

GLOBAL ECONOMY - 177

BUSINESS AND POLITICS IN THE MUSLIM WORLD

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GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Russia's WTO entry may be delayed

ST PETERSBURG: Russian accession into the World Trade Organization (WTO) could be delayed by several years if there was no agreement on key issues by the end of July, Russia's economy minister said on Saturday. Russia aims to become a member of the trade watchdog in December but Elvira Nabiullina said that the outstanding issues included agriculture, Russia's car assembly regime as well as controls on the import of food and livestock.

"We need to agree with our partners on three large issues before the end of July. If we do not manage to do it, from my point of view, the process might take some more years," Nabiullina told reporters at St. Petersburg Economic Forum.

"The talks' timetable is very tense," Nabiullina said, adding that if there was no agreement by mid-July "we will not be able to reach an agreement for a long time, I think; we will have other things to take care of".

Sources close to negotiations process told Reuters earlier this year that elections in Russia and the United States would inevitably stall the Russian accession process if there was no conclusive agreement by the second half of 2011.

Russia applied to join the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), in June 1993 and its \$1.5 trillion economy is by far the largest economy outside the 153-member organization. President Dmitry Medvedev said last week there was a "very high chance" that Russia would become a WTO member in 2011 but complained about delays in negotiations.

Reuters

<http://www.dawn.com/2011/06/19/russias-wto-entry-may-be-delayed.html>

IMF start interviewing candidates of new chief

WASHINGTON -- The International Monetary Fund (IMF) began interviews Monday with candidates to run for managing director of the 187-member organization. Mexico's Central Bank Governor Agustin Carstens and his rival, French Finance Minister Christine Lagarde will meet the IMF's Executive Board this week, an IMF spokesperson told Xinhua.

"The next step in the process for the new managing director is now underway," said the IMF. "Both candidates, Mr. Agustin Carstens and Ms. Christine Lagarde, will be meeting the Executive Board this week."

According to the IMF, Carstens is visiting the Fund on June 20- 21, and will meet with the board on June 21. Lagarde is visiting on June 22-23, and will meet with the board on June 23. During their visits, both candidates will also meet bilaterally with the executive board -- 24 directors representing individual countries or groups of countries of the fund.

The Board is scheduled to meet on June 28 to discuss the strengths of each candidate, with the aim of completing the selection process by June 30, said the IMF.

Carstens and Lagarde made the IMF's short list of candidates to succeed Managing Director Dominique Strauss-Kahn, who resigned on May 18 to face sexual assault charges in New York. The IMF said earlier that it intends to select his successor "by consensus," and if that fails, by vote, by the end of the month.

http://news.xinhuanet.com/english2010/world/2011-06/21/c_13940327.htm

IMF warns "large global spillovers" of euro zone debt crisis

WASHINGTON -- The International Monetary Fund (IMF) on Monday warned Europe that there could be "large global spillovers" if euro area stakeholders fail to undertake decisive action to tackle the euro zone sovereign debt crisis.

"A broadly sound recovery continues, but the sovereign crisis in the periphery threatens to overwhelm this favorable outlook, and much remains to be done to secure a dynamic and resilient monetary union," the IMF said in a report on euro zone conditions.

Periphery euro countries, including Greece, Spain and some other high-debt-leveled countries, are facing "daunting challenges," said the IMF.

"With deeply intertwined fiscal and financial problems, failure to undertake decisive action could rapidly spread the tensions to the core of the euro area and result in large global spillovers," the Washington based international financial institution warned.

The IMF comments came after European Union finance officials failed to resolve Greece's sovereign debt crisis, just weeks before the euro zone member country faces default.

"The euro area is a globally important economy," John Lipsky, Acting Managing Director of the IMF said in a statement, "the crisis would be felt much more strongly around the world if it spread to the banks in the core of the euro area."

The 187-membered international fund cited that reasons of the debt crisis of the periphery euro countries include very high debt levels, severe competitiveness problems, and fragile banking systems.

It called for "a truly cohesive approach from all euro area stakeholders" to deal the challenge.

"Crucial is a determined commitment to adjustment in the program countries, including immediate and far-reaching structural reforms and an ambitious drive to open up the economy to foreign competition and foreign ownership along program commitments.

Privatization will contribute to these objectives beyond helping to establish debt sustainability.

But continued financial support from other euro area members is also needed, the IMF added.

The fund also noted that even if the periphery crisis can be contained, a broad policy agenda lies ahead to boost growth and make Economic and Monetary Union more resilient.

http://news.xinhuanet.com/english2010/business/2011-06/20/c_13940251.htm

Afghanistan slams IMF

KABUL: Afghanistan's finance minister accused the International Monetary Fund of "playing games" and said the country was "running out of patience" amid a crisis linked to the collapse of a top bank.

Hundreds of millions of dollars of aid have been withheld from Afghanistan, one of the world's poorest countries, in recent months as it currently does not have an IMF support programme, which donors see as a sign of good governance.

This is due to disagreements between the Afghan government and the IMF, particularly over how to resolve the crisis surrounding Kabul Bank, once Afghanistan's biggest. The troubled lender was split into a "good" and "bad" bank in April in a bid to save it from collapse after former executives granted themselves off-the-books loans worth a reported \$900 million.

Finance Minister Omar Zakhilwal lashed out at the IMF over its handling of the affair during a press conference in Kabul, hinting that Afghanistan could pull out of negotiations.

"If the IMF or some other donors want to play games, we are running out of patience," said Zakhilwal.

“We have been in negotiation with the IMF for nine to 10 months. We have fulfilled almost all their conditions, in particular on the Kabul Bank issue, but every time we meet their conditions, they bring new ones.”

He added: “When there is a confrontation which cannot give a result and when it is more a political game, we cannot continue.” Afghanistan says it has now met 10 out of 12 conditions set by the IMF for reviving its programme.

It insists that the two remaining measures must be agreed by parliament and that lawmakers will address the issue after their summer break, which lasts for more than a month and has yet to start. Zakhilwal has said that 40 per cent of Afghanistan’s ordinary budget is financed by the international community.

Kabul Bank was founded in 2004 by Sherkhan Farnood, a leading international poker player, and other co-owners included Mahmood Karzai, a brother of the president.—AFP

<http://www.dawn.com/2011/06/21/afghanistan-slams-imf.html>

High food prices: WB launches hedging tools to help farmers

ISLAMABAD: The World Bank announced on Tuesday a new risk management product to provide up to an initial \$4 billion in protection from volatile food prices for farmers, food producers and consumers in developing countries.

This product will improve access to hedging instruments to shield consumers and producers of agricultural commodities from price volatility. It will also protect buyers from price rises in food-related commodities, such as wheat, sugar, cocoa, milk, live cattle, corn, soya bean, and rice, a World Bank press release said.

Developing risk management tools will be part of the plans to be discussed by G-20 agriculture ministers at their meeting in Paris this week. It was also part of a nine-point plan recommended by the World Bank President in January to address high and volatile food prices.

“With this new tool, we can help farmers, food producers, and consumers protect themselves against price swings, strengthen their credit position, and increase their access to finance,” said World Bank Group President Robert B. Zoellick. “This tool shows what sensible financial engineering can do: make lives better for the poor.”

The Agriculture Price Risk Management (APRM) product will initially be rolled out by IFC, the World Bank Group’s private sector arm, and JP Morgan.

The IFC hopes to roll out the product with other banks in due course.

Price stability is vital to help producers obtain finance needed to expand operations as well as increase farm production, and to assure reasonable access to food supplies for consumers.

While price risk management products are routinely used in agriculture in developed countries, hedging instruments cannot be obtained directly by smaller emerging market producers and consumers because of high upfront costs and margin requirements.

Growing population and income in emerging and developing countries will add significantly to the demand for food in the coming decades. By 2050 the world population is expected to have reached about 9 billion people and the demand for food to have increased by between 70 to 100 per cent. This alone is sufficient to exert pressure on commodity prices, according to a World Bank and WTO report.

The report says that agricultural commodity prices are becoming increasingly correlated with oil prices. Oil prices affect agricultural input prices directly and indirectly through the price of fuel and fertilizer.

High and volatile oil prices could therefore contribute to higher and more volatile agricultural prices, through higher input costs, higher demand for the commodities used in the production of bio-fuels through competition for land with commodities that are not used directly for the production of fuel, and possibly through financial investment in commodity baskets.

<http://www.dawn.com/2011/06/22/high-food-prices-wb-launches-hedging-tools-to-help-farmers.html>

Corruption costs poor states \$40bn a year

WASHINGTON: Developing nations lose an estimated \$20 to \$40 billion each year through corruption but only \$5 billion have been repatriated over the past 15 years, says a World Bank report released on Tuesday.

The proceeds of crime, corruption and tax evasion are estimated to represent between \$1 trillion and \$1.6 trillion annually, with half coming from developing countries.

“Although the exact magnitude of the proceeds of corruption circulating in the global economy is impossible to ascertain, estimates demonstrate the severity and scale of the problem,” notes the report.

Barriers to Assets Recovery: The study points out that “billions of dollars stolen by political leaders and other high-ranking officials in developing jurisdictions”, underscore the need to undertake immediate legal and strategic reforms to retrieve those assets. The bank also warns that financial estimates of these losses fail to capture “the societal costs of corruption and the devastating impact of such crimes” on the countries.

“Theft of assets by corrupt officials, often at the highest levels of government, weakens confidence in public institutions, damages the private investment climate, and divests needed funding available for core investment in such poverty alleviation measures as public health, education, and infrastructure.”

The World Bank notes that the huge gap between even the lowest estimates of assets stolen and those repatriated demonstrates the importance of forcefully addressing the barriers to asset recovery.

International cooperation is essential: Recent revolutions and uprisings in the Middle East and North Africa have raised questions about the capacity of financial centres to stop the flow of resources generated by corruption. The study, also backed by the United Nations Office on Drugs and Crime’s Stolen Asset Recovery Initiative, advises policy-makers on reforms that will enable the recovery of stolen assets.

“Upon closer examination, it is clear that difficulties involve preventing assets from leaving victim jurisdictions; preventing stolen assets from entering financial centres; and identifying and tracing assets,” the report notes.

The study recommends eight strategic actions and other recommendations for policy-makers, legislators and practitioners. They include the implementation of new policies and operational procedures to foster trust and mentor other jurisdictions, legislative reforms to facilitate freezing and confiscation of stolen assets, and better application of existing anti-money laundering measures.

<http://www.dawn.com/2011/06/22/corruption-costs-poor-states-40bn-a-year.html>

UNEP calls on world to scale up transition to green economy

NAIROBI -- More than 30 delegates from China joined officials from the United Nations Environment Program (UNEP) in Nairobi on Tuesday for a conference aimed at raising awareness on environmental protection.

Jointly organized by UNEP and Xinhua News Agency, the Bright Moon-Africa Conference which brought together leading Chinese entrepreneurs and local government officials also called on the world to scale up transition to green economy ahead of Rio+20 meeting in Brazil next year. UNEP Executive Director Achim Steiner said the Bright Moon- Africa Conference came at a time when the global community is focusing its attention to next year's Rio+20, calling on the world to prioritize issues of sustainable development.

He said the Bright Moon-Africa Conference is part of preparations the UN environmental agency is making ahead of the Rio+20 meeting in Brazil. According to Steiner, Rio+20 offers an opportunity to accelerate and scale-up transitions, already underway across Africa and indeed across the world, in order to catalyze growth and employment opportunities for around 9 billion people by 2050.

"Rio+20 is a key date in the calendar of the United Nations in 2012, a key date because (UN) Secretary-General Ban Ki-moon has declared this conference as a key milestone in the search for addressing our increasingly dramatic developments of our planet," he said. Steiner said green economy is about shaping public policy including market mechanisms and fiscal strategies in a way that unleashes the private sector into a more meaningful notion of wealth creation.

He said China's determination to adopt a low carbon, resource efficient green economy development path can also inspire others to take the kinds of next steps that can ensure that both poverty eradication and wealth generation happen faster for those that need it most.

"China has been a nation which has grown extremely rapidly over the last 50 years particularly over the last 30 years in modern infrastructure terms which are roads, railway, buildings and electricity lines which are the symbol of a successful economy that grows, that brings new services, new opportunities and livelihood to people," he said.

He lauded China for doing her best to uplift 250 million under abject poverty in such short time as well as taking issues of environmental protection seriously. The UNEP chief said Africa's decision to engage fully on the road to Rio will make it an equal partner in a new era where sustainability, equity and fairness win out over instability, imbalance and the interests of the few over the many.

"The future of Africa in terms of its energy, in terms of its transport system or in terms of its infrastructure is also at stake today," he said, noting that transition towards a green economy "is neither a luxury nor a privilege of the rich or dominant economy powers but a development that is shared."

The second Bright Moon-Africa Conference whose theme is On the Road to Rio+20 seeks to uphold the principles of environmental protection and community support by increasing environmental awareness, improving the lives of under privileged individuals and promoting the concept of sustainable development and international humanitarianism. According to Alexander Juras, chief of UNEP's Major Groups and Stakeholder Branch, said businesses can actively contribute to introducing a green economy by developing sustainable technologies.

"Today cities are the places where most of population lives. Introducing sustainable practices in cities can be a main contribution to achieving sustainable development," Juras told the delegates. He said business and cities have chances to get their voice heard and to commit themselves to the outcomes of the conference at the Rio Conference in Brazil.

He said UNEP is organizing a number of events targeted to all Major Groups, including business and industry and cities where everybody is invited to contribute to the activities leading to Rio+20. "We need to further consolidate and build policies or programmes designed to support small and medium sized enterprises (MSE) engagement through supply chains, improving their access to financing and receiving more entrepreneurs and SMEs with relevant skills to participate and benefit from expanding markets for sustainable goods and services."

Wang Chaowen, the general director of Xinhua News Agency African Regional Bureau, called for closer working partnership between the news agency and UNEP so as to raise public awareness on the issues of environmental protection.

He said a lot of efforts have been made to increase environmental awareness since Xinhua signed a Memorandum of Understanding with UNEP in 2009, a development that should be strengthened to realize its full potential.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13942334.htm

ADB pushes for increased investments in clean energy

MANILA -- The Asian Development Bank (ADB) is urging Asia-Pacific countries to invest in clean energy and energy efficiency to secure recent economic gains.

ADB President Haruhiko Kuroda said Wednesday that this investment will meet growing energy demand in developing Asian countries while at the same time mitigate the impact of climate change.

"Asians have more to lose from climate change than any other people. The climate fight will be won or lost by decisions made in this region," Kuroda said in a speech delivered at the opening of the 6th Asia Clean Energy Forum (ACEF) in Manila.

