

High oil price for long duration to damage Asia economy: ADB

REUTERS, Tokyo

Asian economies with fragile fundamentals, even energy-rich Indonesia, could be seriously damaged if oil prices remain high for a long time, the Asian Development Bank's chief economist said Thursday.

"The issue is not the level of prices, but the duration," Ifzal Ali told Reuters in an interview.

"For example, \$40 a barrel sustained from now to the end of 2005 would be far more painful than the \$50 price" lasting for two quarters, he said.

Crude oil prices have fallen nearly \$6 from last week's record highs of \$49.40 a barrel for US light crude, but concerns over economic damage from high oil prices persist in Asian countries, some of which are large oil importers.

Ali, in Tokyo for the launch of an ADB report, said rises in oil prices would affect Asian countries differently depending on the country's macroeconomic policies and what stage of the business cycle it was in.

For instance, high oil prices could hurt Asian economies through deterioration in trade balances by raising import values. Inflationary pressure

from higher oil prices could also force interest rates to rise more quickly than expected, and indebted countries could find themselves stretched.

"Initial conditions are very important. It's (about) how fragile the economy is before the oil shock," Ali said, adding that the Philippines and Indonesia would be most vulnerable.

"You may ask why Indonesia... it is a net energy exporting country," Ali said.

"What is happening is that its domestic fundamentals are very fragile," he said, adding that even if Indonesia's trade balance improved due to energy revenues, it could not escape inflation pressure, which could trigger an interest rate rise.

If higher oil prices hurt economic conditions in Group of Seven nations, Indonesia's exports to them could also suffer, Ali said.

Higher interest rates could become a concern for Indonesia, as they could hold down consumption and investment, restraining economy growth.

For the Philippines, Ali pointed to its high debt-to-GDP ratio, saying any interest rate increase stemming from higher oil prices could increase its debt

burden.

He reiterated the ADB's estimate that if the price of oil stays above \$40 until the end of 2005, the combined gross domestic product (GDP) for Asia excluding Japan in 2005 could be around 0.8 percentage point lower than it would otherwise be.

For instance, Thailand's economic growth rate could be around 2.2 percentage points less, while GDP in the Philippines could be around 2 points less, he said.

Ali said the recent rise in oil prices has been different from past oil shocks as the price has been lifted by demand for more oil in addition to supply side factors.

"Countries like India and China, which are growing fast and which are energy inefficient, are going to demand an increasing part of the world oil supply. Oil prices will not stay at the present level but I don't think they will go back to below \$30."

Oil prices climb as market worries about Iraq unrest

AFP, London

World oil prices rose Friday on concerns over the possibility of further unrest in major producer Iraq despite a ceasefire in its holy city of Najaf, where fighting has raged for weeks, traders said.

The price of London's benchmark Brent North Sea crude oil for delivery in October climbed 44 cents to 40.77 dollars per barrel in early deals.

New York's main contract, light sweet crude for October delivery, gained 43 cents to 43.53 dollars per barrel in pre-opening electronic deals.

"Prices are bouncing again, a lot of people are saying that we've seen enough on the downside," GNI-Man Financial trader Kevin Blemkin said.

"People are concerned and are not prepared to go short (of oil supplies) into the weekend," especially since the London market will be shut Monday because of a public holiday in Britain.

DaimlerChrysler expands US fuel cell test fleet

AFP, Detroit, Michigan

DaimlerChrysler delivered a medium-duty fuel cell van to the UPS package delivery company Thursday, for what it says is the first commercial US test of a hydrogen-powered vehicle this size.

The automaker delivered the zero emissions Dodge Fuel Cell Sprinter to UPS executives in Los Angeles for use as part of its delivery fleet.

UPS will use the van for daily deliveries to see how it holds up to the rigours of hauling heavy loads in the stop-and-go of city driving.

"Putting vehicles like this into real commercial use is vital to developing technology that has true societal and business value," said Eric Ridenour, the Chrysler Group's executive vice president of product development.

S'pore economy to slow down to 5pc next year

AFP, Singapore

Private economists raised their growth forecast for Singapore's economy this year to 8.4 percent but predicted a sharp slowdown in 2005, with downside risks coming from volatile oil prices and a possible slump in key world economies, a survey showed Friday.

Results of the August survey by the Monetary Authority of Singapore (MAS) of 19 private sector economists showed a median forecast of 5.0 percent growth next year.

For 2004, the median forecast is for the gross domestic product (GDP) to expand 8.4 percent, which is within the government's official projection of between 8.0 and 9.0 percent growth.

The latest 2004 growth forecast is higher than the 7.0 percent projection by the economists in June.

