OPEC near consensus on oil cuts despite concerns

News boosts already giddy market

LONDON, Jan 5: OPEC producers remain on course to slice oil production despite worries about low Iraqi exports and renewed confidence in US demand, says Reuters.

"There is consensus emerging that we need to cut by 1.5 million barrels a day to keep the OPEC basket at $25 a barrel," an official from leading exporter Saudi Arabia said yesterday.

The statement doused speculation among traders that a US economy bolstered by Wednesday's interest rate cut and a continued shortfall in Iraqi supplies might complicate matters for OPEC ahead of its mid-month meeting production policy meeting.

Earlier this week Riyadh said it saw a requirement for the 5.5 per cent reduction after Gulf Arab countries, including Saudi Arabia, called on OPEC to curb production. That would limit output to 25.2 million barrels per day (bpd) from 26.7 million now for 10 members, excluding sanctions-bound Iraq.

Dealers are worried that Baghdad's stubborn efforts to win control over oil sale revenues could limit significant volumes of Iraqi supply for some weeks to come.

And worries over the negative impact on global petroleum demand of a US economic slowdown were soothed by the Federal Reserve's lending rate cut.

Last year's high oil price, up 58 per cent to $27.60 a barrel for the OPEC basket, has been cited as a leading factor behind higher inflation and lower growth forecasts for economies around the globe.

"OPEC wants to maintain revenues but on the other hand they can't afford to be over-aggressive," said a London oil dealer.

It's obvious some damage has been done to economic growth by high prices so they should be taking that risk into account."

Producing countries want to arrest a three-month slump which has knocked $10 from the price of crude since mid-October's $35 peak for benchmark Brent blend.

OPEC's apparent determination to act swiftly has helped prop up prices and Brent on Thursday gained another 57 cents to reach $25.60 from a recent $23 low. OPEC's crude basket is worth about $2 less than Brent and the group wants to keep it in the range $22-$28.

Worries over an extended Iraqi supply shortfall emerged this week when the United Nations said talks with Baghdad aimed at breaking an impasse over weapons inspections may be delayed until February. The discussion had been planned for January.

Iraq's exports under the United Nations oil-for-food scheme in December were limited to just 580,000 bpd, compared to a normal rate of about 2.2 million bpd, the UN said on Wednesday. Baghdad has been trying to get customers to pay a surcharge.

Allowing for unauthorised sales to Syria of about 120,000 bpd, the Iraqi shortfall in December was 1.5 million bpd.

There have been no deliveries so far in January though an Iraqi oil official said on Thursday that exports would start rolling again. But Baghdad continues to insist on its surcharge and has signed only a handful of new contracts for this year with obscure companies.

OPEC though, keen not to allow a revival in global petroleum stocks to get out of hand, looks set to ignore the Iraqi conundrum at its January 17 meeting.

"Iraq is just too unpredictable for OPEC to base policy on," said an OPEC delegate.

Some advisers to cartel ministers remain wary about being too heavy-handed in cutting supply.

"Sometimes we forget the lesson of killing the goose that laid the golden egg," said on OPEC delegate, referring to US economic growth.

For many OPEC members though, the overriding principle remains maximum revenues.

By cutting production by 1.5 million bpd, OPEC plans to maintain the oil receipts that are vital to countries heavily dependent on petroleum revenues.

Another report says: Oil extended its rally to a fourth consecutive session yesterday as the prospect of a cut in OPEC output later this month goaded prices higher.

By the close of business, Brent crude futures for February delivery last traded 32 cents higher at $25.35 a barrel, backing off the day's high of $25.85 after late profit-taking. US light crude was up 20 cents at $28.20 a barrel.

Despite concerns over halted Iraqi exports and renewed confidence in US demand, the Organisation of Petroleum Exporting Countries (OPEC) appears on course to cut output when it meets on January 17, officials said.

The 5.5 per cent cut would limit output to 25.2 million barrels per day from the current 26.7 million., partially reversing last year's four output hikes.

OPEC Secretary-General Ali Rodriguez speaking on local Venezuelan radio, said a cut in production was "probable".

Foreign bank in ROK rebels against govt bond purchase order

SEOUL, Jan 5: Foreign-owned Korea First Bank (KFB) on Friday rejected a desperate government call to buy bonds to help debt stricken South Korean businesses, reports AFP.

KFB is the first bank to rebel against the traditional industry practice of falling in line with government influence, analysts said.

But KFB president Wilfred Horie declared "we will not refinance the maturing corporate bonds," according to a bank spokesman.

