

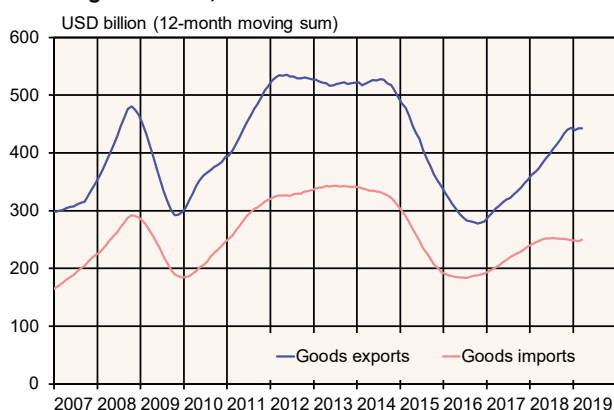
## Russia

**Sluggish growth in Russian foreign trade.** Russian customs reports that Russia's goods exports, measured in dollar terms, rose a mere 1.4 % y-o-y in the first quarter of this year (they rose by 25 % in 2018). The dollar value of goods imports fell by 2.4 % (up 4 % in 2018).

While ruble weakness has depressed Russian spending on imports, part of this poor picture of Russian import developments stems from the use of the dollar as a unit of measurement. Measured in euros, goods imports to Russia rose over 5 %. About half of Russia's imports comes from Europe.

The volume of exported crude oil increased by 7 % y-o-y (compared to 3 % growth in 2018), while the volume of oil products shipped fell by 7 % (exports were virtually flat in 2018). Growth in natural gas exports stopped, but exports of liquefied natural gas (LNG) continued to rise. The value of energy exports overall increased by 3.6 %.

### Russian goods trade, 2007–2019



Source: Russian customs.

**Dollar remains the dominant billing currency in Russian foreign trade.** The Central Bank of Russia reports that 67 % of invoicing on exports last year was in dollars, 17 % in euros and 14 % in rubles. The dollar's share of foreign trade invoicing has slowly declined since 2013, while the euro and ruble have gained slightly. The dollar has traditionally represented about 40 % of Russia's invoice currency for imports, while the euro and ruble have each accounted for about 30 %. These shares have remained quite stable over recent years.

The ruble is the top invoice currency in trade with the countries that formed the CIS, especially with the Eurasian Economic Union. In other markets, the ruble's share in Russian export invoicing is below 10 %. The exception is India, where that share rose to more than a third in 2018.

The dollar holds a commanding status in Russia's trade with China. Almost 90 % of Russian exports to China are invoiced in dollars, although that share fell sharply in the second half of 2018. In 4Q18, the dollar's share was just 65 %, while the euro's share rose to almost 25 %. While the dollar's

use as an invoice currency for imports from China has declined, its share is still over 70 %. In 2018, about 20 % of imports from China were not invoiced in dollars, euros or rubles. This most likely reflects increasing use of Chinese yuan.

**Difficult to form a full picture of Russia's sizeable public sector procurements.** Russia's finance ministry reports that public sector contracts made last year under procurement oversight were worth about 24 trillion rubles (about 320 billion euros). Most of the contracts were made by public agencies or government-owned firms.

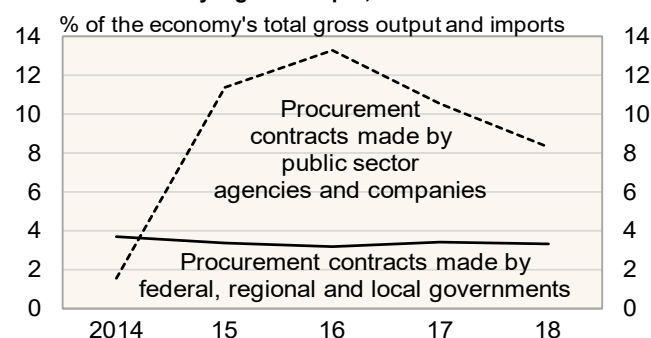
Federal, regional and local governments last year made procurement contracts worth 6.9 trillion rubles, or over 90 billion euros. In ruble terms, growth in procurements slowed to about 8 % y-o-y. The federal government level last year sealed contracts worth 32 billion euros, regions 42 billion euros and municipalities 19 billion euros.

Public agencies and firms in which the state holds a stake of over 50 % made contracts under procurement oversight worth 17.2 trillion rubles, or 230 billion euros. Oversight of this category has declined. Largely due to this, the amount of reported contracts fell significantly (even in nominal ruble terms) for the second year in a row. The reporting requirement has been dropped for e.g. real estate sales and rentals, as well as services related to bank loans and deposits. The ten largest buyers made contracts worth 75 billion euros, led by Gazprom and its subsidiaries (33 billion euros), Russian Railways (22 billion euros) and Rosneft (16 billion euros).

Not all procurements are subject to oversight, and annual oversight reports do not try to estimate oversight coverage. Comparison to government sector budget figures suggests the oversight covers federal, regional and municipal procurements rather well. Oversight of public agencies and state-owned firms may be less than half of their total, even assuming the supply contracts are for not longer than a year.

Online auctions accounted in 2018 for 64 % of the value of federal, regional and municipal procurement contracts, as in 2017, while no-competition contracts with single suppliers accounted for 23 %. The latter method accounted for close to half in contracts made by state agencies and state-owned firms. Methods reported as unidentified were very common.