"An important key to lowering energy intensity is the elimination of fossil fuel subsidies and transition to renewable energy. Asia must also take radical steps to increase energy efficiency," he said.

Asia is home to some of the world's fastest growing economies. Rising prosperity combined with an increasing population has also spiked demand for energy. It's estimated that energy requirements in the region will double by 2030. If left unchecked, the ADB said lack of energy security may reverse the region's hard-won gains in poverty reduction.

Dependence on fossil fuel-based power sources is also increasing the threat of climate change. A warmer planet, which brings more natural disasters, will hurt Asia's poor most.

The Manila-based lender said that to meet the rising demand for energy and improve the lives of 800 million people in Asia with no access to electricity, Asian governments have to implement policies on renewable energy development and fast track new business models.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13943690.htm

Fitch: austerity, structural reform perceived two key elements to underpin Greece's solvency

HONG KONG -- To restore solvency in the European countries, like Greece and Portugal, which were experiencing funding stresses, austerity and structural reform were two key elements, Fitch Ratings, one of the leading global rating agencies, said here Wednesday.

The structural reform will help underpin growth, said Andrew Colquhoun, head of Fitch's Asia-Pacific sovereign unit, on the company's global banking conference held on the day.

Last month, Fitch has downgraded Greece's long-term sovereign rating from BB+ to B+, largely associated with the country's problems of implementing essential reforms to its economy.

Colquhoun said that the view of keeping the negative watch of Greece also suggested that his agency continued to see downside risks in the country.

Early Wednesday morning, Greece's new government won the confidence vote of the parliament in a crucial test on the course to tackle the country's debt crisis which has brought it to the brink of default, alarming Europe and the world.

The success was seen as Greece's new move to secure the bailout package, a total of 110-billion-euro (156.57 billion U.S. dollars) aid package agreed last year by the EU/IMF, to slash deficits and return to growth by 2014. Since it has missed key targets over the past few months, it faced increasing pressure from foreign lenders to provide more guarantees before the release of more aid.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13944404.htm

Asia surpasses Europe in millionaires

NEW YORK: The ranks of millionaires in Asia for the first time surpassed Europe and in a few years are expected to overtake the US, according to the latest annual Merrill Lynch-Capgemini World Wealth Report. Powered by fast-growing China and India, the Asia-Pacific region's millionaire ranks rose 10 per cent to 3.3 million, second only to the 3.4 million residing in North America and inching ahead of Europe, which had 3.1 million.

Asia's combined wealth, up 12 per cent to \$10.8 trillion last year, surpassed Europe and threatens to overtake the US and Canada, where wealth rose nine per cent to \$11.6 trillion.

"Their capital markets may be emerging, but their economies have clearly arrived," John Thiel, head of Merrill's private banking group and its "Thundering Herd" of 15,700 US brokers, told Reuters. "They're not 'emerging' anymore."

More than half of the world's millionaires are still found in the US, Japan and Germany, but that the wealthy are spread among more countries, according to Merrill and global consulting firm Capgemini.

Assets held by millionaires worldwide rose by 9.7 per cent to a record \$42.7 trillion — surpassing the previous high-water mark set in 2007 — while the ranks of people with at least \$1 million of investable assets, excluding their primary residence, rose 8.3 per cent to 10.9 million, the report found.

Some of that growth came as manufacturing, exports and domestic growth helped places like Hong Kong, Singapore and India create legions of members for the millionaires' club.

The findings echo a PricewaterhouseCoopers report published on Monday, which found that Singapore and Hong Kong could surpass London and Switzerland as world's top wealth management hub by 2013.

Investable assets held by the very rich grew as stocks and other financial markets continued to climb from the depths of the 2008 financial crisis.

Reuters

<http://www.dawn.com/2011/06/23/asia-surpasses-europe-in-millionaires.html>

France proposes steps to curb food price volatility

PARIS, June 22: G20 farm ministers wrangled over France's proposals to tighten regulation of commodity markets and set up emergency reserves at a summit on Wednesday as the group seeks to tackle soaring and volatile food prices.

Paris has made tougher commodity trading rules a priority of its 2011 presidency of the Group of 20 leading economies as President Nicolas Sarkozy has blamed speculators for food price inflation that fed unrest in North Africa and the Middle East.

"I prefer to take responsibility for a failure rather than a half-hearted agreement or an agreement for appearance's sake," French Agriculture Minister Bruno Le Maire told French radio Europe 1. He warned that a failure to adopt concrete measures to tame surging staple food prices before the summit concludes on Thursday could give way to more riots.

A draft communique obtained by Reuters last week showed the farm ministers could end up with a watered-down deal limiting decisions to agricultural issues, mainly data or food supplies, not markets.

"The (G20) goal has been set by the president to prevent the 21st century from becoming the century of hunger," Le Maire told French daily Le Parisien on Wednesday.

Surging demand for food and fuel will keep commodities under pressure this decade, international bodies warned last week, saying this trend would be marked by fresh bouts of volatility that could hurt producers and consumers. Benchmark international wheat prices are up about 50 per cent in the past 12 months alone, while corn prices have doubled.

Reuters

<http://www.dawn.com/2011/06/23/france-proposes-steps-to-curb-food-price-volatility.html>

IEA steps up pressure on OPEC to raise output

RIYADH: The OECD pressure on crude producers is increasing. All available tools are being applied to make them open the taps further.

The Obama administration is seriously considering releasing crude from Strategic Petroleum Reserves (SPR), possibly as soon as this week, a Washington insider told Dawn.

Diplomatic sources indicated that signals were sent to Riyadh, too – seeking reassurance that Saudi Arabia would not offset the SPR barrels by reducing its own supply.

Some reports also claim that in the run up to the Vienna's June 8 fracas, Washington evaluated an unprecedented move – exchanging the urgently needed high quality crude oil stored in emergency reserve for heavier, low-quality oil from Saudi Arabia. The swap idea as per the emerging reports, involved shipping some of the light low-sulphur, or 'sweet' crude out of the US strategic petroleum reserves to European refiners, who needed it desperately after the war in Libya cut off shipments of the light, premium crude.

In return Saudi Arabia was expected to sell its heavier high-sulphur or "sour" crude at a discount back to the United States to top up the cavern that hold America's emergency stocks.

The idea reportedly did not get past the drawing board, sources familiar with the talks said. Riyadh was not ready to ship the crude at a discounted price.

And in the meantime, IEA is also stepping up pressure on OPEC, urging it not only to steeply raise output, but also warning them that it, too, was ready to order a release from stocks – at any time.

Executive Director Nobuo Tanaka said on Thursday the IEA was waiting to see how fast Saudi Arabia and other OPEC producers would deliver more oil to prevent what he called a "hard

landing” for the global economy and that he stood ready to order a release from stocks at any time.

And at the same time, the issue of weak fundamentals is getting underlined. A tightening supply-demand balance on the oil market meant the Bull Run since late 2010 was largely justified by fundamentals, the IEA now says.

At this moment, however, there was no indication of excessive speculative activity on oil markets, David Fyfe, the IEA’s head of Oil Industry and Markets says.

Reports now indicate that Washington had pressed Saudi Arabia to boost oil production at least twice ahead of the June OPEC meeting.

Industry sources described a ‘difficult’ Riyadh meeting that a US delegation held about a month ago with Saudi Oil Minister Ali al-Naimi. Deputies from the US Energy and Treasury departments also visited Riyadh to make the case for stepped-up oil production; a Saudi source was quoted as saying, although the timing of this meeting remains unclear.

One of the officials, who attended that meeting, was Jonathan Elkind, Principal Deputy Assistant Secretary for Policy and International Affairs at the Energy Department.

And within days, Elkind was seen flying to Paris for a regular meeting of the IEA board of governors. After that meeting, the board released an unusually blunt statement urging OPEC to raise output announcing that it would consider using “all the tools” at its disposal – a clear reference to emergency reserves.

And the increasing pressure has provoked a backlash, too. “Strategic reserves should be kept for their purpose and not used as a weapon against OPEC,” Secretary General Abdullah al-Badri told Reuters on the sidelines of the Global Energy and Climate Summit.

”We never interfere in the IEA and really we don’t want them to interfere in our business. They should do it in a professional manner. We should not talk to each other through media,” Badri insisted.

<http://www.dawn.com/2011/06/19/iea-steps-up-pressure-on-OPEC-to-raise-output.html>

Countries act as Libya deadlock forces IEA to tap strategic oil stock

PARIS -- France and the United States took the lead to announce their quotas of strategic oil that would be tapped to ease the market on Thursday shortly after the International Energy Agency (IEA) requested member states to release 60 million barrels of oil in the coming month to address oil supplies disruption from Libya.

"This supply disruption has been underway for some time and its effect has become more pronounced as it has continued. The normal seasonal increase in refiner demand expected for this summer will exacerbate the shortfall further," IEA said in a statement released earlier in the day.

In response to more potential threat, the 28 IEA member countries have agreed to make 2 million barrels of oil per day available from their emergency stocks over an initial period of 30 days, according to IEA, which had warned in previous oil market report that continuously increasing oil prices would undermine the fragile economic recovery sprouting in developed countries.

As one of the quick reactors, French Energy Minister Eric Besson said in the afternoon that France would release 3.2 million barrels of oil or about 2 percent of its strategic stocks to the market to push down crude prices.

On the other side of the Atlantic, U.S. Department of Energy said it will release 30 million barrels of strategic reserve.

According to IEA estimates, Libya unrest had removed 132 million barrels of light, sweet crude oil from the market by the end of May, and the worse is that analysts generally forecast little Libyan supplies for the rest of 2011.

Saudi Arabia has made great effort to increase its production since Libya unrest dented international oil supply in the beginning of this year, but the shortfall seems hard to make up especially after the Organization of the Petroleum Exporting Countries (OPEC) failed to agree on an increase of oil supply earlier this month.

This was the third time in history that IEA members agreed to release strategic oil stock, IEA Executive Director Nobuo Tanaka said. The previous major releases from the strategic reserves were in 2005 after Hurricane Katrina whipped the United States and in 1990 after the conflict between Iraq and Kuwait.

The mobilization of 60 million barrels of oil represents about 2.4 percent of world oil production. The IEA Governing Board is expected to reassess the oil market within 30 days and decide on future steps.

France and the United States, both firm advocates for military intervention in Libya against Gaddafi regime, said they stood ready to tap more strategic oil stock if needed. According to U.S. Energy Information Administration, the United States has approximately 4.1 billion barrels of strategic oil reserve, with 1.4 billion barrels in government hands.

Total oil stocks in IEA member countries amount to over 4.1 billion barrels, and nearly 1.6 billion barrels of this are public stocks held exclusively for emergency purposes.

Crude oil prices plummeted more than 5 percent following the IEA decision. Light, sweet crude for August delivery fell 4.82 U.S. dollars to 90.59 U.S. dollars a barrel on the New York Mercantile Exchange. In London, Brent crude for August delivery tumbled 6.79 dollars to close at 107.42 dollars a barrel.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13946796.htm

Oil tumbles on IEA's strategic reserve release

NEW YORK -- Crude prices tumbled on Thursday after the International Energy Agency (IEA) announced it would release 60 million barrels from strategic stockpiles in response to the ongoing supplies disruption from Libya.

IEA Executive Director Nobuo Tanaka said Thursday the agency's 28 member states had decided to take the collective action because the tightness in the oil market threatened to undermine the fragile global economic recovery.

Light, sweet crude for August delivery plunged 4.39 dollars, or 4.60 percent to 91.02 dollars a barrel on the New York Mercantile Exchange, already over 20 percent lower than the two-year peak hit in April. In London, Brent crude for August delivery also plummeted over 6 percent and last traded around 107 dollars a barrel.

The IEA said its members would make 2 million barrels a day available from emergency stocks over an initial period of 30 days to fill the gap in supplies caused by the disruption of Libya's output.

"Today, for the third time in the history of the International Energy Agency, our member countries have decided to release stocks," Tanaka said. "I expect this action will contribute to well-supplied markets and to ensuring a soft landing for the world economy."

U.S. Department of Energy also said in a statement that U.S. will tap 30 million barrels strategic oil reserve, representing half of the IEA's 60-million reserve release plan.

The surprising supplies hike sent the already sinking oil prices even lower. In the contexts of a slowing-down U.S. economic recovery and escalating European debt crisis, analysts thought oil could dip further and touch the bottom.

Goldman Sachs, the investing bank possessing the powerful commodities research team, said the IEA's oil reserve release could push Brent crude down by 10 to 12 dollars a barrel.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13946809.htm

IEA invites Russia to join its ranks

LONDON: The International Energy Agency (IEA), which represents consumer countries, has invited Russia and other producer nations to join it, Executive Director Nobuo Tanaka said in a newspaper interview on Sunday.

The Observer weekly said the move was a desperate attempt to broker a deal between buyers and sellers over soaring crude prices.

“We all really have a common interest. You cannot take oil in isolation from gas security, energy efficiency and electricity from renewables,” Tanaka said.

“The issues of energy security and climate change need to be tackled collectively and we think Russia and other key producers can learn a lot from (the IEA’s) experience.” The 28-member IEA was created in response to the 1973-4 oil crisis; to help industrialised countries coordinate a collective response to disruptions in oil supply. The Paris-based organisation last week expressed disappointment with the decision by the oil cartel OPEC not to boost output quotas given persistently high prices, supply shocks and rising seasonal demand.

Russia, an energy superpower, is viewed by the IEA as a “key non-member” country along with China and India, but Tanaka said it would be a good thing if Moscow became a full member.

He raised this with Russian Deputy Prime Minister Igor Sechin on Saturday, the newspaper said, and Sechin had indicated that he might come to the next ministerial meeting of the IEA in October. Discussing a timeframe for membership, Tanaka said: “I don’t know when (it) will happen. It can’t be done in a day, and may take years, but Russia can benefit from our knowledge.”

He has also had preliminary talks with Saudi Arabia and other Middle East oil producers about playing a role in the IEA, the paper said.

AFP

<http://www.dawn.com/2011/06/20/iea-invites-russia-to-join-its-ranks.html>

Asian nations move to tap oil reserves

TOKYO: Asian nations moved to release emergency oil stockpiles on Friday as part of a rare global coordinated action by consumer countries to prevent high energy prices from stunting a stuttering economic recovery. The move, led by Washington and criticized by the oil industry as an unnecessary distortion of markets, suggests a fundamental shift on the part of industrialised nations toward intervention in commodity markets as an economic policy tool. Some doubts emerged that the unexpected decision by the International Energy Agency to release 60 million barrels over the next month would have a long-term impact.

