December peaked at 7,000 yuan (€850) and then fell to 2,500 yuan (€300) on December 18. The bitcoin has since regained most of its lost value. The yo-yoing price reflects unstable demand and thinness of the market.