"While the respondents have maintained their median GDP growth forecast at 5.0 percent for 2005, they felt that the likelihood of downside risks for next year has increased," the MAS, which is the city-state's central bank, said in a statement.

"The key risk factors include sustained higher oil prices, a slowdown in the major economies (US and Japan), a hard-landing in China and continuing geopolitical uncertainties."

The statement said however that several economists also highlighted the possibility of better-than-expected growth in Japan and the United States.

Oil prices touched all-time highs and threatened to creep to 50 US dollars a barrel last week, driven by fears of fuel supply disruptions in Iraq and Russia.

China, Chile to complete study on FTA by Oct

AFP, Beijing

China and Chile are expected to complete a feasibility study on a free-trade agreement (FTA) by early October, reports said Friday, citing the Chilean ambassador here.

Chile is also considering granting China market economy status (MES), which would help Beijing boost its ability to fight anti-dumping charges, the China Daily said.

"We have just finished a two-day experts meeting in Beijing... and now the two nations are expediting the process with the conclusion to be announced, hopefully, ahead of deadline," Pablo Cabrera, the newly-appointed ambassador to China said.

"China and Chile have already talked about the MES," he said, adding that Chile would also make a decision on that matter in October.

China is in active FTA talks with a number of nations, including New Zealand, Australia, the Gulf Cooperation Council and South Africa.

Cabrera said establishing an FTA would "surely promote already-booming bilateral trade and mutual investments".

"The two countries' economies are complementary with each other and an FTA will be good to both. With the FTA in place, two-way trade volume will easily exceed 10 billion dollars by 2008."

The ambassador said he believed China would soon surpass Japan to become Chile's second largest export destination, after the United States.

China is now Chile's fifth largest trading partner, and Chile is China's third largest trading country in Latin America.

Two-way trade reached 2.37 billion dollars during the first half of the year, representing an increase of 52.7 percent on a yearly basis, the paper reported.



PHOTO: DCCI

Newly appointed Croatian Ambassador to Bangladesh Dino Debeljue called on Fazle RM Hasan, president of Dhaka Chamber of Commerce and Industry (DCCI), at the latter's office in Dhaka on Monday and discussed bilateral trade relations between Croatia and Bangladesh.

Weekly Currency Roundup

August 21 26, 2004

Local FX Market

US dollar was stable against Bangladeshi taka throughout the week. Green-back remained broadly steady due to matched demand and supply.

Money Market

Bangladesh Bank borrowed BDT 2,359.00 million through the Treasury bill auction held on Sunday, compared with BDT 8,764.00 million in the previous week's bid. The weighted average yields of t-bills of different tenors were unchanged from the previous bid.

Call money rate was slightly upward in the week. The rate ranged between 3.75 and 4.00 percent in the beginning of the week, but ended the week at 4.75 and 5.00 percent.

International FX Market

The dollar steadied above recent four-week lows against the euro and yen on Monday as oil prices eased from record highs and investors awaited a speech by US Federal Reserve Chairman Alan Greenspan later in the week for clues about speeding up of US economy. However, many analysts suspected the dollar would find it hard to stage much of a meaningful recovery ahead of August's non-farm payrolls report early next month.

The dollar extended the previous day's gains versus the euro in the middle of the week, hitting a new two-week high as lower oil prices and upbeat comments from Federal Reserve officials brightened the US economic outlook. US crude oil futures edged down further from last week's record highs, while two US central bankers said pricey fuel would not be enough to derail a self-sustaining economic expansion. The dollar also hit a near two-month high versus the British Pound but was steady against the yen.

In the end of the week, the Euro hit its lowest level in almost 3 weeks against the dollar against the dollar as investors awaited closely-watched German business climate indices later on Thursday and a speech the Federal Reserve chief on Friday. German's Ifo research institute's main business climate indicator, due at 0800 GMT, is expected to fall to 95.10 in August from 95.60 the previous month. Markets were also keen to see whether Fed Chairman Alan Greenspan would make upbeat comments about the US economy in a speech on Friday, echoing his colleagues who spoke earlier in the week.

- Standard Chartered Bank



PHOTO: SCWEC

SAARC Chamber Women Entrepreneurs Council (SCWEC) Chairperson Nasreen Awal Mintoo (2nd from right) speaks at the 1st executive meeting of the council held in New Delhi, India on Sunday. Namita Gautam (left), vice-chairperson of the council, Macky Hashim (2nd from left), president of Saarc Chamber of Commerce and Industry, and Shahruk Rahman (right), secretary of SCWEC, are also seen in the picture.

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