

## **Russia, China Lead Emerging Market Decline, Ending Record Rally**

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Stocks and bonds fell in Moscow and Shanghai, halting a record emerging-markets rally, as investors became concerned that the U.S. Treasury's \$700 billion rescue plan won't be enough to prevent a worldwide recession.

Russia's benchmark Micex Index dropped 3.1 percent to 1,076.18, after a record 29 percent two-day gain for the stocks, while a slump in the government's 30-year dollar bonds pushed the yield up by 21 basis points to 7.09 percent. China's CSI 300 Index slid 3.8 percent to 2,123.48, ending a 16 percent advance.

"There's concern about whether the rescue plan is going to sort out the financial system," said Cathy Elmore, who manages \$700 million of emerging-market debt at WestLB Mellon Asset in London. "There's more opposition in Congress. There's also some concern about the global economic slowdown."

Federal Reserve Chairman Ben S. Bernanke warned lawmakers that failure to pass the plan to take troubled assets from financial firms would pose a threat to markets and the economy. Lawmakers have balked at pushing through the package, with Democrats demanding support for homeowners and limits on executive pay, while some Republicans question the plan's reach and size.

Some emerging-market currencies also posted losses, led by the South African rand. The currency dropped 2.6 percent to 8.1959 per dollar. The Brazilian real fell 2.4 percent to 1.8465 per dollar after rallying almost 5 percent in the previous two days.

### Developing Nation Debt

The extra yield investors demand to own developing nations' bonds instead of U.S. Treasuries swelled 9 basis points to 3.57 percentage points at 4:47 p.m. New York time, according to JPMorgan Chase & Co.'s EMBI+ index. The so-called spread narrowed 87 basis points in the previous three days after the U.S. government rescue plan eased aversion to higher-yielding assets.

"Nobody knows how this plan in the U.S. will turn out," said Sebastien de Prinsac, head of international sales at Trust Investment Bank in Moscow. "It's too volatile for most people, so they're just taking their cash and waiting for the situation to clear."

The MSCI Emerging Markets Index of stocks fell 3.2 percent to 827.56, the biggest decline in a week. Russia's markets were driven lower as banks sought cash by selling their holdings, said Mikhail Galkin, director of fixed income and credit research at MDM Bank in Moscow.

President Dmitry Medvedev pledged \$20 billion last week to buy shares of "undervalued" state-run companies, adding to \$44 billion offered to state banks OAO Sberbank, VTB Group and Gazprombank.

Bonds sold by ZAO Russian Standard Bank, a Moscow- based lender owned by billionaire Rustam Tariko, have plummeted, tripling the yield to 33.46 percent since August on 6.825 percent notes due in 2009.

## Smaller Banks

“The smaller banks that don't have the access to the measures undertaken by the regulators, that don't have access to that pool of liquidity, they are liquidating anything they have that is sellable and the bigger banks with the money are not yet ready to expand their portfolios,” Galkin said.

The cost of protecting the debt of Russian Agricultural Bank, the government-run lender for farming, soared 53 basis points to a record 738 basis points, according to CMA Datavision prices. That means it costs \$738,000 to protect \$10 million of the country's debt from default.

Credit-default swaps, contracts conceived to protect bondholders against default, pay the buyer face value in exchange for the underlying securities or the cash equivalent should a company fail to adhere to its debt agreements.

The cost of protecting bonds issued by Argentina increased, a day after President Cristina Fernandez de Kirchner said that she's considering a restructuring proposal for noteholders who refused to participate in the country's 2005 settlement with creditors.

Argentina's five-year credit default swaps rose 17 basis points to 8.97 percentage points, according to Bloomberg data.

**Source: Bloomberg**