Japanese Economics Minister Kaoru Yosano said the IEA move was a warning to speculative buyers but India’s Oil Minister S. Jaipal Reddy doubted the action would have an impact.

“Even if there is a slight increase in production (supply), those gains will not be made available to us because of unbridled speculation in the financial markets of the world,” he said.

“We don’t know whether this (weaker oil prices) is a stable trend.”

The stock release is only the third in the 37-year history of the agency that was set up as a counter weight to exporting group OPEC.

IEA Asian members Japan and Korea said that from next week they will start releasing oil reserves in line with the agency’s targets. Japan will cut the reserve requirement for oil companies by 7.9 million barrels over the next 30 days and South Korea will release 3.46 million barrels, together providing about 19 per cent of the IEA target.

Australia and New Zealand, the remaining members from the Asia-Pacific region of the 28-nation grouping, are not participating.

The news follows a G20 agreement, struck in Paris on Thursday, to tackle high food prices by boosting farm output, food market transparency and policy coordination.

Industrialised nations managed to pull their economies from the brink of depression by dishing out trillions of dollars in stimulus packages and slashing borrowing costs to record lows. But that left rich economies from Japan to the United States with huge debt and few policy options if their economies were to weaken again.

While the release of oil was spearheaded by the United States and other developed nations, booming emerging powerhouses such as China and India are also set to benefit as they try to contain stubbornly high inflation without sacrificing too much growth.

“To some extent, it will help lessen some inflation pressure facing Asian countries and it is also good news for the global economic recovery,” said Gong Jialong, former chairman of a body representing China’s petroleum industry body. Gong and others, however, compared the move that will increase daily supply by nearly 2.5 per cent to currency market intervention. It is not something that could reverse a broad trend but it could help prevent excessive price moves.

“The hoped-for impact is not to induce a downward trend in commodity markets, but instead to head off potential price increases stemming from the increase in third quarter demand,” said PFC, a Washington-based energy consultancy.

Seasonal oil demand ramps up in the third quarter as refineries prepare for the northern hemisphere winter when heating consumption peaks.

Another factor suggesting that the IEA decision will only have a short-term impact on prices is that oil faces an incremental increase in demand now that several countries are turning away from nuclear power generation following Japan’s crisis, a Japanese government official said.

“Demand for fuel will rise globally with more countries unable to rely on nuclear power as much as that had initially hopes. That means prices have more reason to rise further than decline,” he said. He declined to be identified because he is not authorised to speak to the media.

JPMorgan Chase said even some cooling effect on prices would prove a boon to the world economy.

“If our projections are realised, the IEA release provides the equivalent of a \$140 billion stimulus to consumers,” it said in a note.

“The release will prove stimulatory to the global economy, particularly for emerging markets and the US.” Indeed, the oil market may be missing the key point of the IEA decision, said Frederic Neumann, co-head of Asia economic research at HSBC. “Markets appear to be shrugging off the long-term implication of this move. But they are wrong,” he said.

“The real message from yesterday’s announcement is that policy risk is back in a huge way in the oil market.”

The IEA decision was the culmination of a plan that President Barack Obama put into motion more than a month ago, and shows the deepening concern among rich nations over the economic damage from high energy costs.

Obama drew immediate criticism from the oil industry and Republicans, who called it an ill-timed misuse of stockpiles that risks leaving the government with less ammunition should a deeper supply crisis emerge.

Oil prices have risen 20 percent over the past year, pushing US retail gasoline prices to \$4 a gallon. While Brent crude peaked above \$125 in April, it has since fallen sharply. After dropping a further 6 per cent on Thursday, prices are only a little higher than mid-February, just before the Libyan conflict began.

The IEA said the action would fill shortages caused by the Libyan conflict and get oil quickly to market while Saudi Arabia makes good on a pledge to pump more oil.

The previous two releases followed abrupt shortages caused by the first Gulf War in 1991 and by Hurricane Katrina in 2005.

Reuters

<http://www.dawn.com/2011/06/25/asian-nations-move-to-tap-oil-reserves.html>

Emerging markets to account for 80% of future global growth: ex-IMF chief

BUENOS AIRES -- As much as 80 percent of the world's economic growth in the next 40 years will come from emerging market countries, former chief of the International Monetary Fund (IMF) Michel Camdessus predicted Thursday.

"By 2050 we can expect that close to 80 percent of the global economic growth will be a result of emerging countries," Camdessus, a French economist and managing director of the IMF from 1987-2000, told a conference here.

Emerging countries "are narrowing the gap with developed nations by developing their middle-class and improving their life quality," Camdessus said at the 14th Annual Meeting of the Christian Association for Company Directors (ACDE) in Argentina.

He also said international economists believe that in the next few years the dollar will cease to dominate the global monetary system, which will help promote a multi-currency system.

The monetary and finance system will in the future "be renewed so that emerging countries are recognized, changing from a dollar-dominated system to a multi-currency one," Camdessus said in his speech "Argentina: Our Challenges for a Sustainable Progress."

During 2001 and 2002, Argentina suffered a social and economic crisis which terminated then President Fernando de la Rúa's term in December 2001, just two years after he took office as president.

At the onset of the economic crisis, which forced Argentina to devalue its peso to about a third of its value, the Argentine government announced it would deliberately default on its debt payments to the IMF until a reasonable payment restructure was accepted, as Buenos Aires blamed IMF policies for being mainly responsible for its debt crisis.

Camdessus on Thursday said the relations between Argentina and the Washington-based lending institution was now back on track.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13947907.htm

OECD warns of rising public spending

PARIS: Public spending in advanced countries has risen to a record 45 per cent of national annual output and many countries face a huge task to raise government efficiency, the OECD warned on Friday.

“Average government spending in the OECD area is larger than ever before: it exceeds 45 per cent of GDP (Gross Domestic Product), up from slightly more than 40 per cent in pre-crisis 2007,” the OECD said.

It warned that “unsustainable fiscal positions” in many countries meant that public spending had to be cut and in some cases state revenues had to rise.

OECD countries faced the task of improving their fiscal positions by nearly 4.0 per cent of potential GDP merely to stabilise their debt-to-GDP ratio by 2026, the OECD estimated.

Potential GDP refers to the amount of activity an economy can generate without provoking inflation. It is a measure of efficiency throughout the whole economy.

Another 3.0 percentage points would have to be found in the next 15 years just to cope with the ageing of populations in these countries, the OECD said.

However, the state of public finances and the size of government were not necessarily related, since some countries with strong financial positions did not have the smallest government administrations.

Rather, they had learned from previous crises and improved their tax, revenue and budget arrangements.

AFP

<http://www.dawn.com/2011/06/25/oecd-warns-of-rising-public-spending.html>

Brazil, Spain lead race to head FAO

ROME: Brazilian and Spanish candidates are leading the field for an upcoming election for the next head of the Food and Agriculture Organisation in Rome, the UN agency leading the struggle against global hunger.

Former Spanish foreign minister Miguel Angel Moratinos and former Brazilian food security minister Jose Graziano da Silva are two of six candidates for Sunday’s vote, with the others coming from Austria, Indonesia, Iran and Iraq.

“The tradition is for the agency to go to a developing country and Brazil is not going to miss the chance to take advantage of this,” a source informed about the inner workings of the FAO told AFP on condition of anonymity.

“Especially if Europe is going to take over the International Monetary Fund,” the source added, referring to French Finance Minister Christine Lagarde’s emergence as the favourite to lead the Washington-based IMF.

The election of the new head of the International Monetary Fund has stirred anger in top emerging economies about being left out of international decision-making.

Each of the FAO’s 191 member states gets one vote in the election — unlike other UN agencies where the biggest contributors get more of a say.

Senegal’s Jacques Diouf, the head of FAO for 17 years, is stepping down at the end of the year at a time of rising food prices, persistently high levels of global hunger and growing concern over the effects of climate change.

Mexico’s ambassador to the FAO, Jorge Chen, who is supporting the Spanish candidate over the Brazilian, told AFP: “Right now FAO needs to become a political instrument and Moratinos has

the right profile for that.” But there is still a possibility for a compromise candidate to come forward like Europe’s former agriculture commissioner Franz Fischler of Austria or Indroyono Soesilo, a veteran natural resources scientist from Indonesia.

The outsiders are Iran’s Saeid Noori Naeni and Iraq’s Abdul Latif Rashid.

Noori Naeni, Iran’s former envoy to the FAO, is seen as one of the most experienced candidates but his nationality is believed to count against him.

Global hunger rates have decreased slightly in recent years but 925 million people still suffer from hunger and high food prices threaten millions more.

It is estimated that every six seconds a child dies from malnutrition.

Faced with these giant challenges, FAO’s budget of around one billion dollars (706 million euros) a year is relatively minor. “That makes about a dollar a year for every person who suffers from hunger,” an expert said.

AFP

<http://www.dawn.com/2011/06/25/brazil-spain-lead-race-to-head-fao.html>

FAO says food inflation hits 7.4% in L. America and Caribbean

SANTIAGO -- The inflation for food items in Latin America and the Caribbean reached 7.4 percent in May this year, the United Nations Food and Agriculture Organization said Friday.

The sharp rise in the regional prices in May was attributed to an even sharper increase in food prices which on a worldwide basis rose 37 percent in May compared to world food prices in May 2010, the FAO said in a report from its regional headquarters in Chile.

The May figures are consistent with the upward trend in food prices in the last three months across many countries in the regions, including Chile, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama and Uruguay.

But some countries like Argentina, Bolivia, Brazil and the Dominican Republic showed little change while food inflation in countries like Costa Rica and Venezuela went down.

"The behavior of the food inflation have varied a lot from one country to another but all the governments in the region are aware of the need to confront the volatility and the rising prices," said FAO delegate Fernando Soto Baquero.

The governments of most countries in the region have therefore established a "political dialogue" with the FAO, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and the Inter-American Institute for Agricultural Cooperation (IICA), said Soto.

Governments in Central America, the Caribbean and South America all share a common goal of trying to establish a forum in which they can collaborate on how to face the situation of food inflation, which has hit the poorest and most socially vulnerable groups in all the countries the hardest.

"The (high) food prices should serve as a principal incentive to agricultural producers in order for them to try to increase their production as part of the instruments to bring the food inflation under control," said Soto.

He also said there was a need to intensify the inter-regional food trade, to support the traditional family-based subsistent agriculture, strengthen the development banks' possibility for offering financing and improve the social protection systems.

http://news.xinhuanet.com/english2010/business/2011-06/25/c_13949129.htm

Solar power getting cheaper

LONDON: Prices of solar panels are falling so fast that by 2013 they will be half of what they cost in 2009, according to a new report from Ernst & Young that argues solar electricity could play “an important role” in meeting the UK’s renewable energy targets.

The average cost of solar photovoltaic (PV) panels — usually described in terms of the dollar price of each watt of peak capacity — has already dropped from more than \$2 in 2009 to around \$1.50 in 2011. Based on broker reports and industry analysis, the report forecasts that those rates of decline will continue, with prices falling close to the \$1 mark in 2013.

At present, solar PV is economically viable in the UK for homeowners, businesses and investors only because of government subsidies given out via feed-in tariffs (Fits). But the new analysis suggests that due to falling PV panel prices and rising fossil fuel prices, large-scale solar could be cost-competitive without government support within a decade — sooner than is usually assumed.

The report was commissioned by the Solar Trade Association (STA) from Ernst & Young’s energy and environmental infrastructure advisory unit in response to the recent shake-up of the Fits, which saw government support for large solar systems significantly reduced. The cuts were enacted as a result of the government’s decision to cap the total amount that could be spent via Fits and skew the limited budget in favour of domestic and other small-scale installations.

The chairman of the STA, Howard Johns, said the new analysis backed up the industry line that government support for all types of solar systems in the next few years made good economic sense as it would build capacity and enable unsubsidised solar to be as widely deployed as possible as prices come down. “This reinforces the case we have laid out in our Solar Revolution strategy,” he said, “and it comes from an independent consultancy.”

The report coincides with new data from Bloomberg New Energy Finance that shows a drastic 28 per cent month-on-month drop in the spot price of high-grade silicon, the raw material used in most PV panels.

The conclusions of the Ernst and Young’s report contrasts with the view of the government’s advisers, the Committee on Climate Change (CCC). The committee recently argued that solar remained too expensive to warrant serious consideration in the short term and that Britain should instead “buy in from overseas later”. The lead author of the new report, Ben Warren, said the CCC’s view failed to consider the wider economic benefits of solar. “Being a laggard has never been very successful in terms of capturing the greater share of the value added for the economy. If you create a sustainable market, you will achieve cost savings and drive economic benefits in terms of tax income and job creation.”

To compare the relative cost of solar and other energy sources, analysts consider factors such as upfront expenditure, fuel prices, maintenance and discount rates to calculate the “levelised cost” of each unit of energy. The report predicts that, with continued support in the short term, the levelised cost of large-scale solar will be no higher than retail energy prices by 2016-19. This suggests that within 10 years companies with large electricity demands will find it cheaper to install unsubsidised solar than to buy energy via the grid in the traditional way.

In the meantime, a full assessment of the costs and benefits of supporting solar should recognise that generous subsidies help unlock new sources of capital that can accelerate decarbonisation of the energy supply, according to Warren. “The energy markets is starved of capital – and it won’t all come from utilities and banks”, he said. “There’s a desperate need to engage with institutional investors.”

In the run-up to the announcement of the FITS cuts, climate minister Greg Barker told the Guardian that Britain had underestimated the potential of solar energy and in light of falling prices he hoped to find “new pathways” for supporting large-scale solar.

Dawn/Guardian News Service

<http://www.dawn.com/2011/06/21/solar-power-getting-cheaper.html>

GLOBAL BANKING & FINANCE

Yuan hits record high one year after exchange rate reforms

BEIJING -- The renminbi (RMB), China's official currency, rose to a new ratio of 6.4696 yuan per U.S. dollar on Monday.

It indicated a 5.24-percent growth from a year earlier when China launched its further exchange reforms on June 19, 2010. The ratio on the trading day before June 19 last year was 6.8275 yuan per U.S. dollars.

Analysts believe the new exchange rate will help fight imported inflation. The consumer price index (CPI) hit a 34-month high of 5.5 percent in May, despite the country's efforts to stifle inflation.

As global prices soar, the RMB appreciation could help reduce imports cost, relieve imported inflation pressure and boost economic restructuring, said Zhang Bin, a researcher on finance with the Chinese Academy of Social Sciences (CASS).

Despite the positive effects, yuan appreciation has also caused worries, such as soaring costs for exporters, inflows of speculative "hot money," and soaring foreign reserves, said Ding Zhijie, director of the School of Banking and Finance with the University of International Business and Economics.

