Strong yen may deal blow to Asian economic recovery

SINGAPORE, Jan 8: The strong yen is expected to dampen a recovery of ailing Asian economies by diverting Japanese investments and creating a credit crunch, apart from denting their export competitiveness, analysts warned, says AFP.

The surging yen, which shot up to a two-year high against the US dollar Tuesday and was hovering around 112 Wednesday, has also dealt a blow to manufacturers in the region who had not hedged against the Japanese unit's wild fluctuations.

The yen has undergone massive gyrations over the past three months — from 147 against the dollar in October all the way up to 110 on Tuesday.

At present, there are more negative implications of a strong yen to Asia than positive," said Chia Woon Khien, head of Asian Research at Swedish bank Skandinaviska Enskilda Banken in Singapore.

She said a spurt in yen strength could help the other Asian nations beef up exports to Japan but that would not be sufficient to offset the market share that could be lost in the United States.

Furthermore, Japan's capacity to absorb imports had come into question because of its sagging domestic demand, she said.

Chia said however that a stronger yen — which has boost other Asian currencies against the dominant greenback — could help Taiwan and South Korea compete with Japan in exports to the non-Asian market.

"But if you are looking at both sides of the coin, it is better now to have a strong dollar than a stronger yen because the net result is that a strong dollar is coming from an economy that can support it," she said.

About 35 per cent of Japan's exports go to the rest of Asia, for which Japan is also the second largest trading partner.

Japan is also one of the largest providers of foreign direct investments in the region that had enjoyed rapid economic growth before plunging into a financial crisis following rapid currency declines beginning mid-1997.

Chia said a continuous rise in the yen would pull Japanese investments further back home and aggravate the credit crunch problem in Asia.

"This is scary considering Japanese are the world's net largest capital exporters."

She also said that the scramble by Japanese investors to assets denominated in the new euro currency, in what was seen as a portfolio shift from the United States, could gather pace and completely sideline Asia.

Desmond Supple, Singapore-based head of Asian currency research at Barclays Bank, said recession-hit Asian economies expecting to rise on Japan for recovery "have to look within their borders for solutions.

"The strong yen is the manifestation of a weakening Japanese economy," he said.

"The alarming trend is weak Japanese demand which is undermining the ability of Japan to import Asian goods, equally worrying is the fact that the Japanese financial system has been dealt a blow by the weakness of government bonds," Supple said.

He added that large losses in bond investments suffered by Japanese institutions raised the risk of capital repatriation in the coming months which could jack up the yen further.

Joanne Chong, regional economist with British financial house Idea, said the strong yen would hurt Japan's export competitiveness and lead to stagnation in the world's second largest economy.

"From an intangible point of view it will dampen sentiment in the region because as long as Japan remains in the doldrums, it casts a cloud of uncertainty in the region simply because of its inability to grow," she said.

PARIS (France): Japanese Prime Minister Keizo Obuchi (L) and his wife Chizuko pay their shopping with euro travellers checks, in a department store in Paris yesterday. Obuchi is on a two-day official visit in France. — AFP photo

Business Briefs

Retail demand up in Australia

CANBERRA: Retail demand in Australia is up by 5.2 per cent over the past year, Australian Bureau of Statistics figures said Wednesday, but an economist warned that might not be a good thing.

Colonial State Bank chief economist Craig James said, "Strong domestic spending sucks in imports at a time when export demand is weak.

"There is the risk that the international financial community could turn cold on Australia if it feels it is living beyond its means," he said.

James said Australia is already heading for a major deterioration in its balance of payments in 1999 with the annual trade deficit expected to hit an all time high of more than 10 billion Australian dollars (US $6.2 billion) when the figures for December are released.

"That said, consumer spending remains the life blood of the economy and the fact demand rose by just 0.3 per cent in November compared to a 1.0 per cent rise in October shows consumers are being careful with their money, according to James.

With inflation holding at around 1.5 per cent, it means retailers are enjoying the most favourable business conditions for 2 1/2 years.

James said department stores accounted for most of the increased retail demand nationally in November with sales up 8.3 per cent.

Nippon TT may buy back shares

TOKYO: Nippon Telegraph and Telephone Corp. will consider buying back some of its shares from the open market next year, company president Junichiro Miyazu said Wednesday.

