Weekly Review
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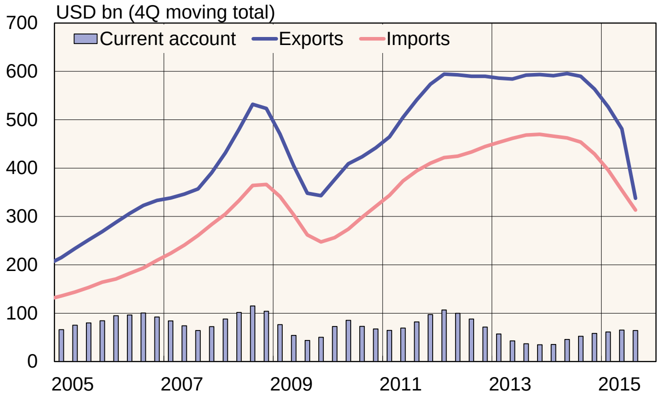
Russia

Russia's third-quarter exports and imports figures fall to 2010 levels. Preliminary balance-of-payments figures from the Central Bank of Russia show earnings on exports of goods and services fell yet further in the third quarter. Export earnings on-year were down by over a third (25 % in euro terms), sinking to a level last seen five years ago. Low export prices have caused export revenues to sag in the past year, with the export values of crude oil and petroleum products hit hardest. Earnings on gas exports recovered from a deep slump of over a year, but were still historically low. The slide in other export earnings accelerated.

The contraction in spending on imported goods and services in the third quarter continued at the same pace as earlier this year. The value of imports was down by 35 % y-o-y (over 20 % in euro terms), which meant that spending on imports plunged to levels not seen since 2010. Goods imports were down nearly 40 % in dollar terms (25 % in euros), while service imports fell 30 % y-o-y (15 % in euros). Tourism spending was down by nearly a fifth in euro terms.

The goods trade surplus has shrunk this year, but the current account surplus has been supported by a reduced services trade deficit and a decline in private sector payments of dividends and interest abroad. In line with seasonal variation, the current account surplus was relatively small in the third quarter. The cumulative current account surplus over the most recent four-quarter period (4Q14–3Q15) remained at just under $65 billion whereas in relation to GDP it increased to nearly 5 %.

Russian trade in goods and services; current account balance



Source: Central Bank of Russia.

Private sector capital flows between Russia and abroad remain modest. Preliminary balance-of-payments figures show private sector net capital flow reversed in the third quarter mildly into Russia. Banks continued to pay down foreign debt, but reduced also their receivables from abroad by about the same amount. In contrast, non-bank enterprises paid down even less foreign debt in relation to scheduled debt payments than in previous quarters, implying that they were able to roll over a large share of their debt.

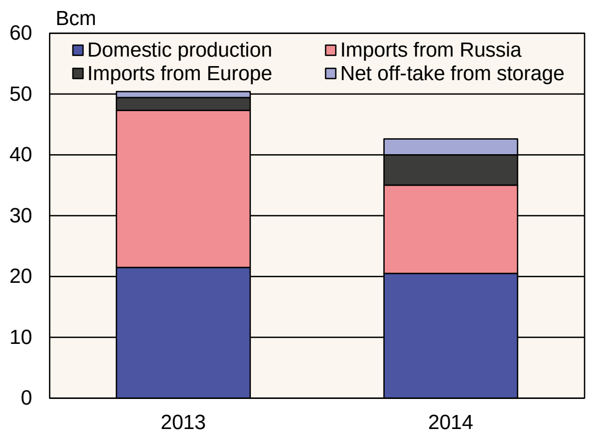
As in the first half, outbound flows of grey capital were practically non-existent and more forex cash was sold than purchased. Inbound direct foreign investment flows remained very modest. As earlier, more FDI flowed out of Russia than came in, even if FDI outflows were also considerably diminished from previous years.

Russia restarts gas deliveries to Ukraine; air travel between the two countries set to end. Having received from Naftogaz a $230 million advance payment for next winter's gas, Gazprom this week again began to supply gas to Ukraine after an interruption of a few months. In earlier negotiations involving Russia, Ukraine and the EU, a gas price of $227 per 1,000 cubic metres was set to extend through end-March 2016. The price is about the same as the average price of exported Russian gas in April-June.

For the winter season 2014-15, Ukraine purchased a total of 1.5 billion m^3 of gas from Gazprom for just over $500 million. The contract price for gas last winter was $380 per 1,000 m^3, reflecting higher oil prices. Ukraine bought only a tenth of its typical winter gas purchase from Gazprom last year, but increased substantially its gas imports from Europe. The imports from Europe, of course, largely consisted of gas originating in Russia. Ukraine's total gas imports last winter amounted to almost 8 billion m^3 and were valued at about $2.5 billion. Gas consumption in Ukraine in the first nine months of this year contracted by about 20 % y-o-y.

Air traffic between Russia and Ukraine seems set to end. Ukraine has banned flights of Russian airlines into the country as part of sanctions it decided to impose on Russian companies and individuals. Russia has responded by imposing a similar ban on Ukrainian airlines. Both bans are set to go into effect on October 25.