Yuan appreciation is burdening Sun Yun, a clothes exporter whose export destinations mainly include the United States and European countries.

"We just finished a contract of 1 million U.S. dollars, but the buyer is only ready to provide 200,000 U.S. dollars in deposit and the remaining will be paid at delivery three months later. If the yuan appreciates just one percent, it would cost us a fortune," Sun said.

Many small enterprises prefer short or mid-termed deals to avoid risks of exchange rate fluctuations these days, Sun said.

Despite the pressure for exporters, the yuan appreciation will boost restructuring and help the domestic economy and commodities move upward to a higher platform with new international competitive edges, Ding explained.

Hot money inflow is another byproduct of yuan exchange rate reforms.

Yuan exchange rate reforms can help avoid depreciation trailing U.S. dollars, but its upward trend incurs expectations of continuous appreciation and hence, speculative hot money, Ding said.

A huge amount of yuan was issued to convert foreign investment into local currencies for circulation, creating high funds outstanding for foreign exchange and thus counteracting the country's monetary tightening policies, Ding said.

The central bank has raised the bank reserve requirement ratio (RRR) six times this year to cope with high funds outstanding for foreign exchange.

China abandoned a decade-old peg to the U.S. dollar by allowing its currency to fluctuate against a basket of currencies on July 21, 2005.

The reforms were suspended in a bid to fight the global downturn in 2008. The yuan exchange rate again was pegged to U.S. dollars at a ratio around 6.83 from September 2008.

The peg was lifted on June 19, 2010, when the central bank announced further yuan exchange rate formation mechanisms.

In China's foreign exchange spot market, the yuan is allowed to rise or fall by 0.5 percent from the central parity rate each trading day.

The central parity rate of the yuan against the U.S. dollar is based on a weighted average of prices before the opening of the market each business day.

http://news.xinhuanet.com/english2010/china/2011-06/20/c_13939981.htm

Disappointment prevails at Gulf markets over MSCI's upgrade postponement

DUBAI -- The DFM General Index in Dubai dived 1.83 percent at 1,549.61 points Wednesday, a day after index provider MSCI decided to extend its review period for the United Arab Emirates (UAE) and Qatar regarding a possible upgrade of both markets to the level of an "emerging market" from "frontier market " by six months.

As a direct result, DFM shares plummeted 5.43 percent to 1.22 dirham (0.33 U.S. dollar).

"Investors are battered and bruised," said Gary Dugan, Chief Investment Officer of Private Banking at Dubai-based bank Emirates NBD.

"They would take any piece of good news just to stabilize the markets and bring some hope of a more sustained recovery," he added.

At the NASDAQ Dubai, the FTSE NASDAQ Dubai UAE 20 Index closed at 1,669.3, 1.41 percent lower compared to the previous close.

In Abu Dhabi, the ADX closed flat at 2,732.54, while the Qatar Exchange ended even at 8,217.42.

Kuwait's KSE Market Index also closed Wednesday's trading unchanged at 6,278.7, as the banking sector index dipped while insurers gained slightly. Budget carrier Jazeera Airways dipped 1.96 percent to 0.204 Kuwaiti dinar (0.72 dollar).

Earlier in the day, Jazeera and Lufthansa Technik AG, a provider for maintenance, repair and overhaul of airplanes, components and engines, agreed on the extension of their existing 10-year Total Engine Support contract, which both parties signed in 2006, for another two years.

The Riyadh-based Saudi Stock Exchange ended down 0.2 percent at 6,449.49. Shares of Saudi Arabian Mining Company, known as Maaden, fell 1.12 percent to 26.5 Saudi riyals (7.15 dollars). Maaden announced earlier that the Public Investment Funds Board of Directors approved a 1-billion-dollar loan to finance Maaden Bauxite and Alumina Company, which is 74.9 percent owned by Maaden and 25.1 percent by U.S. firm Alcoa.

"We recommend safety and security whilst investing in current market conditions. Cash, bonds and gold are your friends," Emirates NBD's Dugan said.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13945531.htm

Foreign banks "confident" about Chinese market

BEIJING -- Despite increasing funding constraints, foreign banks operating in China are still "surprisingly confident" about their prospects in the Chinese market. That's according to a report released by PricewaterhouseCoopers (PwC) International Ltd.

Of the 42 foreign banks interviewed by the company in China, 22 expect revenue to rise between 20 and 50 percent in 2011. And all the banks interviewed believe that their revenue will continue to grow over the next three years.

"Their optimism stems from the continued opening up of the Chinese economy, and its transition toward a convertible currency," said PwC.

The high confidence level belies the continued struggle of foreign banks in trying to gain a foothold in China. The 127 foreign players operating in the country commanded just 1.83 percent of the domestic banking market in 2010, only a slight increase from 1.7 percent the year before. However, the 42 foreign banks that participated in this year's survey made it very clear that their commitment to China remains resolute.

"The market share figure fails to reflect how foreign banks are continuing to redefine the market segments in China. They believe that China still offers exciting growth opportunities. And they're not wrong," said Raymond Yung, financial services leader for PwC China.

Yung said China's economy may not be expanding as rapidly as in recent years, but it's still growing at a faster rate than the banks' own home markets. And with the Chinese government taking steps to internationalize the yuan, more business opportunities will develop.

The debt capital markets continue to be viewed as the area that will offer the greatest opportunities in the future, said the report. China's bond market is now the second-largest in Asia and the sixth-biggest in the world.

Michael Hu, financial services partner at PwC China, said the tightening of credit in China has left much a great deal of room for the development for bond market.

And more banks prefer to explore the market through acquisitions in complementary areas where permitted, such as trust companies, securities firms, and asset management, compared with 2009 and 2010.

Although optimistic about business opportunities in China, foreign banks are feeling the increasing weight of new regulations.

Coupled with tightening liquidity and rises in interest rates and reserve requirement ratios, the road ahead is expected to be challenging.

Three-quarters of the respondents said liquidity tightening had affected their lending, while the impact of the increase in reserve requirements has yet to be felt.

To soak up liquidity and curb inflation, the central bank has raised the reserve requirement six times since the beginning of the year and 12 times since the beginning of 2010. It has also raised interest rates four times since October.

In addition, some banks worry that it will be difficult to attract enough deposits after meeting the required loan-deposit ratio of 75 percent. Moreover, the new capital regulatory parameters, especially the 2.5 percent provision ratio, are expected to affect profit.

"There are certainly obstacles and some speed bumps to tackle. But in the current post-financial crisis climate, these challenges are not unexpected. Foreign banks are in China for the long haul. And the involvement of these international players is, and will continue to, pay dividends for the development of China's banking industry," said Hu.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13945804.htm

More Chinese hold securities, fund products

BEIJING -- Faced with rising inflation, more Chinese are investing in securities and fund products despite the poor performance of the country's stock markets recently, according to the China Securities Depository and Clearing Corp. (SD&C).

Investors opened about 203,400 securities accounts for trading on Shanghai and Shenzhen stock exchanges while opened 64,200 accounts for fund products last week, according to SD&C.

SD&C's latest statistics show that last week transactions were made through 10.32 million A-share accounts, or 6.55 percent of the total.

The number of investors who opened and held their portfolio positions climbed to the highest level of 57.27 million last week.

By the end of last week, the number of securities accounts totaled 160.1 million in China.

http://news.xinhuanet.com/english2010/business/2011-06/25/c_13949488.htm

INTERNATIONAL TRADE

Int'l trade fair registers nearly \$18 bln worth of contracts in NE China

HARBIN -- The 22th China Harbin International Economic and Trade Fair (HTF) concluded Sunday in this capital city of northeast Heilongjiang Province with 17.82 billion U.S. dollars worth of overseas-related contracts signed.

Domestic trade and economic cooperation contracts were valued at 221.59 billion yuan (33.6 billion U.S. dollars).

Foreign trade contracts were valued at 9.4 billion U.S. dollars, including 2.02 billion dollars worth of contracts for garment exports and 1.05 billion dollars worth for oil imports.

Russia, which borders China's Heilongjiang Province, remained as the most active attendant at the fair. Russian companies and merchants occupied a total of 138 of the fair's 3,000 exhibition booths, an increase of 151 percent over last year's fair.

Two-way trade volume reached about 55.5 billion U.S. dollars in 2010, making China Russia's largest trade partner.

http://news.xinhuanet.com/english2010/business/2011-06/19/c_13938225.htm

South Korea to extend tax reduction on 35 imports

SEOUL -- South Korea will extend tax reduction on 35 imports such as pork and garlic in an effort to ease potential price hikes, the finance ministry said Tuesday.

A six-month extension will be imposed on 35 import items out of 46 goods whose temporary tariff reduction will expire at the end of June, the Ministry of Strategy and Finance said in a statement. Those imports include pork, garlic, mackerel, wheat, soybean oil, sugar, coffee and tire.

Meanwhile, 14 more items will be added to the list of imports subject to lower tariff by year-end, according to the ministry. They include breeding pigs, silicon and manganese.

A total of 111 import items will be subject to lower or zero tariffs by the end of this year, the ministry said.

http://news.xinhuanet.com/english2010/business/2011-06/21/c_13941324.htm

China's Zhengzhou Commodity Fair promotion meeting held in Vietnam

HANOI -- The China's Zhengzhou National Commodity Fair and Consumer Goods Expo held a promotion conference here Tuesday to introduce its 17th session. More than 200 representatives from Vietnam's Ministry of Industry and Trade (MIT), Vietnam Chamber of Commerce and Industry, Zhengzhou Commodity Fair organizing committee and enterprises from China and Vietnam attended the event. Dao Ngoc Chuong, Deputy Head of the Asia-Pacific Market Division under MIT, said at the conference that China has been Vietnam's largest trading partner since 2004 and Vietnam-China investment cooperation has made remarkable achievements in recent years.

The establishment of China-ASEAN free trade area represents a great opportunity for trade cooperation between Vietnam and China. Vietnam will continue improving the investment environment, encouraging Chinese enterprises to invest in Vietnam, especially in the fields of infrastructure, electricity, processing of agricultural products, Chuong said.

Xu Songyun, deputy director of the Zhengzhou exhibition management office, said 92 percent of the product tariffs of both sides have been removed after the establishment of the free trade area. In addition, China and ASEAN countries are making efforts to open goods market, services market and investment market for favorable trade and investment cooperation. The Zhengzhou Commodity Fair and Consumer Goods Expo can serve as a platform for ASEAN enterprises to enter the Chinese market, helping them to promote the ASEAN's advantage industries and specialty goods in China, Xu said.

During the conference, the fair's organizers introduced the preparatory work, exhibition settings and the economic and social development of China's Henan Province and its capital Zhengzhou. Supported by China's Ministry of Commerce, the 17th Zhengzhou National Commodity Fair and Consumer Goods Expo will open on September 16-18. The expo for the first time will set up an ASEAN pavilion to boost cooperation between China and ASEAN countries.

http://news.xinhuanet.com/english2010/business/2011-06/21/c_13942071.htm

South Korea's president calls for parliamentary support for ratification of trade deal with U.S.

SEOUL -- South Korean President Lee Myung-bak asked on Wednesday members of a parliamentary committee to pass a two-way free trade accord with the United States. Thanking the ruling party lawmakers at the parliament's foreign affairs and trade committee for having passed a similar deal with the European Union, Lee asked for their support for ratification of the trade pact with the United States, according to the presidential office Cheong Wa Dae.

South Korea is the only Asian country to have signed a free trade agreement with the EU and the United States, Rep. Nam Kyung-pil, chairman of the committee said, pledging the committee's efforts for the passage of the bill. Seoul and Washington have faced domestic opposition against legislative endorsement of the trade deal, originally signed in 2007, due to differences over auto trade imbalances and U.S. beef imports. They managed to settle differences in supplementary agreements, a move believed to have cleared a hurdle for U.S. congressional approval of the deal. The South Korean government seeks to pass the ratification bill in June, but opposition lawmakers, believing Seoul has made too much concession, have vowed to block the passage. Opposition members of the parliamentary committee did not attend the meeting with the president.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13944120.htm

Iran to export diesel to Iraq: official

TEHRAN, June 22 (Xinhua) -- Iranian deputy oil minister said Wednesday that Iran will export 1.5 million liters of diesel oil to Iraq on a daily basis, the semi-official Mehr news agency reported. Ali-Reza Zeighami, who is also the general manager of Iran's National Company of Refining and Distributing Oil Products, told Mehr in Baghdad that Iran and Iraq signed a one-year contract, according to which Iran will send 1.5 million liters of diesel oil to Iraq every day for the country's power plants.

Iran is ready to meet the long-term needs of Iraqi power plants for diesel oil, Zeighami said.

The negotiations are underway to double the amount of Iran's diesel exports to Iraq to the level of 3 million liters per day, he was quoted as saying.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13944543.htm

China will increase U.S. soybean imports

BEIJING -- China's soybean imports are expected to rise by 5 percent more than last year, increasing the attraction of the country to U.S. soybean farmers, said Alan Kemper, president of the American Soybean Association.

The increase in the soybean trade may help promote China-U.S. relationships, indicating a way to balance bilateral trade, Chinese experts said.

"China is the most important market for U.S. soybeans, and the soybean trade will play a large role in improving the balance of China-U.S. trade," Kemper said.

China is the largest importer of U.S. soybeans. It imported a quarter of the country's domestic production last year, according to the association.

Zhang Monan, a researcher at the Economic Forecast Department of the State Information Center, said soybean trade between the two countries will help maintain a stable development in bilateral relations.

The U.S. has heavily subsidized its agricultural sector, so it is important for the country to ensure profit margins in the global food market, Zhang said.

Given constraints over land and water resources, it is difficult for China to meet growing demand for agricultural products such as soybeans domestically. It can buy agricultural products with its bulky foreign reserves, she added.

If imports are to increase, it is not because of a decline in domestic production but because of growing demand, said Liu Denggao, vice-president of the China Soybean Industry Association.

"The size of the area where China's soybeans are grown remains largely unchanged from last year," Liu said.

Even with the fresh demand in China's market, the competition is growing fiercer in the international market, as imports from South American countries such as Brazil and Argentina have also increased in recent years.

To consolidate its position, the U.S. soybean industry will invest more than \$2 million this year in China's market, Kemper said.

The investment will finance programs teaching Chinese farmers efficient ways of using soybeans to improve the production of swine, poultry, dairy and other agricultural sectors, according to the association.

"These programs have been carried out for the last 30 years since we arrived in China," said Marc Curtis, chairman of the United Soybean Board. "We will continue our efforts to serve China's market."

