

Russia - Optimism over Privatization



Russia's presidential election was just over, and president Putin's successor Dmitry Medvedev won the overwhelming majority of the popular vote. Although the result was expected, there remained uncertainty in political stability. It is undeniable that President Putin and his policies had the overwhelming support of the electorate for the last 8 years. Any candidate whom he publicly supported would have won the job with a landslide majority. The opposition, which was fragmented and disorganized, managed to marginalize itself by promoting policies discredited by the gross failures of the 1990s and sticking to the leaders who, in the eyes of an average voter, caused those failures. President Vladimir Putin has strongly believed that Medvedev can be relied on to continue the policies followed since 2000. However, Medvedev's strong support base across various segments of the population also

puts him in a strong starting position to try and reform the economy and the system of governance. Under Medvedev's agenda, he raised such issues as the over-centralisation of political power in Moscow and bureaucratic impediments to foreign investment, according to IHT. He also spoke against state capitalism and the proliferation of state corporations, indicating he would make revolution over strategic sectors. In addition, he has promised increased support to Russian investors abroad, following the example of China. However, it is not easy for coming months since Russia should deal with rising inflationary pressure. Beside food and fuel factors, there is one more huge inflationary factor: pre-election rises in state pensions and salaries. The official statistics says that prices in Russia went up more than 12% in 2007, which is

1.5 times faster than the government planned initially, according to BBC News. With the help of booming oil prices, Russia posted GDP growth of 7.2% in 2004, 6.4% in 2005, 7.4% in 2006 with industrial sector posting high growth figures as well. Russia became the fastest growing economy in the G8. It is expected to grow about 8% in 2007. In addition, Moscow becomes the top performer in real estate investment returns this year from the rank of 18 last year, according to the Urban Land Institute/PricewaterhouseCoopers Emerging Trends 2008 survey. The Russian economy is growing at robust pace, boosted by its position as the world's largest energy exporter. That's created a shortage of warehouses and prompted developers to build more properties. **E**

Microscope

For nearly sixty-two years, the Russian economy and that of the rest of the Soviet Union operated on the basis of a centrally planned economy, viz. state control over virtually all means of production and over investment, production, and consumption decisions throughout the economy. Economic policy was made according to directives from the Communist Party, which controlled all aspects of economic activity. The central planning system left a number of legacies with which the Russian economy must deal in its transition to a market economy. Russia has been experiencing a boom in capital investment since the beginning of 2007. Capital investment showed record growth in June, rising 27.2% over June of the previous year in real terms (adjusted for price changes), to 579.8 billion rubles, with construction and property development industry leading the way. That is a rise of 58% in nominal terms and a better showing than in China. Modern Russia has never before seen such a growth rate. While the rate of investment in Russia rose 22.3% in the first half of 2007 compared to the same period during the previous year. **E**

MARKET BRIEFING

YTD % (local curr)

US DJ	11,893 (-10.3%)
Nasdaq	2,212 (-16.6%)
Euro Stoxx 50	3,576 (-18.7%)
HSI	22,501 (-19.1%)
Japan NK225	12,782 (-16.5%)
China Shanghai Composite	4,300 (-18.3%)
Singapore	2,866 (-17.3%)
India BSE30	15,975 (-21.3%)
Brazil BOVESPA	61,867 (-3.2%)
Aus All Ord	5,368 (-16.4%)
US-10yr Bond	Yield 3.51%

As at 07/03/08

Insight:

"Use of Structured Product"

The structured products market around the world is on the rise with both retail investors and high net worth individuals increasingly turning their attention to these innovative investment vehicles to diversify their portfolios. Structured products are synthetic investment instruments specially created to meet specific needs that cannot be met from the standardized financial instruments. They can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to utilize the current market trend to explore investment opportunities. A **E**

structured product is generally a pre-packaged investment strategy which is based on derivatives, that is, options and to a lesser extent, swaps and can also feature a capital guarantee function, which offers protection of principal if held to maturity. For example, an investor invests 100 dollars, the issuer simply invests in a risk free bond which has sufficient interest to grow to 100 after the 5 year period. This bond might cost 80 dollars today and after 5 years it will grow to 100 dollars. With the leftover funds the issuer purchases the options and swaps needed to perform whatever the investment strategy is. Theoretically an investor can just do this themselves, but the costs and transaction volume requirements of many options and swaps are beyond many individual investors.

A-Z Financial Tools

Negative Convexity is a kind of bond characteristics in response to the change in interest rates. This means that for a large change in yield of a given number of basis points in interest rates, the price appreciation will be less than the price depreciation. For example, a fixed rate mortgage may lose value as rates go down because of prepayments. **E**



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Wealth Management Advisory
International Business Advisory
Call 2268 6308
Email: insider@ibccapital.com

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