

International Business News

US secretary concedes biofuels may spur food price rises

Setting aside farmland to produce biofuels like ethanol may be partly to blame for driving up world food prices, US Secretary of State Condoleezza Rice said Monday.

"There has been apparently some effect, unintended consequence from the alternative fuels effort," Rice told a meeting in Washington when asked for the US government's view on skyrocketing food prices.

"Although we believe that while biofuels continue to be an extremely important piece of the alternative energy picture, obviously we want to make sure that it is not having an adverse affect," she said.

"We think that it is not a large part of the problem, but it in fact may be a part of the problem, the ethanol debate," Rice told a gathering of the Peace Corps.

She said other factors fueling high prices are problems of distributing food in conflict areas like Sudan as well as export caps imposed by countries like China which are trying to meet rising demand from more affluent citizens.

Thailand to sell its entire rice stockpile

Thailand's premier said Tuesday the country would sell all of its 2.1 million tonnes of stockpiled rice at a cut price to relieve shortages and try to curb soaring domestic prices of the staple grain.

Prime Minister Samak Sundaravej said his cabinet on Tuesday approved the plan to gradually sell off the rice stockpile in five-kilogramme (11-pound) bags for 170 baht (about five dollars) each.

A bag of Jasmine rice currently costs more than 200 baht. "This is aimed at relieving the current rice situation," Samak said. "Money from the sales will be spent on purchasing new rice to replace the stockpiles."

World rice prices have soared this year, a trend blamed on higher energy and fertiliser costs, greater global demand, droughts, the loss of rice farmland to biofuel plantations, and price speculation.

India's central bank hikes cash reserve ratio to fight inflation

India's central bank on Tuesday hiked the amount of cash banks must hold in reserve for the second time in two weeks, as it struggles to tame inflation in Asia's third-largest economy.

In an unexpected move, The Reserve Bank of India raised the cash reserve ratio (CRR) by 25 basis points to 8.25 percent to reduce cash available for loans and try to check inflation now around three-year highs at 7.33 percent.

Since January, "risks to inflation due to pressures from high global food, crude and metal prices have become more potent and real than before," central bank governor Yaga Venugopal Reddy said in the bank's annual policy statement.

"Potential inflationary pressures" from global food and energy prices had amplified, he added, warning the bank stood ready to "act decisively, effectively and swiftly to curb... adverse developments."

On April 17, the central bank hiked the CRR by 50 basis points to 8.0 percent, draining some 4.6 billion dollars from the banking system, to tackle rising prices.

Inflation has more than doubled from just four months ago, and is far above its tolerance level of five percent.

The latest decision, which will remove over two billion dollars from the banking system, came as Prime Minister Manmohan Singh said reining in prices was the "immediate challenge" facing the nation.



An Indian daily wage labourer shifts sacks of grains at a wholesale market in Mumbai on April 29, 2008. India's central bank hiked the amount of cash banks must hold in reserve for the second time in two weeks.

Oil prices ease as Scottish refinery strike ends

World oil prices eased on Tuesday after Scottish refinery workers ended a two-day strike which helped send prices to record highs.

The industrial action by around 1,200 workers at Grangemouth, west of Edinburgh, ended at 0500 GMT although it could take some time before normal operations resume.

The strike helped to push New York oil to a record of 119.93 dollars a barrel on Monday, a gain of more than 80 percent from a year ago.

In late afternoon trade, New York's main oil futures contract, light sweet crude for June delivery, eased 93 cents to 117.82 dollars per barrel on Tuesday.

Brent North Sea crude for June delivery fell 1.15 dollars to 115.59 dollars a barrel. The contract struck an all-time high of 117.56 dollars last Friday.

David Moore, a commodity strategist at Commonwealth Bank of Australia in Sydney, said the downward adjustment in prices was due to news that the workers in Scotland would be returning to work.

INFLATION

Affluent Singapore feels pinch of inflation

From taking fewer taxi rides to eating out less and shortening shower time, residents of affluent Singapore are trying to cope with inflation, which has soared to 26-year highs.

Rising costs of housing, food, and transport have eaten into family budgets of Singaporeans as well as the large number of expatriates working in the city-state, consumers and analysts said.

Except for the ultra-rich, the impact of the sharp price increases has cut across social classes in one of Asia's wealthiest nations, they said.

Government figures show Singapore's annual inflation was at 6.7 percent in March, the highest since 1982, boosted by higher costs of food, transport, communications and housing.

The figure is more than double the inflation rate in Malaysia and higher than that of the Philippines, Hong Kong and Australia. Unlike bigger countries in the region, Singapore imports most of its needs.

"When the inflation rate is high, it affects everybody," said Serena, a businesswoman who lives near the prime Orchard Road shopping and would only give her first name.

Serena said even affluent families like hers have had to adjust to the rising costs by eyeing grocery prices more closely, using the car less and eating in fancy restaurants only on special occasions.

"You have to differentiate between needs and wants, what is necessary and what is not necessary. If you can get something cheaper, you don't have to go for branded (luxury) items," she told AFP.

While soaring inflation in developing countries, amid



Singaporean housewives do their marketing at the local market in Singapore. Rising costs of housing, food and transport have eaten into family budgets of Singaporeans as well as the large number of expatriates working in the city-state, consumers and analysts said.

a global food crisis, has left many struggling to feed their families, Singaporeans are dealing with the impact of price hikes in their own ways.

For Janice Tan, 35, who works at a travel agency, the soaring prices have forced members of her family to shower only once a day to cut

their water bill. Water used to rinse vegetables is recycled to flush the toilet.

