

# Asian countries move to save energy, but oil demand strong

REUTERS, Singapore

Asian countries are scrambling to limit the impact of record-high oil prices on their growing economies through energy conservation, but analysts said such moves were unlikely to dampen strong demand for fuel imports.

The region is trying to curb its burgeoning oil consumption by cutting subsidies or raising prices, and boosting investment in renewable energy such as wind, solar or bio-gas power. China, India and Southeast Asia have vowed to pour billions of dollars into developing so-called green power.

With the US oil price racing towards \$50 a barrel, energy conservation is becoming more important for a region that imports two-thirds of its oil needs.

However, the low per capita energy consumption in most Asian countries and the strong economic growth expected for the region in coming years mean that the impact of energy conservation will have limited impact on energy demand.

"People (in Asia) don't use fuel for leisure. They use it out of necessity," said Hassaan Vahidy, lead analyst for energy consultants FACTS Inc in Singapore.

"I don't think it (energy conservation) is going to make any significant dent on the growth of Asian consumption of energy and its reliance on imported energy."

Asia's oil demand is rising as its economy has recovered from the 1997/98 Asian crisis. Oil demand, led by

China which overtook Japan last year as the world's second-largest oil consumer, is expected to grow more than 4 percent this year.

Strong oil prices are raising concerns about inflation in some countries such as India, forcing Asia's third-largest oil consumer to slash duties on oil products on Wednesday.

But other countries are moving to rein in consumption. For example, Thailand will order service stations to shut down by midnight, and shopping malls and convenience stores to close earlier. Bangkok has decided to scrap subsidies on gasoline from next week, but the prime minister shot down a proposal to make motorists pay to use the main roads in the capital.

Vietnam is considering allowing

distributors to raise retail rates by up to 10 percent if oil prices hit \$50 a barrel. It has requested all state agencies to cut fuel usage by 10 percent this year and by up to 20 percent next year.

Yet China's demand for diesel remains strong as it grapples with the worst power crisis since the 1980s, even after wholesale prices along the bustling east coast have risen 4 percent in the past three weeks.

"We're caught in a squeeze. Demand for diesel has risen but there just isn't enough supply at the moment," said an official with Zhenhai Refining & Chemical Co. Ltd., China's top refiner and a subsidiary of Sinopec Corp 0386.

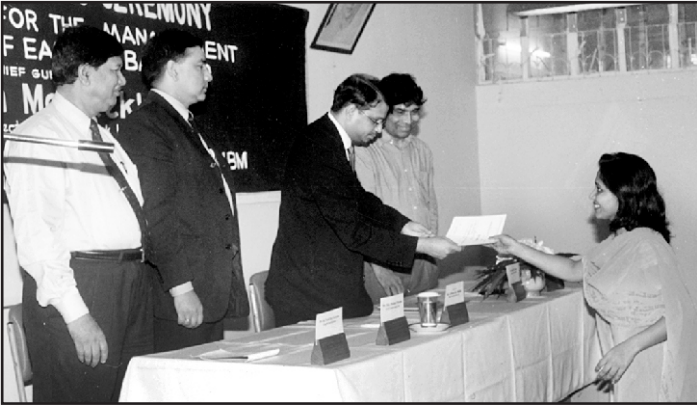


PHOTO: EBL

Eastern Bank Limited (EBL) Deputy Managing Director Ali Reza Iftekhar gives away certificate to a participant of a month-long foundation training programme organised by the bank for its management trainees at the concluding session recently in Dhaka.

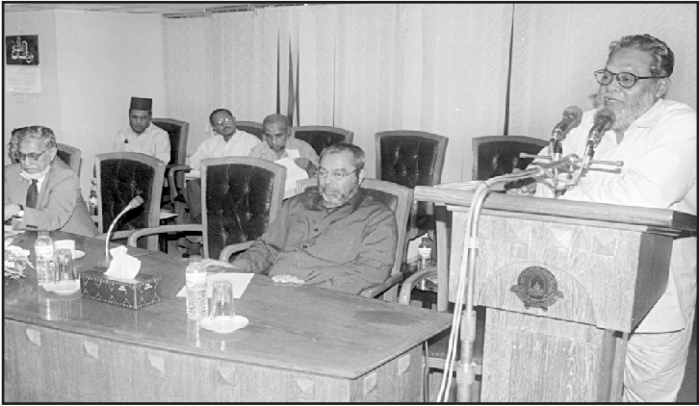


PHOTO: ISLAMI BANK BANGLADESH

Nazir Ahmed, vice-chairman of Islami Bank Bangladesh Limited, speaks at a coordination meeting of branches under Dhaka south and north zones of the bank on Monday in Dhaka. All heads of wings, divisions and departments of head office were present.

## Weekly Currency Roundup

August 14-19, 2004

### Local FX Market

US dollar was stable against Bangladeshi taka the whole of this week. Greenback remained broadly steady due to matched demand and supply.

### Money Market

Bangladesh Bank borrowed BDT 8,764.00 million through the Treasury bill auction held on Sunday, compared with BDT 5,967.00 million in the previous week's bid. The weighted average yields of t-bills of different tenors were eased slightly from the previous bid.

Call money rate was range-bound throughout the week. The rate ranged between 3.25 and 4.25 percent throughout the week because of improved liquidity condition.