Speaking at a regular press conference, Miyazu said NTT shareholders would have to first approve a buyback plan at their next meeting in June.

Miyazu also said that NTT would like the Finance Ministry to reduce its stake in the telecommunications giant as soon as possible.

He said NTT would like the ministry to cut its holdings to at least 7.5 million shares, about half of all outstanding NTT shares. The Finance Ministry currently owns 9.4 million NTT shares.

Separately, Miyazu said NTT is considering cutting telephone rates when the company is reorganized in July. The rate cut will likely be for long distance services.

Vietnam Airlines' passengers fall

HANOI: Vietnam Airlines transported 2.48 million passengers last year, down two per cent from 1997, a company official said Wednesday.

The number of passengers on its international flights reached 900,000, down five per cent from a year earlier and 10 per cent from 1996, the officials said, attributing the decreases to plunges in tourism and businesses affected by the Asian financial crisis.

The official said the national carrier transported about 40,000 tons of cargo last year, roughly on a par with 1997's volume.

Manila unveils new budget

JAKARTA: President B J Habibie on Tuesday unveiled a new state budget for Indonesia, where civil unrest has slowed efforts to recover from the worst economic crisis in decades.

Under the new fiscal plan, government spending will drop 17 per cent to 218.2 trillion rupiah ($27.8 billion) but the shattered economy will still require large injections of foreign aid.

Much of the money will go to subsidies on fuel, electricity, rice and medicine as well as programmes to help the huge numbers of poor in the Southeast Asian nation of 210 million.

"The government is aware that Indonesia's economy has not yet recovered," Habibie said in a nationally televised speech. "It is still far from a normal condition."

Source: AP

European Central Bank chief says

Global economic uncertainties to persist this year

FRANKFURT, Jan 8: European Central Bank (ECB) President Wim Duisenberg said on Thursday that the uncertainties about the development of the global economy were set to continue this year, reports AFP.

"No major news has come in on the outlook for the euro area economy since we met last time," Duisenberg told journalists at a news conference held after the first meeting of the ECB's policy-making governing council since the launch of the euro on January 1.

"Hence we continue to face uncertainties originating from the evolution of the world economy in 1999," he added.

Those uncertainties "are reflected in a weakening of industrial confidence in the euro area over recent months," Duisenberg said.

Furthermore, real growth of gross domestic product (GDP) in the euro area weakened in the third quarter when compared with the first half of 1998.

On the other hand, consumer confidence remained high until late 1998, the central bank president added.

A similarly mixed picture was presented by other indicators, with order books and capacity utilisation pointing to a less optimistic outlook, while retail sales and recent unemployment developments "suggest more favourable trends," Duisenberg said.

"In general, this pattern of mixed evidence appears to characterise the economic situation in the euro area around the turn of the year and we shall continue to carefully monitor developments," he said.

Meanwhile, AP says:

A beaming but tired-looking Wim Duisenberg Thursday said he was satisfied with the launch of Europe's new currency, the euro, but the European Central Bank (ECB) chief said there had been some "teething troubles."

"There were no structural problems" in the new, Europe-wide payment system introduced Monday for the euro, said Duisenberg, speaking after the first meeting of the governing council, the 17-member policy-making body of the ECB.

"The problems that there were, were the result of human errors and sometimes human ignorance. ... To be honest the teething problems were rather smaller than we had imagined," he said, adding it was normal that banks needed time to adapt to a new currency.

On Jan. 1, the euro became a kind of virtual currency for 11 European Union countries, debuting on world financial markets. It can be used to pay non-cash transactions such as credit cards, but won't be in pockets until 2002.

One payment glitch was confirmed late Wednesday when Luxembourg's central bank said it had erroneously received payments from German banks meant for Luxembourg banks, and had sent them back.

The hitches, including rumored cash liquidity problems, may have caused euro holders to exchange for other currencies Wednesday, when the euro slipped to $1.1632. It rose again Thursday, trading at $1.1675, up from its launch point of $1.1668.

Duisenberg stressed that the ECB was in a learning phase, but appeared to confirm rumours of liquidity problems, saying the bank needed to study ways to adapt liquidity provision to changing market demands.

