

## BRIC markets weekly (19 – 23 July 2010)

### Summary

- ▶ Brazil's Bovespa stock index gained, marking the longest stretch since April, as the central bank signaled it may stop raising interest rates soon after unexpectedly slowing the pace of increases.
- ▶ Russian stocks advanced to their highest level in a month after a report showing accelerating growth in Europe's manufacturing and services industries bolstered demand for commodities.
- ▶ India's stocks rose, driving the benchmark index higher for a third week, amid optimism companies will benefit from increasing demand.
- ▶ China stocks rose last week on speculation the government won't introduce more measures to curb bank loans and property prices after leaders pledged policy stability.

### Brazil

The Brazil Bovespa Stock Index returned +6.39%\* for the period.

- ▶ Brazil's Bovespa stock index gained, marking the longest stretch since April, as the central bank signaled it may stop raising interest rates soon after unexpectedly slowing the pace of increases.
- ▶ Brazil's central bank unexpectedly slowed the pace of interest rate increases after consumer prices fell for the first time in four years.
- ▶ The eight-member board, led by bank President Henrique Meirelles, raised the Selic a half point to 10.75%, matching the forecast of three of 51 economists surveyed by Bloomberg. Forty-eight analysts expected a 0.75 percentage point increase, the pace of the bank's April and June hikes.
- ▶ Brazil's consumer prices unexpectedly fell in the month through mid-July. Consumer prices as measured by the IPCA-15 index fell 0.09% in the 15 June – 13 July period, the first monthly deflation in four years, the national statistics agency said. Economists surveyed by Bloomberg expected a 0.02% rise, according to the median of 36 forecasts. The 12-month rate fell to 4.74% from 5.06% in mid-June.
- ▶ The Brazilian government raised its forecast for economic growth in 2010 to 6.5% from 5.5%, the Budget Ministry said. The forecast for this year's inflation was cut to 5.2% from 5.5%, according to the report. The government also said it will unfreeze 2.5 billion reais of budget for spending this year.
- ▶ The Brazilian Consumer Confidence Index (ICC) reached 120 points in July, the highest registered since September 2005, the Getulio Vargas Foundation (FGV) said. The ICC is formed by the Present Situation Index, which measures consumers' satisfaction with the current economic state, and the Expectations Index.
- ▶ Brazil's unemployment rate in June dropped to 7%, the lowest since 2002, from 7.5% in May and 8.1% in the same period last year, said the Brazilian Institute of Geography and Statistics.

### Russia

The Russian RTS Index returned +4.26%\* for the period.

- ▶ Russian stocks advanced to their highest level in a month after a report showing accelerating growth in Europe's manufacturing and services industries bolstered demand for commodities.
- ▶ Meanwhile, Russian retail sales surged the most since November 2008 last month as the number of unemployed slid for a third consecutive month, signaling domestic demand may help drive the recovery.
- ▶ The jobless rate in June fell to 6.8%, the lowest level in 20 months, from 7.3% in May, the Federal Statistics Service said. Retail sales rose for a sixth month, jumping an annual 5.8% after growing 5.1% in May. Real wages gained 5.5% and disposable incomes advanced 1.4%, the report said.
- ▶ Russia's international currency and gold reserves, the world's third largest, climbed US\$2 billion in the week ended 16 July to US\$469.3 billion, the central bank said. That's the highest level since November 2008, according to Bloomberg data.
- ▶ Russia plans to sell minority stakes in 10 major state-run firms, earning over US\$29 billion from 2011 to 2013 to plug budget holes, finance ministry sources told Reuters last week.

## India

The India Sensex Index returned +0.98%\* for the period.

- ▶ India's stocks rose, driving the benchmark index higher for a third week, amid optimism companies will benefit from increasing demand.
- ▶ India's inflation will accelerate in July, the government's top statistician said, increasing pressure on the central bank to raise interest rates this week for a fourth time in five months. The central bank will meet this week to review its monetary policy.
- ▶ India's central bank last week allowed infrastructure companies to refinance domestic bank loans through overseas borrowings to fund new projects as Asia's third-biggest economy seeks to improve its roads and ports.
- ▶ Companies that build airports and power plants are eligible to refinance their loans through overseas debt, according to a statement posted on the website of the Reserve Bank of India.
- ▶ India's merchandise exports grew more than 30% for the fifth straight month in June, boosting economic growth. Overseas shipments, which account for about a fifth of the nation's US\$1.2 trillion economy, advanced 30.4% to US\$17.75 billion from a year earlier, Commerce Secretary Rahul Khullar said.

## China

The HSCEI Index returned +4.34%\* for the period.

The China A-Share markets returned +6.10%\* for the period.

- ▶ China stocks rose last week on speculation the government won't introduce more measures to curb bank loans and property prices after leaders pledged policy stability.
- ▶ Chinese leaders pledged policy stability after speculation the government could ease lending controls to spur growth. Policy stability should be the main theme in the second half, Premier Wen Jiabao said.
- ▶ Chinese regulators will allow the nation's insurers to conduct interest rate swaps, the *Shanghai Securities News* reported, citing a notice issued by the China Insurance Regulatory Commission.
- ▶ China may allow qualified foreign institutional investors to use as much as 10% of their investment quotas to trade stock-index futures, the *China Securities Journal* reported, citing an unidentified person.
- ▶ China will push for consolidation in the automobile, steel, cement, machinery, aluminum and rare earth industries in the second half through mergers, acquisitions and company restructuring, the *China Business News* reported, citing Li Yizhong, Minister of Industry and Information Technology.
- ▶ The ministry will also focus on pushing forward the introduction of networks that combine telephone, internet and television services, along with network security, the newspaper cited Li as saying.
- ▶ President Hu Jintao said the nation will implement consumption stimulus measures in the second half, according to a Xinhua News Agency article. The nation will focus on the quality, not the quantity of trade in the second half, Hu was cited as saying. China will also work to raise the effectiveness of government investment, Hu said.
- ▶ China said it may spend RMB5 trillion in the next decade developing cleaner energy sources. The government will submit plans to develop cleaner energy, including nuclear power and gas from unconventional sources, in 2011 to 2020 to the State Council, or Cabinet, for approval, Jiang Bing, head of the National Energy Administration's planning and development department, said in Beijing.

Source: HSBC Global Asset Management, Bloomberg, Reuters and Xinhua as at 23 July 2010.

\* Performance of indices are expressed as price returns in local currency terms.

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