China imported a historic 54.8 million tons of soybeans in 2010, compared with 15.2 million tons of domestic production, General Administration of Customs data showed. The country's self-sufficiency rate currently stands at 22 percent.

The imported soybeans are all genetically modified and mainly used as animal feed or for oil crushing.

Imports of soybeans to China declined by 1 percent over year-on-year basis to 4.56 million tons in May. China's soybean imports during the first five months of this year remain largely the same compared with the same period last year.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13945781.htm

Mainland-Taiwan trade up 15.3% in first 5 months of 2011

BEIJING -- Trade between the Chinese mainland and Taiwan reached 65.86 billion U.S. dollars in the first five months of this year, up 15.3 percent year-on-year, according to the Ministry of Commerce.

The figure included 14.54 billion U.S. dollars in Chinese mainland exports to Taiwan, up 30.4 percent year-on-year, and 51.32 billion U.S. dollars in mainland imports from the island, an increase of 11.6 percent, according to a report released Friday by the ministry.

From January to May, the mainland approved 1,025 projects with investments from Taiwan and recorded 990 million U.S. dollars of actually utilized investments from Taiwan.

The mainland is Taiwan's largest export market.

The mainland's trade volume with Hong Kong rose by 37 percent from January to May this year, hitting 109.82 billion U.S. dollars, according to the report.

The mainland's trade volume with Macao during the same period rose by 7 percent year-on-year to hit 930 million U.S. dollars, the report said.

http://news.xinhuanet.com/english2010/china/2011-06/24/c_13948659.htm

China, Britain likely to sign several MOUs during Wen's visit: British diplomat

BEIJING -- China and Britain are likely to sign eight or nine MOUs (Memorandum of Understanding) on development and cooperation across a broad range of areas during Premier Wen Jiabao's upcoming visit to Britain, a British diplomat said in Beijing Thursday.

Dan Chugg, the political counselor of the British Embassy in Beijing, said the MOUs will likely cover areas such as trade and services, taxation and scientific research.

Wen will pay his fourth visit to Britain from Saturday to Monday. Chugg said the visit will demonstrate the "closeness" of bilateral relations.

The goal of Wen's visit is to strengthen bilateral relations, improve mutual understanding and find ways for both sides to benefit from their complementary economies, Chugg said.

The Chinese Foreign Ministry said Wen will hold talks with British Prime Minister David Cameron and inspect several Sino-British cooperative projects.

Leaders will explore the possibility of cooperating in new areas, such as finance, infrastructure and technology, Vice Foreign Minister Fu Ying said at a news briefing on June 17.

Cameron paid his first visit to China as prime minister last November. Cameron and Wen agreed that the two countries were "partners for growth" by virtue of their complementary economies, Chugg said.

As "partners for growth", Chugg said, the two countries are pushing for business opportunities.

According to the Chinese Ministry of Commerce, Wen and Cameron will witness the signing of deals covering inter-city cooperation, investment, resource exploration, bank cooperation, architecture and design. Chugg said that negotiations are still under way for Chinese telecommunications company Huawei, which wishes to sign a contract that will allow it to install wireless Internet facilities in London's subway stations.

Media reports said Huawei's intention to participate in a previous plan to introduce mobile phone coverage to London's subway failed, as the city's tunnels proved to be too narrow for the project to be completed.

Huawei's participation in the plan was questioned, as some claimed that it was not appropriate for a foreign company to participate in the project, media reports said.

Chugg also said China-Britain relations represent more than just business, adding that China is vitally important for Britain's foreign policy priorities.

"It's difficult for us to meet our own priorities without engaging with China. We have reached agreements with China on many issues," Chugg said.

During his stay in London, Wen and Cameron will also discuss international and regional issues of common concern, Chugg said.

http://news.xinhuanet.com/english2010/china/2011-06/23/c_13946723.htm

China-Britain trade targets 100 billion U.S. dollars in 2015

LONDON -- With a rapid growth in bilateral trade during the first six months of this year, China and Britain are aimed at an ambitious trade target of 100 billion U.S. dollars in 2015.

That target was set by leaders of the two nations during Prime Minister David Cameron's visit in China in November.

China and Britain are important trading partners with Britain being China's third largest market in the EU and China being Britain's largest export destination save the EU and the United States. Two-way trade in goods and services between the two nations hit an all-time high of 60 billion U.S. dollar last year, a rise of 28 percent from the previous year.

According to the economic and commercial counselor's office of the Chinese Embassy to Britain, bilateral trade of goods jumped 17.4 percent to 20.97 billion dollars in the first five months from a year earlier.

Investment is also on the fast track with more and more Chinese setting up subsidiaries in Britain. Last year, China became Britain's sixth largest foreign investor. In addition, over the past few years an increasing number of Chinese companies, notably Shanghai Automobile and Chongqing Changan Automobile, have set up R&D centers in Britain.

Meanwhile, British enterprises continue to expand their presence and operations in China. Tesco has committed to making an investment worth 2 billion dollars in China during the next five years.

With a cumulative investment exceeding 17 billion dollars by the end of 2010, Britain has managed to maintain its position as China's largest investor among EU members.

At the same time, the potential to expand China-Britain commercial and economic ties remains huge. Trade with Britain accounts for a mere 1.7 percent of China's trade with the rest of the world. British exports to China, meanwhile, constitute less than 2 percent of China's total imports.

http://news.xinhuanet.com/english2010/business/2011-06/25/c_13949913.htm

WORLD ECONOMIES

Moody's warns to cut Italy's credit ratings

NEW YORK -- Moody's investors' service warned on Friday that it may cut Italy's sovereign credit ratings from the current Aa2, citing economic growth challenges and the potential of higher borrowing costs.

Moody's said in a statement that it has placed Italy's credit ratings under review for a possible downgrade and affirmed the European nation's short-term Prime-1 ratings.

"Moody's review of Italy's sovereign rating will focus on the growth prospects for the Italian economy in coming years, and particularly the prospects for a removal of important structural bottlenecks that could hinder a stronger economic recovery in the medium term," the ratings agency said.

It said that Italy's economy has structural weaknesses like low productivity and "labor and product market rigidities," and the debt-burdened country also faces risks for the implementation of fiscal austerity plans.

Italy had debt of about 1.8 trillion euros (2.6 trillion U.S. dollars) at the end of last year and a ratio of debt to gross domestic product of about 119 percent.

The annualized yield on two-year Italian bonds has risen from 2.30 percent in mid-March to 2.99 percent now, but is still well below the 28.8 percent the market is demanding on two-year Greek bonds, and the 13.03 percent yield that two-year Portuguese bonds pay.

Italy's 10-year government bond spreads narrowed on Friday by 9 basis points to 186 basis points over the benchmark German bonds, still staying at a high level.

Standard & Poor's has Italy's long-term sovereign credit rating at A+ with a negative outlook. Fitch ratings is in between S&P and Moody's with an AA- rating and stable outlook.

http://news.xinhuanet.com/english2010/business/2011-06/18/c_13936374.htm

Euro zone ministers put next tranche of loans for Greece on hold

LUXEMBOURG -- Euro zone finance ministers put the next tranche of loans for Greece on hold after talks dragged into the early hours of Monday, asking Athens to approve new austerity measures first.

The ministers of the 17 European Union (EU) countries that use the euro said the disbursement of the next tranche of loans would depend on the outcome of the ongoing negotiations between the Greek government and the EU, in liaison with the International Monetary Fund (IMF), and it would also hinge on the adoption of new austerity measures by the Greek Parliament.

"This, together with the passing of key laws on the fiscal strategy and privatization by the Greek parliament, will pave the way for the next disbursement by mid-July," they said in a statement after seven-hour marathon talks.

The fifth tranche of loans, which amount to 12 billion euros (16.9 billion U.S. dollars), was originally planned to be handed to Greece this month so that Athens could pay back its maturing debts, but it was held off due the country's failure to meet austerity targets.

It was part of the 110-billion-euro (157-billion-dollar) bailout program supplied by the EU and the IMF to keep Greece afloat in May last year. In exchange for the financial support, Athens has to implement austerity measures and economic reforms to bring down its fiscal deficits.

If Greece could not get the next tranche of loans in time, it would be unable to pay its debts maturing in July and face the imminent risk of default.

Greek Prime Minister George Papandreou reshuffled his cabinet on Friday in a risky bid to drum up support for the new austerity package he introduced early this month to convince the EU and the IMF to release the next tranche of loans.

The new belt-tightening measures have led to violent protests and waves of strikes in the past week, casting doubt on whether the Greek Parliament could give its urgently-needed approval to win new loans from the EU and the IMF.

http://news.xinhuanet.com/english2010/business/2011-06/20/c_13938710.htm

Japan's key economic gauge revised to 0.2 point gain in April

TOKYO -- A key gauge of Japan's current economic conditions rose a revised 0.2 points from a preliminary 0.3 points in April following a record plunge a month earlier, the Cabinet Office said in a report on Monday.

The composite index of coincident indicators such as industrial output, retail sales and overtime working hours, which reflects current business conditions in Japan, rose to 103.6 from 103.5 booked a month earlier, against the 2005 base of 100, the government report showed.

April's revised 0.2 point rise follows a record 3.2 point plunge logged a month earlier which revealed the full extent of the fallout the March 11 earthquake and tsunami had on business conditions in Japan.

According to the finalized government data, the leading composite index which measures the state of the economy three months ahead dropped 3.4 points from a month earlier, to 96.2 from 99.6 in March, marking the second straight month-on-month fall.

Meanwhile, the lagging index, which reflects economic conditions three months in the past, gained a revised 1.9 points month-on-month to 90.8 from 90.7, logging its first rise in two months.

As with the office's preliminary assessment for April, the government maintained that the composite index "indicates that the economy is improving," but again noted that the March 11 twin disasters had caused the three-month backward moving average to turn negative.

http://news.xinhuanet.com/english2010/business/2011-06/20/c_13940042.htm

Australia's commodity export earnings expected to reach record

CANBERRA -- Australian commodity export earnings are forecast to reach a record 271 billion U.S. dollars in 2011/12, an 18 percent increase on the previous financial year, the federal government's commodity forecaster said on Tuesday. The Australian commodities-June quarter 2011 report, released by Australian Bureau of Agricultural and Reserve Economics and Sciences (ABARES) on Tuesday, estimated earnings from energy and minerals exports to increase by 20 percent in 2011/12 to around 230 billion U.S. dollars, following an estimated 31 percent rise to 193 billion U.S. dollars in 2010/11.

The value of energy exports is forecast to rise by 25 percent to 94 billion U.S. dollars in 2011/12, while earnings from metals and other minerals exports are forecast to rise by 17 percent to around 137 billion U.S. dollars.

According to ABARES acting Deputy Executive Director Kim Ritman, forecast increases in export prices and shipments for Australia iron ore and metallurgical coal are the main reasons for the expected increase in mineral resources exports. He said strong export performance is also expected for other commodities including thermal coal, gold and alumina.

Dr Ritman said the volume of mine production is forecast to rise 10 percent in 2011/12, having increased by an estimated two percent in 2010/11.

Meanwhile, the value of farm exports is forecast to increase by close to seven percent in 2011/12 to 36 billion U.S. dollars, following an estimated 12 percent rise to 33.9 billion U.S. dollars in 2010/11.

"This forecast increase mainly reflects expected higher farm production and a favorable outlook for agricultural prices on world markets," Dr Ritman said in a statement on Tuesday.

Agricultural commodities which export earnings are expected to rise in 2011/12 include wheat, oilseeds, rice, raw cotton, wine, wool, and sheep meat.

These increases are expected to more than offset lower earnings from barley, sugar, beef and veal, grain, sorghum and some dairy products.

Australia's financial year is counted from July 1 to June 30 of the following year.

http://news.xinhuanet.com/english2010/business/2011-06/21/c_13941488.htm

Moody's ups Brazilian credit rating

RIO DE JANEIRO-- Moody's on Monday lifted Brazil's credit rating from Baa3, the lowest, to Baa2, indicating its confidence in the South American nation's effort to curb economic overheating,

The decision was based on Brazil's recent policy adjustments, which should help prevent economic overheating and result in a more sustainable macroeconomic scenario, the rating agency said in a statement.

The Brazilian government's willingness to reverse its "expansionary policies" and adopt a more conservative stance appears to be more consistent with a sustainable growth path, it added.

According to Moody's, through a combination of fiscal and monetary measures, the Brazilian authorities are in the process of defusing the conditions that have caused overheating in the economy.

The agency expects Brazil's debt ratios to fall in compliance with the fiscal targets set in the country's budget.

Brazil's rating outlook remains positive, the agency said, adding that "our baseline expectation is for relatively favorable and more sustained economic growth in coming years."

Moody's move came after Fitch Ratings raised Brazil's investment grade from BBB-, one step above junk, to BBB with a stable outlook. Moody's gave Brazil a grade of Baa3 in September 2009 right after the global financial crisis struck.

http://news.xinhuanet.com/english2010/business/2011-06/21/c_13941499.htm

IMF urges Spain to continue fiscal consolidation

WASHINGTON -- The International Monetary Fund (IMF) said on Tuesday that debt-burdened Spain needs to continue a series of reforms to improve its fiscal condition and tackle "considerable" risks. In the face of serious economic and financial challenges, Spain authorities implemented a strong and wide-ranging policy response over the last year. This has helped the economy to gradually recover and get the necessary rebalancing underway, said the IMF in its annual report on Spanish economic condition.

"But the repair of the economy is incomplete and risks are considerable. Hence, there can be no letup in the reform momentum, including further enhancing the credibility of fiscal

consolidation, completing financial sector restructuring, boldly strengthening labor market reforms, and following through on the structural reform agenda," said the Washington-based international financial institution.

Spain faced grave economic risks if it failed to crack down harder on spending, shake up the financial sector and loosen up the labor market, noted the IMF report.

The IMF said that Spain managed to cut the annual public deficit from 11.1 percent of annual gross domestic product (GDP) in 2009 to 9.2 percent of GDP in 2010.

But Madrid would likely have to take "additional measures" to meet its medium-term targets of cutting deficits further, and eventually dipping below the European Union's agreed 3.0-percent ceiling.

According to its latest forecast, the IMF expected Spanish economy to grow 1.5-2.0 percent in the medium term, a low level which makes it difficult for the government to meet its fiscal challenge.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13943312.htm

Panel seeks solutions to U.S. job problem

NEW YORK -- A panel of U.S. businessmen, politicians and academics discussed ways to create more jobs here Monday, as the country's rising unemployment added to the urgency of the issue.

"A year ago, we don't have the conversation about creating jobs," Robert Wolf, chairman of UBS Group Americas and president of UBS Investment Bank, told the event titled as "Jobs! Jobs! Jobs! What can we do?", during the ongoing The New York Forum 2011.

