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Soaring trade surplus highlights China's 'lopsided' economy

AFP, *Beijing*

China's inflation stayed low in April, while the trade surplus more than doubled, showing how hard it is to make the economy depend less on exports and rely more on consumption, analysts said Friday.

The statistics underlined the basic challenge policy makers face as they strive to make the nation's 1.3 billion people spend more and have domestic spending account for a larger share of growth in Asia's second-largest economy, analysts argued.

"Investment is the largest growth engine, and the second engine is exports. Consumption is just a follower, not a driver," said Chen Xingdong, chief China economist with BNP Paribas Peregrine in Beijing.

"It's not easy for the government to change. Consumption is determined by consumers, not determined by the government," he said.

China's gross domestic product expanded by 10.2 percent in the first quarter of the year, making it the world's fastest growing major economy, but that is not the only thing that puts the country in a league of its own.

The consumer price index, the main inflation gauge, rose just 1.2 percent last month from a year earlier, the National Bureau of Statistics said Friday.

To some economists, who looked at the figure against the backdrop of double-digit growth, it sounded odd, bordering on the unbelievable.

"It begs the question whether these figures are accurate, are they really reflecting what's going on in the economy?" said Tai Hui, a Hong Kong-based economist with Standard Chartered.

In sharp contrast to the low-inflation environment, the April trade surplus soared 128 percent from a year earlier to 10.5 billion dollars, customs authorities said Friday.

Exports in April were up 23.9 percent to 76.9 billion dollars, while imports were up by a more moderate 15.3 percent to 66.5 billion dollars, the customs authorities said.

According to observers, the data did not necessarily reflect a Chinese export juggernaut rolling on, crushing everything in its path. The interesting figure to look at was the relatively slow growth in imports.

It was, they said, a case of China's own industries, some of them with considerable excess capacity after years of investment, turning their attention to making products that have so far been imported from abroad.

PHOTO: **BANGLALINK**

Lars P Reichelt, chief executive officer of mobile phone operator Banglalink, and Enayetullah Khan, editor-in-chief and chief executive of United News of Bangladesh (UNB) Ltd, shake hands after signing an agreement recently. Under the deal, the news agency has become a corporate client of Banglalink. Amanullah Khan, UNB chairman, and other senior officials from both the sides were also present at the signing ceremony.

PHOTO: **EBL**

Ali Reza Iftekhar, acting managing director of Eastern Bank Ltd (EBL), and S Prabagar, chief operating officer of Commercial Bank of Ceylon Ltd, pose for photographs at a master repurchase agreement signing ceremony on Wednesday in Dhaka. Under the deal, both the banks will be able to enter into Repo and Reverse Repo agreements between themselves against their government securities. Other senior officials from both the sides are also seen.

US trade deficit shrinks to $62b

AFP, *Washington*

The US trade deficit unexpectedly sank to 62.0 billion dollars in March, from 65.6 billion in the month before, the Commerce Department said Friday.

The figure was the best US trade performance since August, and confounded Wall Street forecasts for the deficit to expand to 67.0 billion dollars in March.

PHOTO: **LANKABANGLA FINANCE**

MA Hasan, vice president of Premier Bank Ltd, and AKM Anwarul Kabir, executive vice president of LankaBangla Finance Ltd, pose for photographs at an agreement signing ceremony recently. Under the deal, the bank will extend credit facility to LankaBangla to finance the latter's business activities. Abu Hanif Khan, managing director of the bank, and A Malek Shamsher, managing director of the financial institution, among others, were present.

Mittal, Arcelor look to future as takeover battle hots up

AFP, *Rotterdam*

Steel giants Mittal and Arcelor issued upbeat outlooks Friday despite reporting drops in first-quarter profit, with Mittal also hailing expected US approval for a proposed but contested takeover of its smaller rival.

Mittal, the biggest steelmaker worldwide in terms of volume, has struggled since the beginning of the year with a bid for Arcelor that is currently worth around 22 billion euros (28 billion dollars), but stressed it would "go live shortly".