Breakdown of Ukraine gas supplies, 2013-14



Source: Naftogaz of Ukraine.

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China

TPP deal presents a positive challenge for China. In early October, the US, Japan, and ten other Pacific Rim nations finalised the Trans-Pacific Partnership (TPP) trade agreement. It is the first broad-based multilateral deal aimed at liberalising trade since the mid-1990s expansions (NAFTA and WTO). It covers trade aspects from agriculture to services and increases competition through reduced tariff levels and numerous other measures. TPP member countries account for nearly 40 % of global GDP, so the arrangement will play a major role in setting the ground rules of international trade – even if ratification of the agreement by member countries turns out to be a difficult, protracted process.

China did not participate in the US-led TPP-negotiations. Instead, it has tried to push for a more modest Pacific Rim free-trade zone and bilateral arrangements. It remains unlikely that China will sign on to the TPP agreement any time soon as it is unwilling to commit to TPP terms such as those affecting state-owned enterprises, right of workers to organise, protection of intellectual property and Internet censorship. Even without participating, the TPP agreement affects China in many ways, because companies must make their investment decisions in light of opportunities created by the new free-trade zone. A free-trade agreement will increase trade and production in the Pacific Rim area, which should thus benefit China and other non-signatory countries. On the other hand, TPP channels trade and production investment to the free-trade zone members, weakening China's position as a destination for industrial investment and its role in international production chains.

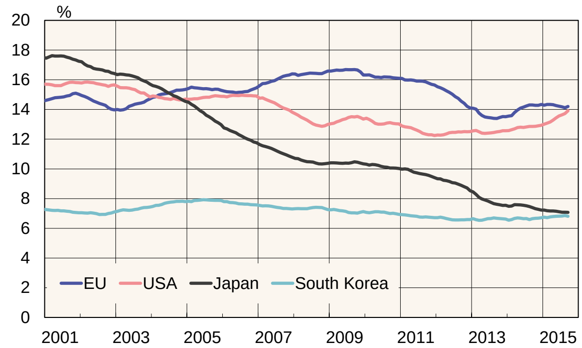
Many observers have characterised the goals of TPP countries and China as conflicting and speculated how China might respond with its own projects (e.g. Silk Road and AIIB) to meet the challenges of the new free-trade area. From another perspective, however, it is clear that TPP brings new norms to global trade that China, too, should adopt. TPP membership would comport well with China's long-term opening-up policy, which led to China's last major trade advance with its WTO accession in 2001.

Small changes in regional structure of China's foreign trade. Foreign trade contracted again in September. For the first nine months of 2015, the value of goods exports declined 2 % y-o-y, while the value of imports declined 15 %, mainly on falling prices for energy and commodities. The January-September trade surplus was over $420 billion.

The US and EU remain China's largest export markets, accounting for 18 % and 15 %, respectively, of total exports. Japan, which accounts for 6 % of Chinese exports, has seen its share fall steadily for years. South Korea, with a 4 % export share, is also an important export market for China. About half of China's exports go to Asia, while some 6 % goes to Latin America and 5 % to Africa.

Some 13 % of Chinese goods imports come from the EU, followed by South Korea (10 %), Japan (9 %), the US (9 %) and Taiwan (8 %). South Korea and the United States have increased their shares in recent years, while the shares of Japan and Taiwan in China's imports have declined. Asian countries provided 57 % of China's imports, while 6 % came from Latin America and 4 % from Africa.

Foreign trade shares of China's largest trading partners



Source: Macrobond.

Chinese corporate profits dragged down by long slide in producer prices. Producer prices were down 5.9 % y-o-y in September. Producer prices have fallen for nearly four years in a row and are now 12 % lower than in September 2011. September consumer price inflation was 1.6 %. Inflation slowed slightly, rising 0.1 % m-o-m in September. Prices of food and oil cause swings in consumer prices. With prices of food and energy removed from consumer prices, the increase this year has remained around 1.6 %.

In addition to falling producer prices, the profits of Chinese firms have been hurt recently by the slide in stock prices and exchange rate shifts. The National Bureau of Statistics reports that profits of large industrial firms were down 2 % y-o-y in the first eight months of the year. Profits of state-owned enterprises declined, while profits of privately held industrial firms increased by 7 %. Profits of companies operating in the mineral extraction sector were hardest hit, down by half from a year earlier. Profits were up, however, for manufacturers and utility providers of electricity, water and natural gas. Growth in corporate revenues overall slowed. The average profit margin for industrial firms (profit-to-revenue ratio) was 5.4 % in the first eight months of the year, or about the same as in the first eight months of 2014.

Much of the drop in producer prices reflects excess capacity and overproduction in many sectors, as well as drops in prices of energy and raw material inputs. China is not alone in struggling with this set of problems. Also several other emerging economies in Asia have witnessed declines in producer prices and corporate profits. August producer prices were down in e.g. South Korea (-4 % y-o-y), Thailand (-4 %), Malaysia (-5 %), the Philippines (-8 %) and India (wholesale prices -5 %).

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