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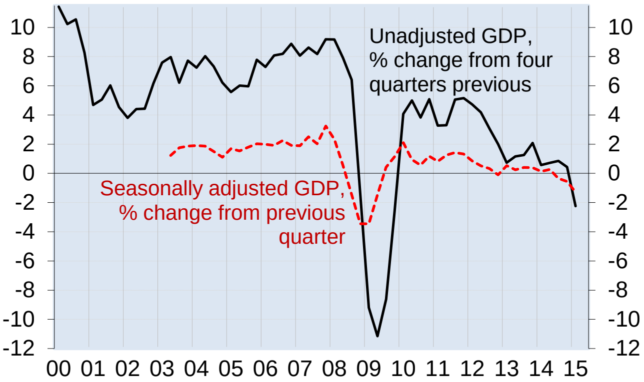
Russia

Depressed Russian demand and output continued in May. For the third month in a row, the volume of retail sales was down about 9 % y-o-y. The contraction for the first five months of 2015 was over 7.5 %. When seasonally adjusted and cleaned up for differences in the number of working days, retail sales held steady for the period following a large drop in January. Real disposable household incomes have declined gradually since autumn 2014. Real incomes in April-May were down about 5 % y-o-y.

Investment decline deepened in May, scoring about 7.5 % from May 2014. The on-going year-and-a-half contraction in the construction sector worsened in May. In the first five months of the year, investments were down nearly 5 % y-o-y and over 8 % from two years ago.

The slide in industrial output continued in May. The output was down about 5 % y-o-y in April-May. Most of this reflects the fall in manufacturing, down over 8 % y-o-y in May. Thanks to a relatively merciful first quarter, the on-year drop in manufacturing for January-May was 4 %.

Changes in Russian GDP, %



Source: Rosstat

Economy minister Alexei Ulyukayev noted his ministry's estimate that GDP contracted 3.2 % y-o-y in the first five months of this year. Deputy economy minister Alexei Vedev, who is tasked with forecasting and economic monitoring, reported that seasonally adjusted GDP contracted in May, but less than in previous months. State-owned Vnesheconombank (VEB) has also begun to release rapid GDP estimates. VEB calculates that GDP contracted 3.4 % y-o-y in January-May, and that the on-year drop in April-May was about 5 %. VEB's chief economist is Andrei Klepach, Vedev's predecessor who headed up macro economy at the ministry for many years. The latest Rosstat figures show GDP shrank 2.2 % y-o-y in the first quarter. After minor adjustments in the GDP data over many previous years, Rosstat now says seasonally adjusted GDP started to contract already in 3Q2014.

Forecasters slightly improve their Russia forecasts for this year. In May and June, a number of authorities, including Russia's economy ministry, the Central Bank of Russia, the IMF, the World Bank, the OECD and the EBRD, issued revised 2015 forecasts for the Russian economy. Most forecasts gave a little improved outlooks for the oil price, at or almost at $60 a barrel in 2015. Nearly all, including the Consensus Economics forecast of June, now expect GDP to contract 2.7–3.5 % this year.

Most expect inflation to slow a bit better than in their earlier forecasts, but this has not lead to across-the-board alleviations in expectations of the drop in private consumption. The forecasts of the economy ministry, the CBR and Consensus Economics see private consumption declining around 6 % this year. Estimates of the expected decline in investments have become milder, even if the differences among forecasters remain quite large (e.g. the three abovementioned forecasts see drops ranging from 5 % to 11 %). The economy ministry and the CBR now foresee the volume of goods and services imported to Russia will not drop by a third in 2015, but rather by 22–25 %.

President Putin speaks to foreign investors at St. Petersburg international economic forum. Putin thanked investors who have continued to operate in Russia despite the political situation. He noted that, because the economy was in better shape than many had feared at the end of last year, Russia could now return to dealing with its structural challenges such as improving the business environment. The latest plan to attract investment largely relies on preferential tax treatment: the corporate tax burden is not to be increased over the next four years, and small and medium-sized enterprises, as well as newly established firms, are to get special tax breaks. Putin assured listeners that the Russian economy was on track for growth and development. Many observers were puzzled by the president's optimistic take on the current state of the economy, as well as the narrowness of solutions proposed to deal with difficult, long-standing structural problems.

EU and Russia both extend economic sanctions. The EU voted on Monday (June 22) to keep economic sanctions against Russia in place through January 2016. These sanctions were imposed last August and expanded in September. Capital market sanctions restrict financing of over 30 days to certain large Russian banks as well as energy and defence companies. Arms trade with Russia is forbidden, along with restrictions on exports of dual-use products and products and services for oil exploration and production.

