

Russia: A laggard among BRICs



Microscope

According to Economist, Russia's large reserve fund, thanks to high oil prices, will shrink to US\$52bn in the third quarter of this year from a peak of US\$137bn in March, and is expected to be empty by the end of 2010 as transfers are required to plug the yawning gap between government revenue and spending. In case the global economy is growing robustly by 2011, the reserve fund will have done its job—to provide a cushion against a period of low oil prices and budgetary receipts. Otherwise, Russia's government is likely to return to the international debt markets. Russia's government will transfer Rb1.36trn from its reserve fund to the state budget during the third quarter of this year, the government announced on July 22nd after Vladimir Putin, the prime minister, had signed a decree to approve the measure. As a result, the reserve fund will have just Rb1.6trn by the start of October, compared with a peak balance of nearly Rb4.9trn in March. Russia spent much of the 1990s dependent on IMF aid. In fact, if Russia return to international markets, this will constitute pressure for the fragile rouble and equities. **B**

Although the Economic Development Ministry said in August that Russian economy would reach 2008 pre-crisis level as early as in 2012 and it has upgraded its forecast of Russia's GDP growth in 2010 from 1% to 1.6% amid positive trends in the Russian economy, the global financial crisis forced Russia, which receives a large part of its revenues from oil exports, to gradually devalue the ruble amid capital flight and a fall in global oil prices, which declined from their peak of \$147 per barrel in July 2008 to around \$40 per barrel in early 2009, before climbing back to above \$70 in recent weeks. In addition, Russia's economy shrank at an annualized pace of 10.9% in the three months to 30 June. The fall was greater than forecast and more than the 9.8% contraction seen in the first quarter. But compared with that first quarter, the Russian economy expanded 7.5% between April and June. It seemed, however, that the

economy's continuing contraction was not simply a result of lower oil prices. The underlying problem is the fact that there is limited bank lending taking place beyond the biggest companies accessing loans from big state banks. At the same time, the country faced substantial risks to public finances due to the severe economic contraction. In fact, Russia risks returning to a period of entrenched budget deficits that may threaten its credit rating and weaken the ruble as it struggles to emerge from its first recession in a decade. If the government fails to rein in the shortfall, the credit rating may be cut from its current BBB rating, according to S&P. Russia expects to run a deficit equivalent to 8.9% of gross domestic product this year, the first in a decade, after the economy slumped a record 10.9% last quarter. The budget deficit widened in the first eight months to the

equivalent of 5.9% of gross domestic product. The shortfall was 4.3% in the first seven months, according to Bloomberg. Russia's budget allocation in the first six months of the year was uneven and inefficient, the country's Audit Chamber said in a report published on its Web site last week. As such, the irregularity of budget spending in the course of the year reduces the efficiency of budget funding and leads to a failure to meet budget targets to the full extent. It is also widely understood that Russia has not done enough to diversify the sources of state revenue while government spending cannot easily be cut, for political reasons, and yet revenue will not keep pace unless the economy returns to the growth rates it was posting earlier this decade and the oil price stabilizes at or above US\$70/barrel. **B**

MARKET BRIEFING

YTD % (local curr)

US DJ	9,441 (7.6%)
Nasdaq	2,018 (28.0%)
Euro Stoxx 50	2,743 (11.9%)
HSI	20,318 (41.2%)
Japan NK225	10,187 (15.0%)
China Shanghai Composite	2,861 (57.2%)
Singapore	2,622 (48.9%)
India BSE30	15,689 (62.6%)
Brazil BOVESPA	56,652 (50.9%)
Aus All Ord	4,442 (21.4%)
US-10yr Bond	Yield 3.44%

As at 04/09/09

Insight: "Rules of Technical Analysis"

Technical analysis is a discipline for forecasting the future direction of prices through the study of past market data, mainly price and volume. As a result, technical analysis considers only the actual price and volume behavior of the market or instrument. Technical analysts may employ models and trading rules based on price and volume transformations, such as the relative strength index, moving averages, regressions, inter-market and intra-market price correlations, cycles or, classically, through recognition of chart patterns. Different from fundamental analysis, technical analysis ignores the actual nature of the

company, market, currency or commodity and is based solely on the charts. As such, technicians especially search for archetypal patterns, such as the well-known head and shoulders or double top reversal patterns, study indicators such as moving averages, and look for forms such as lines of support, resistance, channels, and more obscure formations such as flags, pennants or balance days. Technicians also look for relationships, like correlations between changes in options (implied volatility) and put/call ratios with price. To conclude, technical analysis holds that prices already reflect all such influences before investors are aware of them, hence the study of price action alone. Some traders use technical or fundamental analysis exclusively, while others use both types to make trading decisions. **B**

A-Z Financial Tools

Jensen index is an index that uses the capital asset pricing model to determine whether a fund manager outperformed a market index. This index is indeed to calculate the alpha of the fund manager, which measures the level of outperformance of risk-adjusted return. The positive value will indicate the management capability. **B**



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