### International FX Market

In the beginning of the week, the dollar dipped to a four-week low against the euro on Monday before rising slightly on profit-taking, but steep oil prices and weak US data continued to fan worries about the health of the world's largest economy. The US trade deficit widened well beyond expectations in June, hitting a record \$55.8 billion and sparking the debate afresh on whether the US can attract enough foreign investment to fill its external shortfall. Data on portfolio inflows to the United States will be published at 1300 GMT and analysts said a weak figure may prompt a fresh wave of dollar-selling. Sterling has been under some pressure last week, hitting one-month lows against the euro, following a series of dovish comments from the Bank of England. The BoE hiked interest rates last week but some investors are now speculating that further tightening could be less aggressive than previously thought, particularly if house price inflation moderates.

Dollar hovered near multi-week lows against major currencies in the middle of the week as another round of weak US data spurred doubt on whether US federal reserve would increase interest rates further next month. Federal Reserve raised interest rate for the first time in four years and was expected to raise interest rates in a measured pace over the rest of the year. However, recent bouts of lackluster data including jobs creation, housing starts and record trade deficit has cast doubts on US economic recovery. Market players are looking at the impact of soaring oil prices on global economy to gain a clear direction on currency movements.

The yen held close to the previous session's four-week high against the dollar by the end of the week, while the dollar held steady on the euro as investors awaited US labour and manufacturing data due later. Steep fall in sterling against yen forced yen sellers to buy the Japanese currency back, pushing it higher against the dollar. But it was unable to sustain the rally on doubts about the strength of Japan's recovery following last week's surprisingly weak second quarter growth data. Among important economic data, US jobless claims and Philadelphia Federal Reserve Manufacturing survey are due on Thursday.

- Standard Chartered Bank



PHOTO: SEDF

Muhammad A (Rumee) Ali, deputy governor of Bangladesh Bank, Anil Sinha, general manager of SouthAsia Enterprise Development Facility (SEDF), Mahabubul Islam, general manager of Bangladesh Bank Training Academy (BBTA), and M Rehan Rashid, specialist, SEDF Financial Markets, pose for photographs with the participants of a six-day training course on foreign exchange risk management jointly organised by SEDF and BBTA at the inauguration of the course recently in Dhaka.



PHOTO: NATIONAL BANK

National Bank Limited Chairperson Perveen Haque Sikder speaks at the inauguration of the half-yearly conference of the executives and managers of the bank of Dhaka region at a hotel in Dhaka on Tuesday. Md Mahbubur Rahman Khan, Md Khalilur Rahman (Maznu), Abu Sayeed Monir, MG Murtaza, Mahbub Ahmed, AM Nurul Islam, Zakaria Taher, directors of the bank, and Mustaque Ahmed, managing director (current charge), are also seen in the picture.

## ROK economy grows 5.4pc in first half

AFP, Seoul

South Korea's economy rose 5.4 percent year-on-year in the first half to June with second quarter growth outstripping expectations on the back of robust exports and improved plant investment, the central bank said Friday.

The Bank of Korea said the country's gross domestic product (GDP) grew 5.5 percent in the three months to June, up from a 5.3 percent gain in the previous quarter.

The latest quarterly figure is the highest in six quarters and slightly exceeds the bank's earlier projection of 5.4 percent and market expectations for 5.3 percent.

"Strong exports and recovering investment were the primary force behind the second-quarter growth," the bank said.

The country posted a current account surplus of 2.22 billion dollars in June, the 14th consecutive monthly gain, the data showed.

Plant investment was up 6.2 percent year-on-year in the second quarter, reversing a 0.3 percent fall in the first quarter and ending four consecutive quarters of decline, the bank said.

REUTERS, New Delhi

India's decision to cut fuel duties, one of its biggest sources of revenue, puts government fiscal targets in greater doubt, analysts said Thursday.

The Finance Ministry on Wednesday cut customs duty on petrol and diesel to 15 percent from 20 percent and slashed excise duty on petrol in a bid to control inflation, which has jumped to 3-1/2 year highs.

Revenue targets published last month had already looked improbable, partly because a delayed monsoon was expected to cut India's economic growth.

The ministry said the cuts would result in loss of 25 billion rupees (\$539 million) of revenue for the rest of the financial year, to March 2005. Charges on oil generate nearly 20 percent of tax collections.

India aims to cap the deficit at 4.4 percent of gross domestic product in 2004/05, down from 4.8 percent in the previous financial year and based on strong growth delivering a 25 percent rise in revenue, especially from company tax.

A budget progress report has reinforced doubts about the deficit target, which was laid out in a new law aimed at controlling public finances. The first-quarter deficit was 30 percent

of the full-year target, leading analysts to say it would probably exceed the 45 percent targeted for the first half.

Analysts expect the full-year deficit to end up closer to 5 percent of GDP because high oil prices and lower farm output are likely to slow growth in the world's 12th largest economy, hitting revenue collections and raising borrowings.

India imports 70 percent of its oil. The government's success in reining in the deficit to below 5 percent of GDP has helped attract foreign investors, who pumped in \$1 billion in 2003, compared with a meagre \$3.9 million in the previous year.

But foreign debt investors, wary of India's high public debt and junk-bond credit rating, have turned net sellers since April due to global interest rate tightening and the weakness of the rupee.

The government has raised 550 billion rupees through market borrowings and private placements with the central bank so far in 2004/05, which is more than 36 percent of its budgeted gross market borrowing of 1,506.81 billion rupees.

Delayed monsoon rains in the crucial sowing month of July may hit farm output, pulling back growth in India's farm-dependent economy by depressing the rural income and demand.

## STOCK