On Wednesday (June 24), Putin responded with a decree maintaining Russia's import bans until August 6, 2016. Last August, Russia banned the imports of many food items from the EU, Norway, the US, Canada and Australia. The list of banned products published after the extension had only minor changes compared to the one in effect currently.

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China

Chinese wages continue to rise, though at a slower pace. The average wage for city workers last year rose 9 % to around 4,700 yuan (€560). Wages were up in all major sectors: manufacturing 10 %, wholesale and retail trade 9 %, construction 9 % and finance 9 %. In euro terms, wages were up about one percentage point less as the yuan strengthened against the euro in 2014.

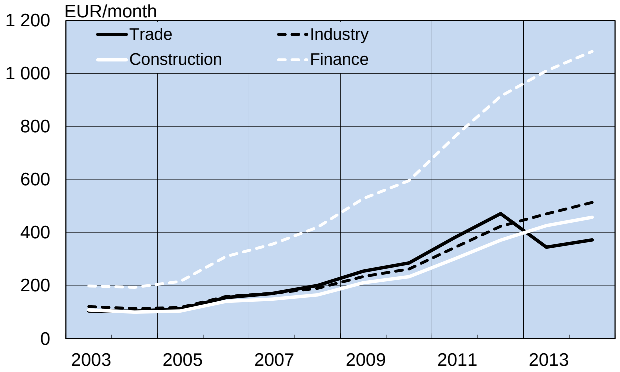
The overall wage growth slowed from 10 % in 2013 as expected. Wages continued to rise rapidly, however, and wage hikes were large also in real terms as inflation remained below 2 % last year.

There are significant regional variations in labour market conditions and wages. Wages have climbed fastest and been highest in the big cities and fast-growing coastal regions. For example, a survey of Standard Chartered Bank found that industrial firms in the coastal Guangdong province this year again expect to face labour shortages. In particular, they expect that they will have to raise migrant worker wages in the province more than 8 %.

Wages in China have risen on average more than 15 % a year over the past ten years, giving indication about the huge productivity gains the country has made. Total productivity has risen dramatically as millions of under-employed people from rural areas have moved to work in cities. As the growth in the inflow of migrant labourers has slowed, productivity gains have been invoked by production shifting to producing goods with more value added.

The rapid rise in wages also indicates pressures in China's labour markets as the coastal industrial regions face labour shortages. The slowdown in economic growth and lower growth in demand for workers in part explain the slowdown in the rise of wages. In addition, pressure to raise wages further will be eased by the fact that labour-intensive industries are shifting their production to emerging economies where labour costs are lower.

Average monthly wages by branch



Source: Macrobond

Preparing for the rollout of the China International Payments System (CIPS). The People's Bank of China reports that its new international payments processing system is now ready and should be in regular use by the end of this year. CIPS facilitates yuan-denominated payments and allows direct clearing of yuan payments to and from China. CIPS operates in a manner similar to e.g. the TARGET system used for euro payments. CIPS allows foreign firms to make payments to China directly from their own bank accounts. The new system is in trial use in 20 banks.

Currently, only PBoC-designated clearing banks can process international yuan payments. All of China's 15 designated clearing banks are subsidiaries of large state-controlled banks. CIPS allows foreign banks to engage in processing of yuan payments through a direct connection between CIPS and the bank.

Clearing of payments in yuan at the national level is already done with the China National Payments System (CNAPS). CIPS apparently will operate in parallel with CNAPS. CNAPS will also be brought into compliance with international standards.

CIPS has been designed in accordance with SWIFT standards and supports both Chinese and English languages. CIPS can process yuan payments for such purposes as foreign trade or direct investment. As with many other reforms in China, the rollout will involve several phases. In the first phase, the central bank says the system will be available 11 hours a day to allow processing of payments to Asia, Europe and Oceania.

The international payments clearing system has been under construction since 2012. It was originally scheduled for kick-off last year, but the launch was delayed due to technical issues. CIPS represents another step by China towards full international acceptance of the yuan.

Yuan now the top international payments currency in Asia. SWIFT, the international provider of information services for the financial sector, reports that in April the yuan became to most-used currency in payments between Asian countries and the China-Hong Kong region. The yuan's share of payments traffic between the China-Hong Kong region and the rest of Asia has risen from 7 % to 31 % over the past three years. Some 80 % of payments between South Korea and Taiwan with the China-Hong Kong region are now made in yuan, while the figure for payments with Japan was still just 5 %. The launch of new Chinese clearing banks in Australia, South Korea, Malaysia and Thailand will further increase opportunities to use the yuan.

While the yuan's share of global payment traffic is only slightly more than 2 %, the yuan has rapidly risen to fifth place (just behind the Japanese yen) among the world's most-used currencies in international payments.

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