Despite the green light from the US authorities announced by Mittal on Friday, the Netherlands-based group also has to get approval from European competition officials.

Mittal suffered a set back Wednesday when the European Commission put back its deadline for making a decision by two weeks to June 7.

On Friday, Mittal said its net profit had fallen to 743 million dollars (576 million euros) in the first quarter, but forecast a pick-up in the second quarter.

Chairman and chief executive, Lakshmi Mittal, said that improving market conditions "will drive significant growth in operating income in the second quarter and this momentum can be expected to continue into the third quarter".

Operating profit fell in the first quarter to 1.017 billion dollars from 1.719 billion in the same period of 2005. Sales rose 31 percent to 8.43 billion dollars from 6.424 billion a year earlier.

In Paris, Arcelor said its net profit had fallen by 19.8 percent in the first quarter from the equivalent figure for 2005 because of lower steel prices and a rise in the cost of raw materials.

Arcelor reported net profit of 761 million euros, with chief executive Guy Dolle forecasting "very good results" for the rest of the year.

"The market is positive for volumes. Prices have started to rise again. The results of the second quarter will be of the same order as the first and the third quarter will be better," he told AFP.

"It will be a very good year and better than people thought four or five months ago."

Arcelor said its sales had risen 17.3 percent in the first quarter to 9.565 billion euros.

Its shares showed a loss at midday of 0.48 percent at 35.28 euros on the Paris stock exchange, while the CAC 40 index of leading shares was down 1.47 percent.

Mittal shares had lost 1.34 percent to 31.65 euros in Amsterdam, where the AEX index was off 1.66 percent.

PHOTO: **ISLAMI BANK BANGLADESH**

Mominul Islam Patwary, chairman of executive committee of Islami Bank Bangladesh Ltd, speaks at the inaugural session of an 'Orientation Course for Probationary Officers' of the bank recently. Other senior officials were also present.

Weekly Currency Roundup

May 07-May 10, 2006

Local FX Market

Demand for US dollar was stable in this week and USD remained almost unchanged against Bangladeshi taka.

Money Market

In the Treasury bill auction held on Sunday, bid for BDT 5,964.00 million was accepted, compared with total of BDT 4,398.00 million in the previous week's bid. Weighted average yield was unchanged.

Overnight money market was more or less steady throughout the week. The call money rate ranged between 11.00 and 130.00 percent.

International FX Market

The dollar fell over the weekend and in the beginning of the week, hit a one-year low against the euro and sterling and a near eight-month low versus the yen on Monday. The dollar has been under pressure since the Group of Seven finance ministers last month called on China and other emerging Asian economies to allow greater currency flexibility to help redress global imbalances. The yen was the biggest mover on the day, rallying by more than one percent against the dollar.

In the middle of the week, the dollar steadied against major rivals, but the outlook stayed shaky, with investors awaiting the US Federal Reserve's rate decision on Wednesday. Although the Fed was widely expected to lift its funds rates, investors were however uncertain about the Fed's action beyond that. The yen hit a six-week high against the euro after a media report stocked expectations the Bank of Japan will raise interest rates as soon as July. Several other major events were scheduled for this week, including euro zone growth figures on Thursday and US trade data at week's end.

By the end of the week, the dollar fell again, hitting one year lows against the euro, sterling, Swiss franc and an index of currencies as investors speculated the US Federal Reserve will hint at a pause in rate rises at its meeting later. The Fed is widely expected to raise overnight rates by 25 basis points for the 16th straight time at Wednesday's meeting, taking the key rate to 5 percent. The USD has also been pressured this week by a Chinese newspaper report that economists have urged Beijing to quadruple the amount of gold held in its forex reserves, the largest in the world. Increasing its gold portfolio could require China to reduce its Treasury holdings, which would lead to dollar selling. The yen jumped to an 8-month peak against the greenback as speculation that the Bank of Japan could start raising overnight rates as soon as June sparked a self-off in Japanese government bonds that drove two-year yields to their highest in more than seven years.

\- Standard Chartered Bank

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