Duisenberg said he was happy with the way the currency had performed, but refused to speculate on where he would like to see the euro find its level against the two other major international currencies, the dollar and the yen.

"I've been happy for three days already," he joked, adding he would advise G-7 Finance Ministers meeting in Bonn on Feb 20 to adopt a similar hands-off attitude regarding exchange rate levels.

Swiss firm buys 51pc shares of Lankan cement co

COLOMBO, Jan 8: The world's biggest cement maker, Holderbank Financier Glarus AG of Switzerland, has bought 51 per cent of Ruhunu Cement Co. of Sri Lanka, officials of the Sri Lankan company said Friday, reports AP.

The officials declined to say how much Ruhunu received under the deal that was signed in Colombo Wednesday. The agreement was not made public.

Ruhunu operates a grinding plant near Galle, 110 kilometers (68 miles) south of Colombo. The plant has an annual capacity of 500,000 tones, and is expected to have sales of as much as drs 40 million this year.

The deal is part of Holderbank's expansion programme outside of Western Europe, where growth has slowed and competition increased.

In August, Holderbank bought 25 per cent of Thailand's Siam Cement Pcl for about $ 153 million. Earlier in the year, it made investments in South Africa, Argentina and Malaysia.

The Ruhunu deal is the second by Holderbank in Sri Lanka, a country off India's southern coast in the Indian Ocean with a population of 18 million.

The Swiss company has held a controlling interest in Puttalam Cement Co. of Sri Lanka since 1996.

In Sri Lanka, where a 16-year-old civil war has deterred foreign investment, the demand for cement is increasing, rising last year by about 7 per cent to 2.1 million tons.

Japanese PM assures French businessmen of recovery

PARIS, Jan 8: Japanese Prime Minister Keizo Obuchi met with French industrialists Thursday, hoping to persuade them that Japan's economy is on the way to recovery, reports AP.

Obuchi began a three-country European tour with his arrival in Paris on Wednesday night, in an effort to shore up Japan's economy and currency as well as get a first-hand look at the euro zone, launched barely a week ago.

During his visit to Paris, Obuchi is expected to discuss ways of bringing greater stability to international financial markets, said Taichi Sakaiya, Japan's Economic Planning Minister.

Sakaiya and Eisuke Sakakibara, the Vice Minister for International Affairs, met Thursday morning with French Finance Minister Dominique Strauss-Kahn.

During the meeting, Strauss-Kahn said an overly powerful dollar could marginalize the new European single currency, the euro, as well as the yen.

Obuchi is expected to discuss with French leaders proposals to tie to the euro with the yen and dollar in monitoring system aimed at curbing turmoil in international markets.

"The ideal would be for responsibility to be divided between the three currencies," Obuchi said in a New Year's speech over the weekend.

However, Sakaiya said Wednesday in Paris his government is not in a position to put forth "concrete proposals" on how to regulate the market to ensure stability of the three currencies.

"The Japanese government is making various efforts to make the yen a stable currency...." Sakaiya said. "But we are not embarking on deliberate efforts to make the yen a key currency."

Obuchi is also to meet with Prime Minister Lionel Jospin Friday morning before travelling to Italy and Germany.

Japanese Leaders will be eager to see that the popularity of the new European currency won't hurt their recent efforts to increase global use of the yen, analysts said.

Some commentators voiced skepticism about Japanese efforts to boost the stature of the yen, which now has around 5 per cent of the international currency market.

However, Sakaiya stress again on Thursday during his meeting with Strauss-Kahn that Japan had no plans to seek to make the yen a leading currency at the present time.

SIA talks with China Airlines collapse

SINGAPORE, Jan 8: Singapore Airlines' negotiations with China Airlines to purchase a significant portion of the Taiwan carrier have collapsed, SIA said Friday, reports AP.

We can confirm that we are no longer planning to take an equity stake in China Airlines, "said SIA spokesman Rick Clements in a statement. We have discontinued discussions on the acquisition of the stake, as well as the formation of a commercial alliance between the two airlines."

The deal would have been Singapore Airlines' largest stake in a foreign airline, and its first in a regional carrier.

