


Russia: Relieving Political Risk!



Microscope

In response to market forces, Russian lawmakers say they plan to overhaul the law on economic crimes, resulting in the early release of as many as 100,000 imprisoned executives and entrepreneurs as the government seeks to attract investors. President Medvedev is trying to show investors their rights will be protected as he asks Apple Inc. and Citigroup CEO to help diversify the economy. Concern about the legal system is one reason Russia got one-fifth the investment of China and Brazil and half that of India in the past three years, according to EPFR Global of Cambridge, which tracks \$13 trillion of assets. Medvedev's April 7 decree eased penalties for white-collar crimes, ended pre-trial detention for those charged with economic offenses and expanded the use of bail. In fact, about one fourth of the 900,000 people in Russian jails are accountants, entrepreneurs or legal advisers. Supreme Court statistics show that 97.3% of criminal defendants were convicted last year in Russia. According to the Ministry of Justice, the UK rate was 83% in 2008. The release, in no doubt, can pave the way for investment attraction in coming months. 

Contrary to economic slowdown around the globe, Russian manufacturing growth jumped in June to the highest level in more than two years as new domestic orders rose, signaling industry is giving the economy a lift after a record contraction last year. According to Bloomberg, the Purchasing Managers' Index rose to 52.6, the highest since April 2008, from 52 in May. The index, based on a survey of 300 purchasing executives, signals expansion when it's above 50. The gauge rose in June above the survey average of 52.1. Manufacturers are leading a recovery from the worst slump since the collapse of communism in 1991 as companies replenish inventories and boost domestic sales. Industrial output expanded for a seventh month in May, surging an annual 12.6% after a 10.4% advance the previous month. In fact, new orders received by manufacturers rose at a sharper rate in June. The officials also

said that the domestic market was a key source of improving demand as new export business stagnated during the month. According to the Economy Ministry, the government expects the economy to grow 4% this year, compared with a 7.9% slump in 2009, the worst on record. Growth in May was 5.8% compared with May 2009, while the economy gained a seasonally adjusted 0.4% in the month. The central bank in Russia cited last week gains in industrial production and fixed capital investment as reasons for keeping the refinancing rate at a record low 7.75%, boding well for the sustainable momentum in economic growth. Russia's central bank lowered its main interest rate by a quarter point to 7.75% in May, its 14th reduction in as many months, to bolster the economic recovery after the financial tsunami. Companies

including OAO AvtoVAZ, Russia's largest automaker, are spearheading a rebound. It aims to increase production by at least 100,000 cars this year from its original target, while Ford Motor Co. plans to expand the workforce at its plant near St. Petersburg by almost 10%. Russian sales of new cars and light vehicles rose 31% in May from a year earlier. With regard to investment sentiment, the ruble appreciated 13.6% this year versus the euro, while weakening 4% against the dollar. Corporate-wise, Russian companies have sold 305 billion rubles (\$9.8 billion) of domestic bonds so far this year, a 17% increase from the same period last year and the busiest start since 2007. Corporate issuance of foreign-currency bonds has totaled \$8.3 billion so far in 2010, according to Bloomberg. 

MARKET BRIEFING


YTD % (local curr)

US DJ	9,732 (-6.7%)
Nasdaq	2,101 (-7.4%)
Euro Stoxx 50	2,518 (-15.1%)
HSI	20,128 (-8.0%)
Japan NK225	9,191 (-12.8%)
China Shanghai Composite	2,373 (-27.4%)
Singapore	2,820 (-2.7%)
India BSE30	17,509 (0.3%)
Brazil BOVESPA	61,236 (-10.7%)
Aus All Ord	4,262 (-12.7%)
US-10yr Bond Yield	2.93%

As at 01/07/10


Insight: "Investment Risk Management"

Many people say they can switch out their risky asset to reduce investment risk due to price fluctuation. This idea is right to the certain extent. But whether we stay or leave, they are still there. They like the very oxygen that we breathe, and remain necessary in the world of portfolio management affairs. To achieve a successful investment management, whether or not we choose to accept it, we should realize and manage this risk. For simplicity, we have two rules to do this. First, prior to engaging in market activity, it is important to take a careful study of everything from your investment objectives, have a

plan and stick to it. For example, you have a savings plan for a retirement 15 years later, what you choose should be involved in market risk so as to achieve the long term capital growth. If you reallocate your portfolio, you should ask whether it is in line with your goals along this horizon. Secondly, portfolio theory teaches that we can decrease the uncertainty of a portfolio without sacrificing expected return by diversifying over a wide range of assets and asset classes. Some people think that this principle can also be used in the time dimension. They argue that if you invest for a long enough time, good and bad returns tend to even out or cancel each other out, and hence time diversifies a portfolio in much the same way that investing in multiple assets and asset classes diversifies a portfolio. It is called a mean reversion. 

Financial "In & Out"

IN: Australian dollar may strengthen amid the optimism that the Australian government reached a compromise with mining companies on a new resources tax and that the economies in developed countries are recovering slowly.

OUT: USD will face profit-taking pressure in recent bull run due to concerns over the slow economic growth in the coming year. 



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