"People are definitely coming here to get some ideas about what can be done to create jobs," said Richard Attias, founder of the forum, who also chairs Richard Attias & Associates.

Latest government data showed the U.S. unemployment rate has climbed above 9 percent.

"Smart government" is needed to address the job issue, said Valerie Jarrett, senior advisor to President Barack Obama. She also stressed that the government should cut waste and invest smartly to help create jobs and maintain economic growth. "If we're going to invest in the future, we have to invest in education."

Laura Tyson, an economics professor at the University of California at Berkeley, shared that view and called for funds for infrastructure improvement to create jobs.

The Obama administration has proposed a 50-billion-U.S.-dollar program last September to boost infrastructure, in a bid to stimulate economic growth and create jobs.

The government should focus on education, particularly on STEM (science, technology, engineering and mathematics), Wolf said, adding that the private sectors also play an important role in bringing significant profits and helping creating jobs.

The New York Forum, an annual event, brings together business leaders, economists and policymakers to develop innovative ideas addressing current challenges facing the global economy.

With the theme "Committed to Growth," this year's forum focuses on strengthening the connection between economic growth and job growth. The specific action items emerging from the forum will be presented to the Group of 20 Summit in Cannes, France, in November.

http://news.xinhuanet.com/english2010/business/2011-06/21/c_13941637.htm

U.S. economy facing tougher challenge: Commerce Secretary Nominator

WASHINGTON -- The United State is facing tougher challenge as the world largest economy grows at slow pace and the unemployment hovers at high level, according to John Bryson, nominator to be Secretary of the Department of Commerce.

"We all know that the U.S. economy is recovering," Bryson said Tuesday at a hearing before the U.S. Senate Committee on Commerce, Science, and Transportation. "But it is too slow and too uncertain."

Bryson was nominated by U.S. President Barack Obama on May 31. If confirmed by the Senate, he would replace outgoing Commerce Secretary Gary Locke, whom Obama recently named as his next ambassador to China.

Bryson, 67, is a former chairman and chief executive officer of Edison International, a California-based energy company. He also has an extensive background in environmental issues, having co- founded the Natural Resources Defense Council and served on a United Nation's advisory group on energy and climate change.

"John will be an important part of my economic team, working with the business community, fostering growth, and helping open up new markets abroad to promote jobs and opportunities here at home, " Obama said when announcing Bryson's selection.

Among Bryson's tasks at the Commerce Department will be leading Obama's efforts to double U.S. exports in the next four years and representing American business interests abroad, particularly in rapidly expanding Asian markets.

Bryson is the latest businessman to be brought into the administration's fold as the White House grapples with ways to shake its reputation as anti-business.

Private sector leaders have griped about what they see as burdensome new financial and health care regulations, unfriendly tax policies and vast government spending.

U.S. economic growth slowed down to 1.8 percent in the first quarter this year from 3.1 percent in the previous quarter. Unemployment rate, currently at 9.1 percent, is not expected to fall rapidly in the near term.

In a relatively positive tone during the hearing, U.S. legislators accredited Bryson's rich business experience would contribute significantly to the country.

Bryson said that private sector should be the real engine of job creation. He vowed to help create a more business friendly environment to boost employment and strengthen economic growth.

http://news.xinhuanet.com/english2010/business/2011-06/22/c_13942361.htm

Immediate sharp spending cut may not create jobs: Bernanke

WASHINGTON -- The U.S. economy is facing severe fiscal and high jobless rate challenges, yet immediate and sharp cut in spending may contribute little to job creation goal, said Ben Bernanke, chairman of the Federal Reserve on Wednesday.

"I don't think sharp immediate cut in deficit will create more jobs," Bernanke said at a press conference after the meeting of the Federal Open Market Committee (FOMC), the interest rate policy making body of the central bank.

The increasing U.S. fiscal deficit is a problem "very long in nature", and it needs to be tackled in the long term, while not to "take heavily cut in the short run", Bernanke said.

He noted that a sharp cut in spending in the short term will have negative impact on economic growth, which will in turn, hurt the still troubling labor market.

In an updated forecast released Wednesday, the Fed projected the U.S. unemployment rate to be around 8.6 percent to 8.9 percent by the end of the year. The is higher than its April forecast, which saw the rate to be between 8.4 percent and 8.7 percent in 2011.

Bernanke acknowledged that the U.S. economy slowed down in the first half of this year partly because some temporary factors, including the damping effect of higher food and energy prices as well as supply chain disruptions associated with the tragic events in Japan earlier this year.

He also mentioned that the world largest economy is facing some long lasting headwinds, including weakness in financial sector, struggling housing market, and the unfolding balance sheet in deleveraging efforts.

The central banker said the United States needs to deal with its fiscal challenge in a longer perspective.

His remarks came at a time when the White House is trying hard to reach an agreement with the Republicans about a deficit cut plan bundled with the increase of debt limit issue.

The Republicans believe that the Democratic government needs to sharp cut spending in the near term, while the Obama administration argues that it will drag down the growth and damage the labor market.

Bernanke said that "there has been improvement in labor market" though it is far from enough and the Fed will monitor the situation closely and take actions if needed.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13944559.htm

U.S. Fed downgrades growth forecast this year

WASHINGTON -- The U.S. economy is expected to grow between 2.7 to 2.9 percent this year, a downward revision from the April forecast, which saw growth possibly at 3.1 to 3.3 percent, said the Federal Reserve in a statement on Wednesday.

It is the third time that the Fed lowered its forecast of the U. S. economic growth this year.

In January, the central bank expected that the world largest economy's output growth in 2011 would reach as high as 3.9 percent.

On the widely watched unemployment rate, currently at 9.1 percent, the Fed upgraded its forecast to between 8.6 percent and 8.9 percent. In its April forecast, the unemployment rate was expected to keep at 8.4 percent to 8.7 percent in 2011.

The downgraded revision is an acknowledgment that the economy has slowed, in part because consumers have been squeezed by higher gasoline prices.

The Fed also revised its projections of inflation, which is expected to grow between 2.3 percent and 2.5 percent in 2011. The prior estimate was between 2.1 percent and 2.8 percent.

The Fed estimates that "core" inflation, which excludes the volatile energy and food prices, will increase 1.5 percent to 1.8 percent. That's slightly higher than its April forecast of an increase of 1.3 percent to 1.6 percent. The revised estimate is still within the Fed's comfort zone for inflation.

"The slower pace of the recovery reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan," said Ben Bernanke, Chairman of the Fed said at a press conference after the meeting of the Federal Open Market Committee (FOMC), the interest rate policy making body of the central bank.

He said that the slowdown is at least partly "temporary" and the economic growth might strengthen as the "transitory factors" wind down in the second half of this year.

Although the economic recovery is not strong enough, the Fed said it will complete its purchase of its 600 billion dollars longer-term Treasury securities as scheduled. The program, launched last November, aimed to help the economy grow more strongly and lower unemployment, which now stands at 9.1 percent.

The central bank also decided to keep the federal funds rate at the historic low level of zero to 0.25 percent, a policy that the Fed has been keeping since December 2008 after the burst of the financial crisis.

Moreover, the Fed said it will maintain its existing policy of reinvesting principal payments from its securities holdings, which is considered another instrument of easing monetary policy to stimulate the economy.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13944557.htm

U.S. new home sales drop 2.1 percent in May

WASHINGTON -- Sales of new single-family houses in the United States declined by 2.1 percent in May, as the housing market continued to struggle, the Commerce Department reported Thursday.

Sales were at a seasonally adjusted annual rate of 319,000 units, down from the revised April rate of 326,000 units, but still 13.5 percent above the May 2010 estimate of 281,000 units, the department said.

The median sales price of new houses sold in May rose to 222,600 U.S. dollars from 217,900 dollars in April.

The seasonally adjusted estimate of new houses for sale at the end of May was 166,000. This represents a supply of 6.2 months at the current sales rate.

Single-family housing starts accounted for around 70 percent of the total new home construction, including houses and apartment buildings.

The U.S. housing industry is suffering its worst slump in decades. Experts say the home price downturn, large inventory of fore closed houses and a persisting credit crunch have been a major drag on the property sector as well as the overall economic recovery.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13946763.htm

U.S. jobless claims up 9,000

WASHINGTON -- The number of Americans initially applying for unemployment aid rebounded last week after falling a week earlier, a fresh sign that the labor market recovery was still weak and volatile, the U.S. Labor Department reported Thursday.

The Labor Department said the advance figure for seasonally adjusted initial claims for jobless benefits was 429,000 in the week ending June 18, an increase of 9,000 from the prior week's revised figure.

It was the biggest gain in a month and the second increase in three weeks, marking the 11th consecutive week that applications have been above 400,000.

Fewer than 425,000 people applying for aid is consistent with modest job growth, but the number of jobless claims will have to fall to 375,000 or below to signal a sustained drop in the unemployment rate.

However, the four-week moving average, which is the more closely watched claims figure, held unchanged at 426,250.

The advance figure for seasonally adjusted insured unemployment during the week ending June 11 was 3.697 million, a decrease of 1,000 from the previous week.

U.S. economic growth has slowed in recent months, curtailing the labor market's recovery. The U.S. Federal Reserve Wednesday projected the unemployment rate to be around 8.6 percent to 8.9 percent by the end of the year, higher than its April forecast.

The weekly figures of jobless benefits applications reflect the level of layoffs and indicate the real-time condition of job market.

http://news.xinhuanet.com/english2010/business/2011-06/23/c_13946760.htm

U.S. economic growth revised up to 1.9 percent in first quarter

WASHINGTON -- U.S. economic growth in the first quarter was revised up slightly to an annual rate of 1.9 percent in the third and final estimate, released by the Commerce Department Friday.

The new growth estimate is 0.1 percentage points higher than the government's two previous estimates, but remains much lower than the fourth quarter in 2010.

U.S. real gross domestic product (GDP) -- the output of goods and services produced by labor and property located in the United States -- rose at an annual rate of 3.1 percent in the October to December quarter of 2010.

The latest estimate was based on more complete source data than were available for the second estimate issued last month, the department said.

An increase in private domestic investment was the major contributor to the higher rate, the government report showed.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13948778.htm

Some Indian states as poor as African nations: study

MUMBAI: India's poorest states have per capita wealth comparable to some of the most war-torn and impoverished African countries, according to new analysis from The Economist magazine.

The current affairs and business magazine assessed the gross domestic product (GDP), adjusted for local purchasing power, on a per capita basis for 32 Indian states and union territories and compared them to nations around the world.

GDP per person in eight Indian states was found to be less than \$2,000, the weekly said on its website.

Bihar in the north — India's third-most populous state with 95.8 million people — has a GDP per person of \$1,019, a dollar below Eritrea, which has suffered decades of conflict with neighbour Ethiopia.

Manipur, in the Far east, was equivalent to HIV- and poverty-wracked Lesotho on \$1,440, slightly behind central Madhya Pradesh, which compared to Benin in west Africa, a country blighted by under-development and corruption.

Uttar Pradesh, which with 195.8 million people has a bigger population than Brazil, was comparable to Kenya despite having India's second-best economy in terms of absolute GDP.

India, Asia's third-largest economy after China and Japan, has been reporting nearly double-digit growth in GDP for much of the last decade, but there are concerns it has not benefited most Indians.

The World Bank says that 42 percent of Indians — 455 million people — live on less than \$1.25 a day. The data also showed that even India's best-performing states economically were still only comparable to mid-ranking nations around the world.

Two tiny union territories, Chandigarh and Puducherry, and the small state of Goa had the highest levels of GDP per person of \$6,000-\$8,000, ranking them alongside St Vincent and the Grenadines, Namibia and Ukraine respectively.

Commercial, industrial and agricultural powerhouses Delhi and neighbouring Haryana, Maharashtra in the west and Punjab and Gujarat in the northwest all had rates of \$4,000-\$6,000.

That places them on a par with Turkmenistan (Delhi), Armenia (Haryana), Sri Lanka (Maharashtra), Fiji (Punjab) and Congo (Gujarat).

GDP per person in 15 Indian states and one union territory was \$2,000-\$4,000, equivalent to countries like Honduras or Cambodia.

Orissa in the east and Rajasthan in the northwest had rates equivalent to Sudan, which has suffered years of bitter civil conflict, resulting in tattered infrastructure and a humanitarian crisis. State GDP figures were considerably lower than in India's rival China, which was the subject of a similar study in February this year.

Only two Indian states had GDP of more than \$100 billion (Maharashtra and Uttar Pradesh). Five grew to more than \$50 billion. The majority were worth less than \$25 billion.

In contrast 15 Chinese states had bigger GDP than Maharashtra; of those, 13 were above \$200 billion while three were more than \$500 billion, putting them on a par with countries like Switzerland and Indonesia.

AFP

<http://www.dawn.com/2011/06/24/some-indian-states-as-poor-as-african-nations-study.html>

German business confidence poses unexpected rise in June

BERLIN -- German business confidence posted an unexpected rise in June, according to key economic data released on Friday.

The Munich-based Ifo Institute for Economic Research said the business confidence index in June rose to 114.5 from 114.2 in May, the first improvement since February.

The data was widely expected to slide to the bottom at 113.5, as the uncertainty of the Greek debt crisis worsens and the U.S. economy shows signs of slowdown.

"The firms have given clearly more positive assessments of their current business situation than in May. Although their business expectations are again somewhat less optimistic, the firms remain confident. The German economy is experiencing a robust upswing," said Hans-Werner Sinn, president of the Ifo Institute.

In addition, a rise from 121.5 to 123.2 in the index's component measuring how industry leaders are weighing up their current business situation contributed to the surprise increase in the overall index in June.

However, the figures for the next six months dropped from 107.4 to 106.3, the lowest level since last June.

Different sectors showed varied expectations for the business development, according to the data. Retailers' confidence weakened considerably, dropping 3.6 points, while the construction sector signalled a much brighter future, surging 3.6 points.

On June 10, Bundesbank, Germany's central bank, revised up its forecasts for the German economy in 2011 from previous 2.5 percent to 3.1 percent, saying the recovery of the economy

"has evolved into a broad-based upturn. Overall production capacity utilization has returned to normal levels."

Bundesbank also predicted that inflation is likely to rise further, by 2.5 percent in 2011 and 1.8 percent in 2012, mainly due to much higher energy prices and increasing overall capacity utilization.