The two flagship air carriers signed a memorandum of understanding in August for an initial purchase of between 5 and 10 per cent by January, 1999, and for the formation of a strategic alliance and possible joint ventures.

Singapore Airlines later said it was considering a 25 per cent stake in the Taipei-based carrier.

The tie-up was contingent on "specific terms and conditions being met," Clements said in the statement. "Unfortunately, certain terms that were important to us could not be agreed on," he added, without elaboration.

The move to call off the talks will likely surprise the airline industry, according to The Business Times. As the most profitable carrier in Asia, Singapore Airlines has been eager to expand regionally, and has also expressed interest in Australia's Ansett Airlines.

Singapore Airlines maintains a 5 per cent stake in US carrier Delta Air Lines, a 2.7 per cent stake in Swissair, and alliances with Germany's Lufthansa, Scandinavian Airline System, South Korea's Asiana Airlines, Air New Zealand and Ansett.

European stock mkts close lower

LONDON, Jan 8: European shares fell yesterday in an expected rush to cream off profits after several days of soaring gains fuelled by the introduction of the euro, reports AFP.

Traders said other factors behind the fall were also news of debt repayment problems in parts of Brazil, fresh tension in Iraq and the opening weakness on Wall Street.

The FTSE 100 index in London lost 0.77 per cent, closing 47.6 points down at 6,101.2.

Frankfurt's X-Day index fell 1.79 per cent, shedding 97.19 point at 5,345.71 points.

In Paris, the CAC-40 ended its nine-day rise to dip 1.49 per cent, closing down 64.15 points at 4,230.67.

A German trader said: "Today we saw a typical reaction to the large gains made yesterday. "The X-Day on Wednesday gained almost 180 points.

"We have seen a lot of profit-taking, but it's nothing to worry about — just a technical readjustment," he said.

"It reached its all-day low just before the US market opened, but has shown a slight improvement since then," he said. "Volumes have been fairly good."

The dealer said he believed the market was likely to continue to improve from now on, especially since Wednesday saw fairly heavy futures trading.

French traders said the euro factor, which had driven the rally of the past few days, was still in the market, although international factors were making investors cautious.

One dealer said: "If Wall Street had been firm, it would have probably brought buyers back. But there's been a feeling that the past few days were too much, too soon. The Brazil story gave us a good excuse to take stock."

The Brazilian state of Minas Gerais announced on Wednesday that it was implementing a 90-day moratorium on 15.4 billion dollars (13.2 billion euros) in debt repayments, prompting Brazil stock market to plunge by more than five per cent Thursday.

Amsterdam's AEX Index lost 3.86 per cent to close at 561.08 points, Zaurich's SMI shed 1.55 per cent at 7,549.7 points, and Milan's MIB 30 was almost static.

Russia readies privatisation list

MOSCOW, Jan 8: Russia's impoverished government has drawn up a list of 11 companies to be totally or partially privatised in 1999, which could put billions of dollars into its empty public coffers, Interfax reported yesterday, says AFP.

Chief among the proposals is the sale of a 25 per cent stake in the Svyazinvest telecommunications giant, the privatisation of which was shelved last year amid Russia's economic crisis.

The stake, valued at 14 billion roubles (640 million dollars), is to go under the hammer before July, Interfax reported, without citing sources.

The state also plans to sell off another 2.5 per cent in gas giant Gazprom, following the successful sale of a first 2.5 per cent last month to the German energy company Ruhrgas for 660 million dollars.

That sell-off capped a miserable year for the state property committee, which had a struggle to lure investors to take stakes in state-held companies due to the Russian financial crisis and market meltdown.

Also slated for privatisation in 1999 is a nine per cent stake in oil major Lukoil. The starting price is four billion roubles, Interfax reported.

The government will need privatisation proceeds to help counter a budget deficit of more than 100 billion roubles.