"It should be left to each bank's own decision," the spokesman said.

Of the 65 trillion won (52 billion dollars) of corporate bonds maturing this year, some 25 trillion won worth were issued by weak firms under government-led debt rescheduling programmes.

The Finanacial Supervisory Service (FSS) said the state-owned Korea Development Bank (KDB) would buy 80 per cent of the 25 trillion won of bonds and other banks the remaining 20 per cent.

But KFB turned down the request to refinance part of the corporate bonds, saying they were too risky.

"KFB's rebellious move was possible as the bank is now controlled by the foreign management," Hyundai Securities analyst Oh Hyun-Seuk said.

"When it comes to local banks, most of which are under the government's influence, such a move by KFB is unimaginable."

But Oh said the FSS move was inevitable to avoid a chain of bankruptcies as South Korea's money market is still crippled following the collapse of the giant Daewoo business group in 1999.

Money dealers are busy trading under an electric price board, which quoted 116.28 yen against the US dollar at a Tokyo foreign exchange market yesterday. The Japanese yen dropped sharply against US dollar at the Tokyo market. – AFP photo

Philippine economy feels pain of political crisis

Manufacturing, jobs hit hard

MANILA, Jan 5: Economic hard times stemming from the political crisis in the Philippines are now starting to weigh on local manufacturing and jobs, industry groups and economists said, reports Reuters.

The gambling scandal which has embroiled President Joseph Estrada since last October prompted a sharp drop in the peso, a spike in interest rates and put further pressure on already weak investments.

The Federation of Philippine Industries said the higher business costs and weakened consumer demand stemming from the scandal were now filtering through with some firms considering four-day working weeks.

"Six companies have indicated to me they will switch to four-day working weeks any time from next week."," federation chairman Raul T. Conception said, without naming them.

He also warned that many companies were starting to shed staff and predicted up to 100,000 workers could lose their jobs in the next three months.

The Philippine October jobless rate, released in mid-December, was at 10.1 per cent, compared with 11.1 per cent in July 2000 and 9.6 per cent in October 1999.

The Philippine Institute for Development Studies, an economic think tank, said the worst effects of the crisis in the first quarter would be felt on output with new businesses cutting existing capacity and putting expansion plans on hold until the crisis was resolved.

However the head of the think tank Mario B Lamberte said predictions of mass lay-offs seemed exaggerated.

"During the 1997 (Asian) crisis a lot of firms instead of laying off staff reduced work hours and that was the case when GDP was negative."

He said he expected the economic slowdown to start to emerge from the end of the second quarter once the spending blip from campaign spending ahead of the forthcoming congressional elections in May was out of the way.

Highlighting this, retailer Uniwide Holdings Inc disclosed on Thursday that French firm Casino Guichard Perrachon SA had cancelled plans to invest in the debt-laden company. Casino cited the failure of Uniwide and its creditors to agree on a rehabilitation plan by a deadline of December 31 but Uniwide said all its creditor banks had substantially agreed to a deal.

NEC to sell its eight overseas telecom plants

TOKYO, Jan 5: Japanese electronics giant NEC Corp. will sell its eight overseas telecommunication plants within two years to streamline its assets and boost competitiveness, a report said Friday, reports AFP.

NEC also plans to sell overseas factories making personal computers in the Philippines, Malaysia and France, the Nihon Keizai Shimbun said.

The company is already in talks with prospective buyers for one of its two mobile telephone plants in Mexico, the business daily said.

NEC's other overseas telecoms plants are in Argentina, Australia, the Philippines, Portugal, Thailand and Vietnam.

NEC, however, will retain its mobile phone production in the fast growing market of China, it said.

At home, NEC will turn 13 manufacturing subsidiaries into companies known as electronics manufacturing services (EMS) firms within four to five years, the paper said.

The 13 firms currently make PCs, printers and mobile phones mainly for NEC. By becoming EMS firms, they could take production orders from other companies and boost their revenue.

NEC expects the 13 Japanese units to generate 30 per cent of their total revenue from outside sources in five years.

Japan's mobile communication giant NTT DoCoMo employee, Minako Yokouchi, displays the new electronic gadget, Packwalk P711m, which enables the user to download music contents through a 64k mobile phone network and store the contents on a stamp-sized IC memory SD card while the words of the music is displayed on the LCD display, during a press conference in Tokyo yesterday. NTT DoCoMo will start the service from January 15. – AFP photo

Aussie businessmen call for rate cut

SYDNEY, Jan 5: Australian business sector leaders, anticipating a 20 per cent fall in profits this quarter, pressed Friday for central bankers to follow the lead of their US counterparts and cut interest rates, reports AFP.

