

Imbalances threaten world economic growth: Unctad

REUTERS, Geneva

Global economic growth is threatened by imbalances, particularly unsustainable US current and trade account deficits and restrictive policies in the euro bloc, a United Nations agency said Thursday.

There were serious doubts whether growth in the United States, the primary motor of international economic expansion, would continue with the same strength as during 2003 and first half 2004, Unctad, the UN development agency said.

Demand needed to be strengthened in the other major economies to maintain international momentum without the constant growth of US deficits and the resulting mounting pressure on the dollar.

Unctad saw the world economy expanding 3.8 per cent this year, up from 2.6 per cent in 2003, with developed countries registering growth of 3.2 per cent (2.0) and developing countries 5.8 per cent (4.5).

But demand remained sluggish in the euro area, mainly because excessively restrictive monetary and fiscal policies were failing to "lift the income expectations of consumers."

US deficits were much higher than they were in the 1990s and would eventually require fiscal adjustment just as the "unusually" expansionary monetary policy could need revising.

"The large and rising US trade deficit ... is likely to exert further downward pressure on the dollar."

the Geneva-based agency said in its annual Trade and Development Report.

In this case, as the euro strengthened, the euro area and its major trading partners "run the risk of being trapped in a low-growth, high-unemployment scenario," Unctad warned.

Turning to regional developments, it said East Asia had learned from its financial crises of the past the way to avoid destabilisingly strong flows of speculative money was to keep currencies overvalued and run current account surpluses.

China was an example of a country that had got the balance right, Unctad's Heiner Flassbeck told a news conference.

The economist, who had just returned from China, said officials

here were concerned about the risks of inflation and of the economy's overheating. But letting the exchange rate rise was not a solution, he said.

Unctad noted that East Asian developing countries, including China, bought more than \$210 billion of US currency and securities in 2003, virtually half the US budget deficit of \$455 billion and its trade deficit of \$490 billion.

This pattern was unlikely to be sustainable in the longer term, particularly if pressure on the dollar to depreciate mounted because of the high US deficits. Such pressure was inevitable given to balancing rise in demand in the euro bloc.



PHOTO: GLOBAL INS

Md Anwarul Haque, chairman of Global Insurance Limited, speaks at the inauguration of a week-long training programme on 'Insurance & Management' in Dhaka recently. Md Sirajul Islam Bhrasha, vice-chairman of the company, Syed Badrul Alam, chairman of Executive Committee, and ABM Nurul Haq, managing director, were also present.



PHOTO: ARDENT

RR Das, minister (Economic and Commercial), Indian High Commission in Dhaka, Anurag Bhushan, commercial secretary of Indian High Commission, Dhaka, Trevor McDonald, general manager of Dhaka Sheraton Hotel, Piyush K Servia of Real Concepts, India, and Sanaul Arefeen of MAA (Mattra, Asiatic, Ardent) Consortium of Bangladesh, pose for photographs at a press conference in Dhaka on Thursday. The press conference was organised to announce the India-Bangladesh festival titled 'Parbon' which will be held at Dhaka Sheraton Hotel from October 10 to 13.

Weekly Currency Roundup

September 11-September 16, 2004

Local FX Market

US dollar was steady in the beginning of the week. Inclement weather halted trading by the middle of the week and US dollar ended the week almost unchanged against the Bangladeshi taka.

Money Market

Bangladesh Bank borrowed BDT 3,846.00 million through the treasury bill auction held on Sunday, compared with BDT 5,697.00 million in the previous week's bid. The weighted average yields of t-bills of different tenors were almost unchanged from the previous bid.

Call money rate was higher in the beginning of the week and ranged between 5.00 and 6.00 percent. It eased by the middle of the week and ended the week at around 4.25 and 4.75 percent.

International FX Market

In the beginning of the week, dollar was held near three week lows against euro, struggling ahead of key data later this week after inflation figures on Friday raised fresh doubts about US rate hikes after this month. The greenback was range bound against CHF and JPY.

Dollar stalled against euro on the middle of the week with market mesmerized by the prospect of a US rate hike next week, but yen rose slightly on increased talk of revaluation of the Chinese yuan. Most investors expect the Federal Reserve to raise rates by a quarter point at its Sept 21 policy meeting to 1.75 percent but the focus will be on the accompanying Fed statement and any clues it may give on further rate rises. After Tuesday's data showed a record US current account deficit, the market was looking ahead to industrial production number which were expected to show an increase in August, keeping September rate rise expectations on track.

By the end of the week, dollar was held close to previous session's one-week highs against euro and Swiss franc, holding steady as investors awaited US data to confirm fresh signs of strength in US manufacturing. September factory survey from New York Federal Reserve showed a much stronger improvement than expected on Wednesday. The greenback also fell against JPY and CHF. While US data is the main focus, a rate decision due at around 1200 GMT from the Swiss National Bank is also a key topic, with a potential hike seen as an indication that conditions may also be picking up in the neighboring euro zone as well.

-Standard Chartered Bank

Oil rises as storms threaten supply

REUTERS, London

World oil prices rose on Friday on worries that the ongoing storm season in the U.S. Gulf would continue to hamper energy production and imports, delaying vital pre-winter stock building.

London Brent crude futures were up 27 cents to \$41.02 a barrel, building on gains of 40 cents in the previous session. US light crude gained 17 cents to \$44.05 a barrel.

Other than a couple of oil drilling rigs torn from their moorings, Hurricane Ivan's assault on the US Gulf coast appears to have caused no other damage to oil facilities. But as Ivan abates, Tropical Storm Jeanne is following and is also likely to disrupt some production and imports.

Oil companies in the Gulf of Mexico are estimated to have shut in about four million barrels per day of production this week until Thursday as a precautionary measure against Ivan.

Over 11 billion cubic feet a day of gas production and 13 percent of total U.S. refining capacity has also been shut this week, while the closure of Gulf ports has prevented millions of barrels of oil imports from entering the country.

"We expect this outage to affect oil and natural gas inventory builds over the next few weeks," Merrill Lynch said.

"The loss of production over this

period, coupled with the disruption to imports offloading in the Gulf of Mexico being the key factors," it wrote in a report.

A string of storms in the last month has reduced U.S. crude inventories in the past month and the Energy Department said on Wednesday crude stocks had fallen for the seventh week in a row last week, at a time when inventories should start to build.

The temporary halt in refinery operations is also likely to have curtailed vital production of winter heating fuels, stocks of which are below their five-year average.

Inventories, now at a six-month low, are likely to have fallen again this week in Ivan's wake, analysts expect.

"Even though Ivan was not as bad as we thought, it can take a while to bring back up refineries and there could be lingering damage," said Ed Silliere of Energy Merchant LLC.

Traders will also watch Tropical Storm Karl which is now building in the Atlantic though its trajectory is still unclear.

The hurricanes have largely overshadowed this week's meeting of the Opec cartel which has been pumping almost at full-throttle to cool prices which have risen by over a third this year on buoyant demand growth from Asia.

STOCK



PHOTO: ISLAMI BANK BANGLADESH

Islami Bank Bangladesh Limited Chairman Shah Abdul Hannan presides over the annual general meeting of the bank in Dhaka yesterday. The bank has declared a 20 percent stock dividend for its shareholders for the year 2003.



PHOTO: SOUTH ASIA INS

Gulam Akbar Chowdhury, chairman of South Asia Insurance Company Limited, presides over the annual general meeting of the company held in Dhaka recently. Among others, Vice-chairman of the company Anwar Ali Khan, directors and Managing Director (current charge) Mahmudul Huq Khan were present.