### Russian public sector procurements subject to oversight relative to the economy's gross output, 2014–2018



Sources: Ministry of Finance and Rosstat.

## China

**China-US trade war heats up with latest round of tariff hikes.** On Monday (May 13), China announced new tariff increases on imports from the United States. The action was taken in response to the US announcement last Friday (May 10) of further tariff increases on Chinese goods. While both trade negotiation teams denied that talks had been suspended, the situation is getting worse as president Donald Trump has threaten to impose additional tariffs on Chinese goods so far exempt from the hikes.

China's tariff hikes, which are set to go into effect at the beginning of June, largely apply to the same categories of products on which China imposed 5 % or 10 % retaliatory additional tariffs last September in response to US tariff hikes at that time. About half of products subject to additional tariffs will now have the 25 % rate, with the rest subject to rates ranging from 5–20 %. The most recent tariff increases apply to annual imports worth about 60 billion dollars. If the 25 % tariff hikes of last summer imposed on 50 billion dollars in imported goods is included, the total added tariffs on US imports to China now stands at about 110 billion dollars (as estimated last year). Ahead of the tariff hikes of March 2018, China's goods imports from the US were around 160 billion dollars a year. Today, that value has fallen to about 140 billion dollars (the respective exports to China reported by the US are USD 130 billion in 2017 and USD 114 billion currently).

The US last week raised the tariff to 25 % on those select goods on which 10 % rate was imposed in September. Chinese imports now subject to the 25 % rate have had an annual value of about 250 billion dollars (estimated last year). The US is now considering imposing tariffs on practically all Chinese imports. Before the tariff is imposed, product must go through a public hearing process. Thus, the wider tariff regime could enter into force as soon as late June or early July. Annual US goods imports from China are still currently at about the same level as before the tariff hikes were imposed, i.e. about 520 billion dollars (China reports its annual exports to the US were about USD 430 billion in 2017 and are currently just under 470 billion dollars).

The views expressed by the parties on the issues at hand differ considerably. The situation got even murkier on Wednesday (May 15) after the US decided to block American cooperation with Chinese telecom giant Huawei. It is still up in air whether trade talks proceed or the late-June Xi-Trump one-on-one meeting at the Osaka G20 conference takes place.

**China's April economic figures weaker than expected.** China National Bureau of Statistics figures show that real industrial output grew by 5.4 % y-o-y last month, a drop of three percentage points from March. Real growth in retail sales slowed to 5.1 % y-o-y. Official real growth in retail sales was last this low in May 2003.

The ongoing slump in car sales depressed figures for both industrial output and retail sales. Carmakers reported that

passenger car production fell by 17 % y-o-y in April, while car sales were down by 18 %.

From the standpoint of Chinese economic growth, the tracking of core investment trends is difficult with the available statistical data. The NBS, however, reports that fixed asset investment (FAI) growth in urban areas reached 6.1 % y-o-y in the first four months of this year. Prices of investment goods rose by more than 3 % in the same period, suggesting that real investment growth undershot official growth targets.

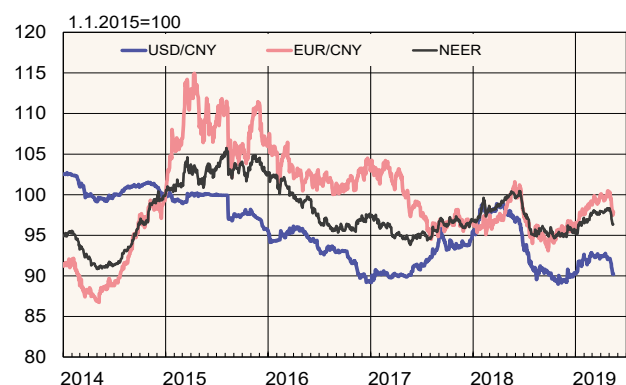
The weak economic figures and heating up of the trade war have increased speculations on further stimulus. On Wednesday (May 15), the People's Bank of China lowered the deposit reserve requirement for rural commercial banks to 8 % to help increase lending and spur growth.

**Yuan drops as trade war between China and the US heats up.** Even as trade talks with the US seemed to take a turn for the worse last Friday (May 10), the yuan's exchange rate fluctuated without establishing a clear direction. However, the yuan lost ground quickly after the opening of Chinese markets on Monday (May 13). By closing, it had fallen to a rate of 6.86 yuan to the dollar. On Hong Kong's less-regulated yuan market, one dollar bought 6.91 yuan. On Friday (17.5.), yuan fell further to 6.90 per dollar (CNY/CNH 6.93).

The exchange rate shift on Monday was more a matter of yuan weakening than dollar strengthening as the euro-yuan exchange rate followed a quite similar path. In addition to the trade war, yuan depreciation pressures currently include the weak new economic figures and monetary policy stimulus measures designed to keep interest rates low. The PBoC is strongly involved in guiding the yuan's exchange rate.

International stock markets initially fell on news of trade-war tensions. Chinese share prices have also fallen considerably since their April highs. Last Friday (May 10), however, share prices rose amidst major salvos in the trade war. Possible reasons for the rise include direct government intervention in the markets and expectations of further easing in monetary policy. This Friday (May 17), Chinese equity prices (CSI300) were again down 2.5 %.

**Yuan-dollar, yuan-euro rates and NEER\*, 2014–2019**



\* NEER= nominal effective (trade-weighted) exchange rate  
Source: Reuters.