Following the Federal Reserve's decision to reduce key US interest rates from 6.5 to 6.0 per cent on Thursday, business sector pessimism and a slowing domestic economy are fuelling the push for a cut in official interest rates here.

With business confidence sagging, any cut in rates that helps to stimulate a slowing economy is likely to have political repercussions in an election year.

"The outlook for profits is particularly weak, with business of all sizes predicting profits to decline by more than 20 per cent," the latest BT Funds Management economic bulletin said.

Poll results show the conservative coalition government of John Howard is playing leapfrog with the Labour opposition, swapping electoral popularity by the narrowest of margins, making the timing of any interest rate cut a political wildcard.

The office of Treasurer Peter Costello declined to comment on any possible interest rate move.

The release of new figures by the Australian Bureau of Statistics (ABS) Friday showed that the "overall outlook amongst the different industries is pessimistic in the short term".

The ABS survey found businesses are anticipating a record three per cent fall in operating income in the first quarter of 2001.

While a majority of local analysts are tipping a 25 basis point cut in rates in February or March, they are far from unanimous on the merits of any such move by the Reserve Bank of Australia (RBA), which has the official interest rate currently pegged at 6.25 per cent.

ComSec chief economist Craig James said RBA moves to cut rates were likely to occur in February or March.

"The close links between Australian and US economic cycles explains why rate cuts are on the agenda in Australia."

"A quarter per cent rate cut by the Reserve Bank is likely over February/March, in order to shore up the defences, should the US economic slide continue."

The Business Industry Group's executive director of public policy, Heather Ridout, said there was no reason for the RBA not to cut rates by as much as 50 basis points by mid-year.

Taiwan to ease restrictions on China-bound investment

TAIPEI, Jan 5: Taiwan President Chen Shui-bian is to announce an easing of restrictions on China-bound investment ahead of Chinese Lunar New Year later this month, it was reported Friday, reports AFP.

The decision to relax the restrictions was made at an inter-ministerial meeting Thursday, the United Daily News said.

The authorities had agreed to raise a 50 million US dollar limit on a single investment project on the mainland on a case-by-case basis, the paper cited Vice Economic Minister Chen Ruey-long as saying.

The government was also expected to lift the investment ban on plants making eight-inch-wafer semiconductors, upstream petrochemicals and personal computers on the mainland, the paper said.

Taiwan currently bars local enterprises from making a single investment in China exceeding 50 million US dollars or investing in hi-tech or infrastructure projects.

The liberalisation would be further discussed at a weekend national economic conference before being forwarded to the president for announcement before the lunar new year, which starts on January 24, according to the paper.

Chen pledged in his New Year's message that the government would review the policy imposed by former President Lee Teng-hui in 1996.

"It was a must at that time, but in the future we will adopt a more aggressive and efficient approach... to draw out a new economic and trade map for Taiwan in the new era," Chen said.

Taiwan and China are technically at war after their separation in 1949 at the end of a civil war.

China-bound investments and indirect bilateral trade began to thrive after Taipei allowed civil exchanges in 1987.

According to official Chinese figures, Taiwanese companies have poured 45 billion dollars worth of investment to the mainland.

Over 4,300 Taiwanese plants close in 2000

TAIPEI, Jan 5: More than 4,300 manufacturing plants were shut down in Taiwan during the first 11 months of last year and the actual number of closures could be much higher, officials said Friday, reports AFP.

A total of 4,303 factories were closed down during the first 11 months of 2000, up 16.9 per cent year-on-year, said officials from the industrial development bureau of the economic ministry.

Authorities feared that the actual number of closures, mostly in the traditional manufacturing sector, was greater since many had failed to register.

New plant registrations fell 0.66 per cent meanwhile to 5,224, the officials said.

Falling share prices and shrinking domestic investment and consumption have forced the authorities to lower 2000's estimated economic growth from the previous 6.57 per cent to 6.49 per cent.

Other economists expect growth below six per cent.

The economic downturn was also reflected in a fall in the amount of industrial land leased or purchased and fewer major investment projects.

Only 206 hectares (508.8 acres) of industrial land were sold in the January-November period of 2000, down some 50 per cent from the average of previous years.

A total of 202 major investment projects worth 496.30 billion Taiwan dollars (15.1 billion US) were launched in the 11-month period, compared with 578 projects worth 544.81 billion Taiwan dollars in 1999.