The Ifo institute publishes its business climate index every month, based on a survey of about 7,000 firms in manufacturing, construction, wholesale and retail sectors, on the current business situation and their expectations for the next six months.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13948736.htm

Euro zone debt crisis biggest risk to British financial stability: central bank chief

LONDON -- The euro zone debt crisis poses the greatest risk to the stability of Britain's financial system and banks should increase capital reserves during strong earnings periods, Bank of England Governor Sir Mervyn King said on Friday at a press conference.

"The most serious and immediate risk to the UK financial system stems from the worsening sovereign debt crisis in several euro- area countries," the governor told reporters while releasing the central bank's Financial Stability Report and records of the first Financial Policy Committee (FPC) meeting on June 16.

The FPC, responsible for identifying risks and making recommendations to regulators on risk reduction, was created in the recent reform of Britain's financial regulatory functions.

King said British banks were at risk of financial contagion as they may be exposed to other lenders who may get into trouble if they were to suffer big losses on their loans to distressed euro zone countries, despite the fact that British banks haven't lent very much directly to Greece and other troubled economies.

The FPC recommended in its first meeting all British banks be permanently required to disclose more of their sovereign and banking sector exposures.

"There is always uncertainty about the scale of exposures," King stressed.

The FPC also recommended British banks take the opportunity of periods of strong earnings to build up capital levels in order to transit to the new Basel III capital requirements.

King urged the banks to pay out less of their profits to shareholders and employees as dividends or bonuses when earnings are strong, and use the money saved to increase capital reserves without having to cut back on lending.

http://news.xinhuanet.com/english2010/business/2011-06/25/c_13948861.htm

Election fears in Russia fuel capital flight

ST. PETERSBURG: Russia's finance minister on Saturday acknowledged that the country's growing capital flight is fuelled by investors' anxiety nine months before the presidential election.

Neither President Dmitry Medvedev nor Prime Minister Vladimir Putin have indicated if they plan to run in the 2012 election.

Capital outflows from Russia reached \$30 billion in the first four months of the year, perplexing observers as the price for oil, the backbone of Russia's economy, is well above \$90 per barrel.

Speaking on the sidelines of an economic forum in St. Petersburg, Finance Minister Alexei Kudrin admitted that investors are pulling out and withdrawing money on the back of anxiety about the presidential election in March.

“In a moment like this and when the political system is still imperfect, (investors) are trying to safeguard their reserves and investment,” he said.

The Central Bank expects some inflows in the second half of the year that would set the total capital flight between \$30 and 35 billion at the end of the year, a forecast Kudrin supports.

Medvedev dodged the issue of whether he will run, saying at the forum that “when the moment comes that I consider right to announce it, I’ll do it.”

But in a passionate address to the forum Friday, Medvedev outlined his vision for the future of Russia, condemning corruption and the heavy hand of the government in the economy and called for more state-owned assets to be sold on the market. He also criticized the centralization of power that took place under Putin’s eight-year presidency.

Kudrin, a highly respected figure for foreign investors, has been finance minister since 2000 and has overseen all key financial reforms of the decade.

He told reporters on Saturday that he expects the pace of reforms to accelerate after the election.

Russia is not likely to return to the pre-crisis growth levels of 7 to 8 per cent in the next three years, Kudrin warned. That it will be possible in three years’ time if Russia carries out economic reform or if its “non-oil and gas sectors of the economy” grow by about 10 per cent a year.

Putin said this week that the country’s gross domestic product is still one-third below the pre-crisis levels.

Kudrin noted that things like privatization of state assets and the improvement of investment climate “are long overdue and they will be carried by the leaders who will come to power” in 2012.

AP

<http://www.dawn.com/2011/06/19/election-fears-in-russia-fuel-capital-flight.html>

Austria's labor market returns to pre-crisis level: study

VIENNA -- Austria's labor market has returned to its pre-crisis level, ranking 4th on a list of countries with the best labor market performance, an official study released Friday shows.

The Austrian Institute of Economic Research (WIFO) showed the jobless rate rose by only 1 percent to 4.8 percent in 2009 and fell back again in 2010, while employment in absolute numbers had returned to pre-crisis levels.

According to the study, which investigated the performance of the labor markets of 29 industrial states during the latest international financial crisis, Poland, Germany and Switzerland fill the first three positions on the list of best labor market performers.

Ireland, Iceland, Spain, Portugal and the United States were among the worst performers.

http://news.xinhuanet.com/english2010/business/2011-06/24/c_13948800.htm

ARTICLES/COMMENTARIES

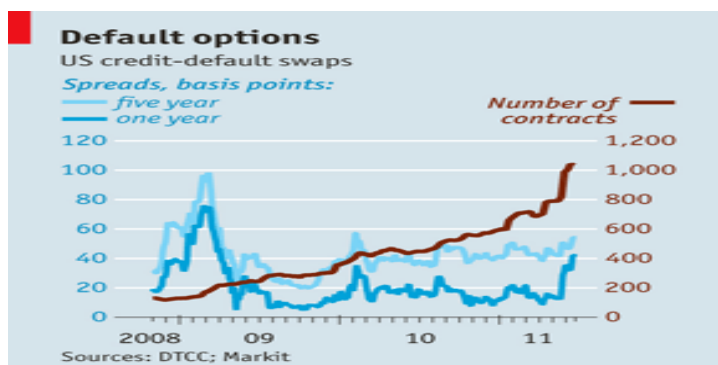
America's debt ceiling: The mother of all tail risks

A US technical default would convulse markets. Nothing else is certain

AMERICA'S debt is supposedly the world's safest, backed by trustworthy courts and an unrivalled capacity to raise taxes and print money. Yet thanks to a quirk of law, talk of default is not confined to the European side of the Atlantic.

Unlike most countries America requires two legal steps to run a deficit: one to pass budget bills, the other to borrow the money. Congress sets a ceiling on how much the country may borrow. In the past it has always raised the ceiling before the Treasury ran out of cash, doing so on 16 occasions since 1993 alone. But it often attaches conditions, and this year Republicans who control the House of Representatives are insisting on particularly onerous terms. With the debt and the deficit at their highest in 60 years, they want to see at least \$2 trillion in spending cuts over ten years and no tax increases.

If a deal cannot be reached before August 2nd the Treasury says it will be forced to default. It has not specified on what: it could choose to stop paying pensioners and soldiers before it stopped paying interest on its debt. But outright default cannot be entirely ruled out. What happens if the world's most trustworthy borrower reneges on its debt?



The possibility has not gone unnoticed. Trading in credit-default swaps (CDSs) on Treasury securities has picked up and the price of protection against default, as measured by the CDS spread, has risen (see chart). One-year protection is now almost as expensive as five-year protection. This is more often seen in distressed markets where investors are pricing in an imminent default than with otherwise healthy borrowers with long-term problems.

The illiquidity of the CDS market means it can be prone to misinterpretation. The vast Treasury market itself—for Treasury bills, Treasury bonds and other government securities—remains largely free of anxiety. America's biggest interest payments occur on the 15th of August, November, February and May. Priya Misra, head of US rates strategy at Bank of America Merrill Lynch, says anyone who thinks America might default for several weeks this summer should sell a bond with interest due on August 15th and buy one with interest due on November 15th, which would result in the price of the first bond falling relative to the second. But, she says, neither market pricing nor the chatter of clients shows such a trend.

There is a profound muddle about what a default would entail. Firms usually get a few weeks' grace to make a payment. Sovereigns typically do not so default would probably be declared the day the Treasury missed a payment.

Some market participants argue such a default would be quickly “cured” and be therefore merely technical. Yet history suggests that even a technical default can be costly. America’s only known instance of outright default (other than refusing to repay debts in gold in 1933) occurred in 1979 when the Treasury failed to redeem \$122m of Treasury bills on time. It blamed unprecedentedly high interest from small investors, a delay in raising the debt ceiling and a word-processing-equipment failure. Although it repaid the money and a penalty to boot, a later study by Terry Zivney, now of Ball State University, and Richard Marcus of the University of Wisconsin-Milwaukee found it caused a 60-basis-point interest-rate premium on some federal debt. Today that would cost \$86 billion a year or 0.6% of GDP, a hefty penalty for something so avoidable.

A default now would attract more attention, affect more debtholders and reach more deeply into the financial system. More than half of Treasury debt is held abroad, principally by foreign central banks. Such investors would be unlikely to sell overnight since they have few ready alternatives. But they would be reluctant to hold as much in the future; some, like China, are already diversifying their reserves. After Fannie Mae and Freddie Mac, two giant mortgage-financing agencies, had to be rescued by the federal government in 2008, foreigners cut their holdings of these securities and have yet to raise them again even though the firms never defaulted.

Domestic banks would not have to classify their sizeable holdings of Treasuries as non-performing if they thought the default short-lived. But they would suffer nonetheless. Currently Treasuries represent roughly 30% of the collateral that financial institutions such as investment banks use to borrow in the \$4 trillion repurchase (“repo”) market. They represent another 4-5% of the \$1 trillion in collateral used in the derivatives market. A default could trigger demands by lenders like money-market funds for more or different collateral.

Matthew Zames of JPMorgan Chase, writing on behalf of the securities industry in April, gave warning that this could “lead to deleveraging and a sharp drop in lending”. Money-market funds themselves hold another \$338 billion of Treasuries. In the event of a default at least one would probably “break the buck” (ie, fail to give the principal back to investors), threatening “a broader run on money funds”, Mr Zames said.

No one can be sure of any of this. Money-market funds, like banks, might argue their holdings are sound if the default is brief. A suspension of new sales of bonds could constrict supply of Treasuries, pushing yields down instead of up. On the other hand America responded to the crisis of 2008 by standing behind the obligations of banks, money-market funds, and Fannie and Freddie. It could hardly do the same for a crisis caused by an inability to stand behind its own debts.

Even if Congress were to tackle turmoil by quickly lifting the debt ceiling, the stain would linger. “In the past our assumption was interest would always be paid on time,” says Steven Hess of Moody’s, a ratings agency which has cautioned that even a brief default would cost America its coveted Aaa status. “If an actual payment were missed once, might that happen again? If you thought it could, that is clearly not compatible with Aaa.” Such warnings are having an effect. On June 19th Mitch McConnell, the Republicans’ leader in the Senate, opened the way to a short-term increase in the debt ceiling, even though his counterparts in the House demurred. They may not show it but Republicans, like Democrats, are scared of default, too.

The Economist

<http://www.economist.com/node/18866851?fsrc=scn/fb/wl/ar/themotherofalltailrisks>

Growth prospects: China's roaring growth cannot last indefinitely

Beware the middle-income trap

CHINA'S LEADERS ARE usually shy of telling things as they are, but the prime minister, Wen Jiabao, put it bluntly when he described China's economy in 2007 as "unstable, unbalanced, uncoordinated and unsustainable". Some foreigners may extol China's handling of the global financial crisis, but Mr Wen has stuck to his guns. The phrase even crops up in China's recently adopted five-year economic plan, standing out as an indirect admission of the failings of his own administration and as a marker for the next.

For all its problems, China in the coming 10-15 years is still likely to reach several symbolic milestones. The IMF predicts that in 2016 it will become the world's largest economy on a purchasing-power-parity basis. The Economist Intelligence Unit, a sister organisation of this newspaper, reckons that on the basis of market exchange rates China will attain that glory in 2020. By the end of this decade, according to Daiwa Securities, GDP per person in Shanghai, China's richest city, could be almost the same as the average for America in 2009.

And for all the bubbliness of China's property market and the reckless spending of local governments, the country will probably avoid a crippling debt crisis. China has foreign-exchange reserves of more than \$3 trillion and ran a modest budget deficit of 2.5% of GDP last year. Its worries are longer-term. The economy will certainly begin to slow in the next few years after three decades of nearly 10% average annual growth. Exports will be constrained by depressed Western markets, and investments in fixed assets will produce diminishing returns. But the slowdown will be less pronounced if the government succeeds in boosting consumption as a new growth engine.

Arthur Kroeber of GK Dragonomics, a consultancy, says the country still enjoys a considerable tailwind from urbanisation and a huge potential for productivity gains as it adopts new technology. He says a scattering of white-elephant projects (including the odd ghost-town of uninhabited new housing and office developments) does not concern him: "There's no question that there are excesses, but the basic thing they are doing is sensible." Louis Kuijs of the World Bank agrees. He sees the trend growth rate easing over the coming decade, but not dramatically. New infrastructure is generally being put to good use. Even though investment as a proportion of GDP is high, China's accumulated investment in fixed assets is still low. Real wages have been rising strongly, which should help boost consumption. Standard Chartered, a bank, says that although China's public debt is considerably higher than the 17% of GDP officially cited, it remains manageable. Even after allowing for bad loans to local-government investment companies, it runs at 80% of GDP, the bank estimates, about the same as Britain's last year and well below Greece's.

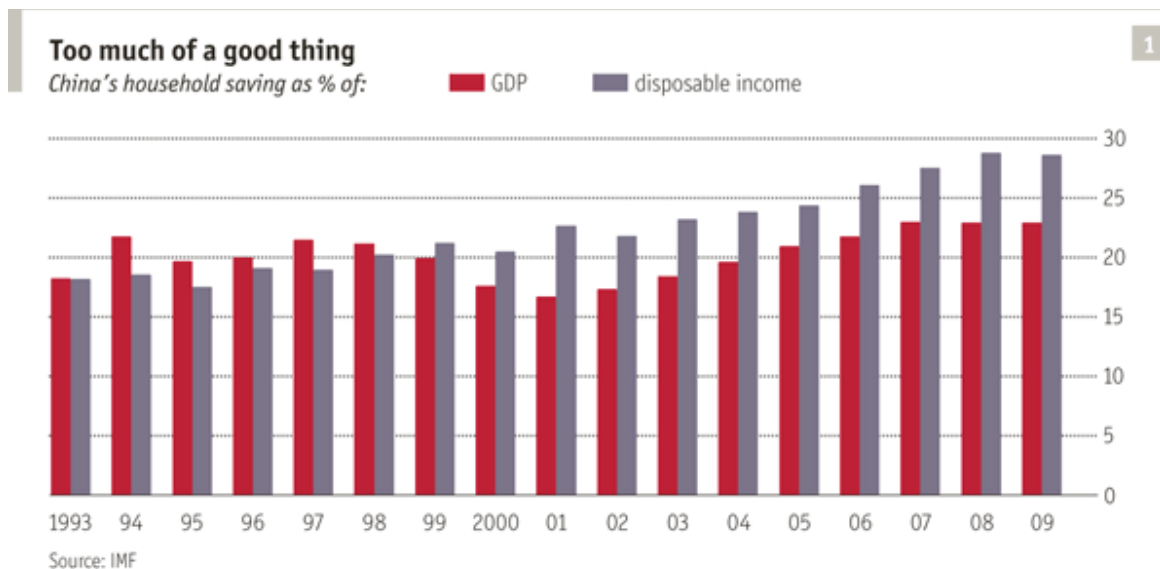
Chinese leaders are perennial worriers about inflation, not least because of its role in fuelling the discontent that led to the Tiananmen Square protests of 1989. But even though it rose to 5.5% in May, considerably above the government's 4% target for the year, it shows little sign as yet of returning to previous highs of about 20% in 1988 and more than 25% in 1994. It also has a useful political side-effect, easing some of China's tension with America over the value of its currency. America's Treasury says that because of the higher inflation rate in China, the yuan is in effect appreciating against the dollar by more than 10% a year. Chinese leaders have been debating whether to push interest rates higher, but Mr Kuijs says Chinese policymakers have become more tolerant of medium rates of inflation.