To reduce the electric bill, Tan said she told her maid to iron only office clothes -- and just the parts that are visible.

"It's a big deal for Singapore in that we have never had inflation higher than three percent," said Euston Quah,

head of the economics division at Singapore's Nanyang Technological University.

"It hits the poor badly because the poor spend maybe 40, 50 percent of their income on food," he said.

Quah sees inflation eventually easing to around 4.5 to 5.5 percent this year, while the government has forecast 2008

economic growth forecast of 4.0 to 6.0 percent.

Amin Sori, 65, who works with a shipping firm, said life has become harder, especially for those earning less.

With a monthly salary of 3,000 Singapore dollars (2,200 US), Sori said he can cope, but friends pulling in 2,000 dollars or less are struggling.

"I know a lot of friends who have problems with their water bills... and even personal credit lines."

Local charities say rising food prices are also driving more Singaporeans, especially poor senior citizens, to join queues for free meals.

Salamah Salim, 40, who runs a food stall on the fringes of the business district, said: "Our expenses on food and rice have more than doubled over the past year. Rice and oil have risen tremendously."

Even expatriate professionals, particularly those with less generous housing allowances and other benefits, have been hit.

As apartment rents surged, some moved their families from condominiums that come with swimming pools, gyms and barbecue pits to cheaper government-built flats without such resort-style amenities.

"They raised our rent by 150 percent after our contract expired late last year," said a Filipino computer engineer, who transferred from a gated condominium to a government-built high-rise in the suburbs.

"I know several friends who have also made similar moves or are planning to move out once their leases expire," he said, requesting anonymity.

Dee Pritchard, who works at the Australian International School, said that except for being more careful with the grocery shopping and giving the children fewer treats, nothing much has changed in her lifestyle.

"I'm lucky I'm not in the lower income (group) which would be suffering a lot more than I do really. But at the end of the week, the cash is less. There is less savings."

COLUMN

ASIF ANWAR

Speculators welcome too!

A stunning blonde in a sharp business suit was announcing an early session rally in the DJIA (Dow Jones Industrial Average), the benchmark index for US markets, as I turned the tube on to CNN on a Monday evening few weeks back. The rally, as the blonde continued, was driven by a rising General Motors (GM) stock, a major component of the DJIA, on announcement of FY2007 financial results. Most of us would assume, naturally, bumper profits in 2007 pushed the stock higher. But actually not so, GM made no profit rather a staggering US\$ 38.7bn loss in 2007, the largest in the history of the auto industry! So why is the stock going up on heavy volume?

Economic fundamental is one of many factors that affect stock prices in the secondary market. As a matter of fact, in emerging markets such as ours, the major determinant of stock price is basic demand and supply. The reasons fundamentals do not play a major role in our market are: a) absence of any quality research; b) lack of transparency; c) poor corporate governance and disclosure, and d) an insignificant asset management industry. Therefore, with supply and demand being the major determinant,

more often than not, stock prices deviate sharply from fair value.

Individuals and institutions trade financial securities to profit through investment and/or speculation. That is why all standard exchanges in the world allow short-selling, a technique in which a trader borrows shares and sells them hoping to buy them back at a lower rate before he must return them. They also encourage the use of derivatives, such as options and futures. These instruments are not just tools for speculation but an essential part of the market system that work as automatic stabilisers in times of volatile or abnormal trading, and as risk management tools for hedging. For example, large position taken by short-sellers or an increase in the premium of "put" options give the market an indication that price of the underlying security may have reached unsustainable heights, and consequently result in a correction closer towards fair value. The opposite is also just as applicable.

Unfortunately Bangladesh's Securities and Exchange Commission finds short-selling to be evil, and vows not to discuss it ever. Instead, they prefer structural

changes to stabilise volatile market conditions. These moves by the SEC, usually as a late reaction to an over extended rally, produce nothing more than an angry demonstration by the traders and the immediate reversal of the proposed move by the SEC. They are yet to realise that controlling market direction is manipulation, and their job responsibility calls for the prevention of this act, not the practice of it.

It is impossible for stock prices, or an Index for that matter, to continue in one direction indefinitely. If everyone thinks the market is going to go up, then there would be no sellers, and vice versa. There would be no market at all! Besides, why would an entrepreneur risk venturing into other businesses if buying stocks were guaranteed to be profitable? People who trade in developed markets are expected to be aware of the risks associated with speculative trading, and that is why they don't protest outside the exchanges, even in the event of a market crash!

"Buy Low/Sell High" is not the only way to profit from trading financial securities. Modern exchanges offer profit opportunities under various platforms and in any direction

prices may move. It is time for stock traders, the exchanges, and the SEC to recognize the risks associated with securities trading, and the importance of short-selling and derivatives in the context of an overall market mechanism. A transparent stock exchange that allows short-selling and the use of derivatives is self-correcting, and therefore requires no outside intervention. It will also offers multiple opportunities to profit at all times, and irrespective of market direction.

Oh! The reason GM stock surged that Monday morning was short-sellers, anticipating a loss even worse, beat the stock price down to a level reflecting the market expectation of US\$ 50bn loss for 2007. The stock started to move upwards, on demand from "bargain hunters" and speculators on the long side, as the price was below fair value considering the actual loss of \$38.7bn. The frenzied buying by short-sellers, in a desperate attempt to acquire shares they sold before, boosted the stock price, and consequently pushed the DJIA, even higher.



A file photo taken on December 3, 2007 shows policemen standing guard in front of Dhaka Stock Exchange building after hundreds general investors took to the street when a key index lost 83 point at one stage on the bourse.

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