Canadian Foreign Minister Lloyd Axworthy (left) and his Cuban counterpart Roberto Robaina exchange signed agreements on Thursday in Havana, that will facilitate cooperation in combating illicit narcotics trafficking. Canada also has become a major economic partner of Cuba, supplying the largest share of Cuban tourists and investing in mining, oil exploration, tourism and trade. — UNB/AP photo

Singapore bourse trade volume up 65pc in '98

SINGAPORE, Jan 8: Some 74 billion shares changed hands on the Stock Exchange of Singapore (SES) in the tumultuous year of 1998, a significant improvement over its 45 billion traded in 1997, local English newspaper The Business Times reported yesterday, says Xinhua.

The paper attributed the hike largely to the surge in the fourth quarter of last year, which pushed SES trading volume up 65 per cent for 1998 over the previous year.

The paper noted share trading volume peaked at 27 billion units in the first quarter of 1998 and then slid to 11 and 13 billion shares in the second and third quarter respectively.

However, it said, cuts in US and domestic interest rates in the final quarter of 1998, coupled with the return of some semblance of calm on the regional currency markets by year-end, boosted total volume to 23 billion counters in the October-December period.

They volume in the last quarter of the year was double that of the corresponding three months in 1997, the paper emphasised.

Volume would have been significantly lower if not for a surge in activity in the final quarter, the paper noted.

Underling the hike was achieved after the removal of Malaysian clob shares in mid-September.

The paper also said that besides the rate cuts, another factor which helped boost volume during the tail-end of the year was the slew of initial public offers, adding eight of the 20 new issues for the year came in the September-December period.

The paper pointed out that the higher trade volume for 1998 did not translate into a corresponding rise in value of stocks traded on the bourse.

Figures compiled by SES showed that the turnover for the year was just 98.7 billion Singapore dollars (59.8 billion US dollars) — virtually unchanged from 1997.

Market watchers believe the continue downward pressure on interest rates will boost stock market interest, fueling pick-up in activity this year.

But other watchers hold shares will feature in big ups and downs in the local bourse this year as there is little room for further interest rate cut and idle funds increase.

Analysts noted that banks and property stocks accounted for a huge chunk of the Singapore market's capitalisation and the performance of these counters will be key to sustaining interest in the broader market.

Saudi stocks begin '99 on a high note

RIYADH, Jan 8: Saudi stocks began 1999 on a high note, climbing 2.7 per cent on the week as oil prices firmed amid expectations of improved profits in the banking sector, says AFP.

The NCFEI all-share index, which shed more than quarter of its value over the last year, closed the week at 145.13 points yesterday, said Riyadh-based Bakheet Financial Advisors (BFA).

Trading was up 19 per cent over the previous week, when the index closed at 141.31, and reached 912 million riyals (243 million dollars).

The share prices of 34 companies went up, while 17 were down, nine were unchanged, and 14 did not trade.

Among blue chips, United Saudi Bank (USB) climbed 14.7 per cent and Saudi American bank (samba) 11.6 per cent on news of higher bank profit expectations for 1998 over 1997, BFA said.

The two banks are holding merger talks to create the Middle East's second largest private commercial bank in terms of assets, USB's chairman said Wednesday.

The Saudi market, the largest in the Arab world, lost nearly 28 per cent in 1998, hit largely by a drop in the kingdom's revenues because of lower oil prices.

The bourse's capitalisation fell from 59.3 billion dollars at the start of the year to its current level of 42.5 billion dollars.

The kingdom unveiled an austerity budget Tuesday for 1999 after losing a third of government revenues because of record low oil prices.

Oil revenues, which account for 35-40 per cent of gross domestic product, plummeted 34.8 per cent in 1998.

Thai domestic air fares to rise

BANGKOK, Jan 8: Thailand's Ministry of Transport and Communications has agreed to allow Thai Airways to raise domestic air fares by about 13 per cent, the minister said on Friday, reports AP.

The move was necessary to help the airline battle back to a profit as the fare structure was resulting in an operating loss of about two billion baht ($55 million) a year, according to the minister, Suthep Thaugsuban.

Although Thai Airways has flights to 26 cities in Thailand, only its Bangkok-Chiang Mai and Bangkok-Phuket routes are generating a profit.

Fares will rise between 13.5 and 13.7 per cent, he said.

Thai Airways is majority-owned by the government, which has been slowly attempting to privatise the carrier for several years.

Suthep said domestic air fares in Thailand were cheap compared to those in Indonesia and Malaysia.