Yukon Huang of the Carnegie Endowment for International Peace, a think-tank in Washington, DC, says doomsayers are wrong to be so concerned about the fall in the ratio of household

consumption to GDP. True, it has dropped from around 50% two decades ago to 35% today, among the lowest levels in the world, whereas investment is among the world's highest; but such a decline, he says, is not unusual for an industrialising country. The efficiency of stimulus spending may be questionable, "but how efficient do you expect stimulus money to be?" He thinks growth could remain at 7-8% for a long time.

The bears' grumbles

But many analysts are far less sanguine. Some worry that China could be approaching a Japanese-style crisis: a boom in exports and investment along with bubbly property markets, followed by many years of stagnation. In China's case the added sting would be that it has not yet got rich. Officials and experts debate endlessly whether the country is slowly heading towards a "middle-income trap". China was already a lower-middle-income country last year, with a GDP per person of around \$4,400. The fear is that it might suffer the same stagnation and turbulence as Latin American economies in the 1980s and 1990s.



The drafters of the new five-year plan adopted in March were clearly hoping to head off such a calamity. Five-year plans have evolved since the Mao era when they were used by the government to micromanage the economy, but they are still meant to play a crucial role in setting the economic tone. "China model" fans love them because, at least in theory, they commit leaders to an economic strategy that will not be undermined by the chop-and-change policymaking of democracies. When Mr Wen's successor takes over in 2013, the current plan will still have more than two years to run. It calls for faster change in the "pattern of economic development" to address the imbalances, and sees boosting consumption as critical to this.

Mr Wen himself is no touter of a China model. His previous five-year plan, which took effect in 2006, was also intended to shift the economy away from too much reliance on exports and investment. It set a target of 7.5% annual growth in GDP for the plan period, against 8% for the previous one. Instead, the rate accelerated to about 11% a year, compared with an average of 9.5% in the first half of the decade. Household consumption as a proportion of GDP fell sharply. And China's 4 trillion yuan stimulus programme (about \$620 billion at current exchange rates),

launched in November 2008, allowed banks to lend almost at will, mostly to state-owned enterprises, raising the prospect of a flood of new bad debt.

Despite Mr Wen's calls for more evenly shared prosperity, the gap between rich and poor and between cities and countryside has continued to widen. Since he took office in 2003, absolute poverty has dropped markedly. But the number of people in relative poverty (with 50% or less of the median income) grew from 12.2% of the population to 14.6% between 2002 and 2007, according to research by Terry Sicular of the University of Western Ontario and Li Shi and Luo Chuliang of Beijing Normal University. By the end of the plan period the goal of establishing a "harmonious socialist society", a favourite catchphrase of Mr Wen's and Mr Hu's, appeared even more remote than at the beginning. Protests over local injustices, already running at tens of thousands a year, were becoming ever more frequent.



The new five-year plan adopted in March notes that the "external environment" for China's development has become "more complicated". In other words, markets abroad do not look promising. It calls for a "strategic readjustment" in China's growth model, putting even more emphasis than its predecessor on domestic demand, especially consumption. It still envisages big investments, but in the hope that these will boost household consumption in the longer term. It promises 36m new "affordable housing" units, more than Britain's entire housing stock. The hope is that cheaper homes will make it easier for the Chinese to get into the housing market without having to save quite so much. And the government has pledged to ramp up spending on health, education and other social-welfare programmes. Eventually too this could encourage people to save less and consume more.

The government also wants the high-speed railway network, already the world's longest at 8,300km, to quintuple in length by 2015. Beijing, having completed one of the world's largest airport terminal buildings in 2008, will get a whole new airport. So will 54 other cities, increasing the total number with airports by nearly one-third. These investments, officials hope, will help to boost urban growth, and with it consumption. Infrastructure targets are usually met in China because governments have little trouble with not-in-my-backyard protests.

But some economists believe this is all too much. Among the bears is Michael Pettis of Peking University, who believes that investments are becoming increasingly inefficient and that China is

heading towards a “brick wall” of government debt. Growth, he says, will remain high in the early half of the decade but could drop off sharply thereafter as loans turn sour. Even in the best case, he says, growth will fall below 5%. Victor Shih of Northwestern University also points to a looming debt problem, exacerbated by the recklessness of local governments during China’s stimulus-spending spree. Not being allowed to borrow directly, many of them set up companies to borrow on their behalf, using land as collateral. “There is a hidden danger of an asset bubble and [we] are facing a certain financial risk,” wrote Yu Peiwei of the party’s Policy Research Office in January. If the bubble bursts, land prices could plummet, leaving the banks dangerously exposed.

Bingeing on investment

Nouriel Roubini of New York University, a chronic bear, is in this camp. In a recent article he argued that the brick wall will most likely be hit between 2013 and 2015. He noted that China was spared a recession in the wake of the financial crisis because investment in fixed assets, such as transport infrastructure and factories, increased from an already very high 42% of GDP in 2008 to nearly 50% in 2010. No country, he says, could be productive enough to invest 50% of GDP in new fixed assets without eventually facing “immense overcapacity and a staggering non-performing loan problem”.

It is not just foreigners who worry. Ge Zhaoqiang, a senior researcher at China Merchants Bank, gave warning in May that China’s economy had become “seriously distorted” by prolonged dependence on high levels of investment. There was now a risk, he said, of an economic downturn “unprecedented in the past 30 years” with possibly damaging consequences for China’s social and political stability.

If China is not to stagnate, it will have to make a bigger effort to persuade rural dwellers to keep coming to the cities as its population ages ever more rapidly. In 1980 one-fifth of China’s people lived in urban areas. Today the figure is 49.7%. Very soon the country will become predominantly urban, with over 51.5% forecast to be living in urban areas by the end of the five-year plan. This implies a slower pace of urbanisation than in the past decade. For once, however, the government is not setting its goals too low. In future urbanisation will indeed become harder.

The Economist

<http://www.economist.com/node/18832106?fsrc=scn/fb/wl/ar/bewarethemiddleincometrap>

India: Poor Little Rich Country

How do you categorize India, a nation that is at once fantastically wealthy and desperately poor?

BY: PATRICK FRENCH

In May, the Indian government announced that it was giving \$5 billion in aid to African countries in the interest of helping them meet their development goals. "We do not have all the answers," Prime Minister Manmohan Singh said, "but we have some experience in nation-building, which we are happy to share."

The British could be forgiven for being annoyed with Singh's largesse. Britain, after all, currently gives more than \$450 million a year in aid to India, and has plans to continue doing so for at least the next few years. The British economy is bumping in and out of a recession, while India's

gross domestic product is growing at more than 8 percent a year. This has put the British government in the rather bizarre position of having to sell bonds in order to donate money to Asia's second-fastest-growing economy, even as the latter is itself getting into the philanthropy business.

The policy is unpopular with most of the British press, which argues that because India has a space program and some flamboyant billionaires, it does not need aid -- especially when Britain cannot really afford it. (When the Labour government was voted out at last year's general election, the departing Finance Minister Liam Byrne left a one-line note on his desk for his successor: "I'm afraid there is no money." It was a joke -- but it was also true.) Nevertheless, Britain still sees itself as a donor nation, with all the obligations and international prestige that entails. This comes in part from a sense of postcolonial guilt: Prime Minister David Cameron spoke recently of a "sense of duty to help others" and the "strong moral case" for giving aid.

The situation suggests just how dramatically the economic rise of Asia has undone centuries of experience, and the expectation that the West will retain the hegemony it has had for the past 400 years. It is increasingly difficult to classify whether a nation is rich or poor, and terms such as "the Global South" and "the Third World" have to be heavily qualified to take into account the fact that large sections of the population in countries like China, Brazil, and India now have a purchasing power matching that of people in "the West."

In 1951, the American diplomat Bill Bullitt described the condition of India in *Life* magazine: "An immense country containing 357 million people," he wrote, "with enormous natural resources and superb fighting men, India can neither feed herself nor defend herself against serious attacks. An inhabitant of India lives, on average, 27 years. His annual income is about \$50. About 90 out of 100 Indians cannot read or write. They exist in squalor and fear of famine." Today, it would be hard to make such an absolute statement about India. Poverty certainly remains a chronic problem, but it exists alongside pockets of substantial wealth. An Indian's life expectancy at birth now stands at 67 years, and continues to rise. It is necessary perhaps to think in a different way, and to see that a country like India, like Schrödinger's cat, exists in at least two forms simultaneously: rich and poor.

The most important change of the last two decades, since the beginning of economic liberalization, has been the transformation of middle-class Indian aspiration. Although the stagnant days of the controlled economy and the "Permit Raj" -- when important decisions depended on a bureaucrat's authorization -- had their own stability, they also stifled opportunity and individual talent. Members of the professional middle class frequently preferred to seek their fortune in more meritocratic societies abroad.

The modern Indian middle class has a new chance to shape its own destiny in a way that was not previously possible. You can move to your own house using a home loan and live outside the joint family; you can buy a car that is not an Ambassador or a Fiat; you can travel abroad and see how people in other countries live; you can watch your politicians accept bribes or dance with prostitutes on television in local media sting operations while surfing your way to *Desperate Housewives* or *Kaun Banega Crorepati*, an Indian adaptation of *Who Wants to Be a Millionaire?* Businesspeople who have succeeded on their own merits overseas, such as PepsiCo CEO Indra Nooyi, are presented as national heroes.

In the 20th century, the world's personal wealth was held in American, European, Arab, and occasionally East Asian hands. By 2008, four of the eight richest people alive were Indian, and 2011 is the first year in which more billionaires have come from the BRICs -- Brazil, Russia, India, and China -- than from Europe. In earlier times, India's rich were princely rulers or

members of extended business families who had made a fortune in textiles or manufacturing. Industrialists would hoard capital, and there was a limited expectation of seeking to outbid your neighbors in gross ostentation. Since liberalization, many of the new flock of billionaires who have made fortunes in areas such as construction, real estate, steel, and technology are no longer the scions of well-connected families. An unbound social elite has grown with extraordinary speed.

At times this new wealth has provoked intense resentment. In Mumbai, the industrialist Mukesh Ambani recently built the world's most expensive private residence, a 27-story confection housing three floors of gardens, swimming pools, a "cool room" (which, in the ultimate Himalayan dream, blows flurries of fake snow), three helipads, a six-story parking garage, and several "entourage rooms" -- because who travels without an entourage? The steel tycoon Lakshmi Mittal, who lives in London and is presently the richest person in Britain, is today the only Indian richer than Ambani. In 2006, Mittal Steel's hostile bid for Europe's largest steelmaker, Arcelor, was met with dismay on the continent. The head of the latter firm, Guy Dollé, said sorrowfully that the predatory company was "full of Indians" and his own Luxembourg-based operation had no need for "monnaie de singe" -- an expression meaning "money without value," but a phrase that has the unfortunate direct translation of "monkey change." Lakshmi Mittal won the battle, Dollé was ousted, and Arcelor Mittal is now the world's largest steel company.

During this global financial shift, about one-quarter of India's population has so far gained almost nothing from the country's economic transformation. Those who live outside the cash economy, in hills and jungles and on land that is increasingly sought after for its natural resources, have not shared the benefits of national growth at all. The journalist Mark Tully, who has been reporting on India for nearly 50 years, once said that the crocodile tears shed over India's poor would flood the Ganges. Today, as inequality grows and some Indians become exceptionally rich, the arguments over the country's poverty -- its extent and depth and the best means of alleviating it -- are fiercer than ever. Surjit Bhalla, who runs an economic research and asset management firm in New Delhi, has argued that the numbers of India's least fortunate are massively exaggerated: In his analysis, a "conservative estimate" suggests the poverty level in India in 1999 was under 12 percent, and is surely even lower today. But a first-time visitor to India will notice at once that many people there are painfully poor, and that the suggestion that they number scarcely 1 in 10 of the population -- or lower -- is absurd.

Doubtful statistics are also used by those who dislike liberal economic policies and the effects of globalization. It is commonly claimed that 77 percent of Indians live on less than 20 rupees (about \$0.50) a day. This figure has an interesting lineage, and first came to public notice in a report issued in 2007 by the left-wing economist Arjun Sengupta, which he claimed was based on data from India's National Sample Survey Organisation (NSSO), an official body. On closer inspection, it would appear Sengupta used average monthly per capita consumer expenditure for the year 2004-05, which came out at 559 rupees for rural India and 1,052 rupees for urban India. But what commentators who widely circulate this data do not point out is that consumer expenditure figures collected by the NSSO have consistently been low -- possibly because of under-reporting -- and are very difficult to square with the fact that other measures of consumption in India have grown steadily over the past few years.

Using more current data, the Indian government's Planning Commission announced a few weeks ago that in fact, 41.8 percent of the rural population and 25.7 percent of the urban population now live on 20 rupees a day or less -- suggesting either that India's poverty has been more than

halved in just six years, or (more likely) that Sengupta's original figure was wrong, and should never have been publicized without extensive qualification. But obtaining accurate data on poverty and interpreting it reasonably is a difficult task; an additional problem is that India's state governments routinely overestimate their poverty levels in order to get more money from New Delhi.

In any case, even cautious figures suggest that a substantial portion of India's population remains desperately poor. The basic argument about whether economic liberalization has been good or bad for India is today largely conducted outside the country. In India itself, the debate ran itself into the ground in the late 1990s, when it became apparent that growth rates were higher even than the reformers had expected. All major political parties are now in broad agreement that it would be a mistake to return to centralized, socialist planning; after all, back in the 1970s per capita GDP in India was growing more slowly than at any point in the preceding 100 years. The crucial question now is, how to narrow the gulf between the rich and the poor? The Indian government has made some progress with social programs in recent years, but is moving interminably slowly, and corruption and weak governance at the centre remain a pressing problem. In the short term there is no harm in countries like Britain continuing with their aid projects, but India has the money to fund its own poverty alleviation programs. Whether it will choose to do so, is another question.

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