## International Business News

### Rate cut on cards as Bank of Japan meets

AFP, *Tokyo*

The Bank of Japan met Thursday amid growing expectations it would cut interest rates to rock-bottom, as the government gave its strongest hint yet that it could intervene to bring down the soaring yen.

Japan's central bank opened a two-day meeting after the US Federal Reserve slashed rates to virtually zero, bringing borrowing costs in the world's largest economy below the 0.3 percent in Japan, which for years had the world's lowest level.

Japanese government officials have made little secret they would welcome a rate cut by the central bank, which is independent but has often faced political pressure on how to steer the world's second largest economy.

Finance Minister Shoichi Nakagawa warned Thursday that the spike in the yen was causing pain to Japan's exporters, which are already feeling the pinch from the global economic crisis.

In Thursday afternoon trade in Tokyo, the dollar was quoted at 87.71 yen, slightly off a 13-year low of 87.11 yen in New York on Wednesday.

The dollar was also languishing against the euro, which on Wednesday posted its strongest gain against the greenback since the single European currency was launched in 1999.

Lower interest rates often weaken a currency by making it less lucrative. But the soaring yen hurts Japanese exporters, already suffering from the global downturn, by making their exports more costly.

### Credit Agricole to raise stake in Japan's Resona

AFP, *Tokyo*

France's Credit Agricole bank said Thursday it would pay 575 million dollars to raise its share in Japan's Resona Holdings to nearly four percent, seeking to expand despite the turmoil rattling global markets.

France's biggest bank said it would take a fresh 2.96 percent stake in Japan's fourth biggest lender by paying the Japanese government, which injected public money in Resona as part of a 2003 bailout.

Resona said in a statement that the deal was meant "to further strengthen the cooperation in a capital relationship" with Credit Agricole.

Credit Agricole said it will spend 50 billion yen (575 million dollars) in an operation on Friday and end up with a 3.92 percent stake in Resona.

But the Japanese bank will still owe the government some 2.3 trillion yen (26.4 billion dollars) stemming from the bailout.

Resona, like most other Japanese banks, has been cautious since Japan's own bad loan crisis ended earlier this decade and is seen as less exposed to toxic high-risk subprime loans than its Western counterparts.

AFP

**Chinese People's Liberation Army (PLA) officers walk side by side into the Great Hall of the People joining top Communist Party leaders for an event marking the 30th anniversary of economic reforms in Beijing yesterday. Initiated in 1978 by former leader Deng Xiaoping, the economic reforms have made the world's most populous nation one of the fastest growing economies in the world.**

### German business sentiment hits record low in December

AFP, *Frankfurt*

A key survey of German business sentiment hit a record low in December, the Ifo economic instute said on Thursday as Europe's biggest economy and the eurozone wallowed in what could be historic recessions.

German business sentiment plunged for the seventh straight month to a record low of 82.6 points in December, the Ifo index showed, and business activity slumped across the 15-nation eurozone, which is in its first recession ever.

"December's fall in the German Ifo business climate index brings further evidence that, far from weathering the storm, the German economy is in the midst of it," Capital Economics economist Jennifer McKeown said.

The index's previous all-time low of 84.8 points had been set in February 1993, two years after Ifo began compiling the data in a reunited Germany.

"Germany is now in the grip of its most severe recession since the end of the Second World War," Commerzbank chief economist Joerg Kraemer said in a comment that was echoed by many analysts.

### Chrysler to halt manufacturing for one month

AFP, *New York*

Ailing US automaker Chrysler said Wednesday it was halting its manufacturing for at least a month from Friday in response to a credit crisis and ongoing debate on a government rescue for the sector.

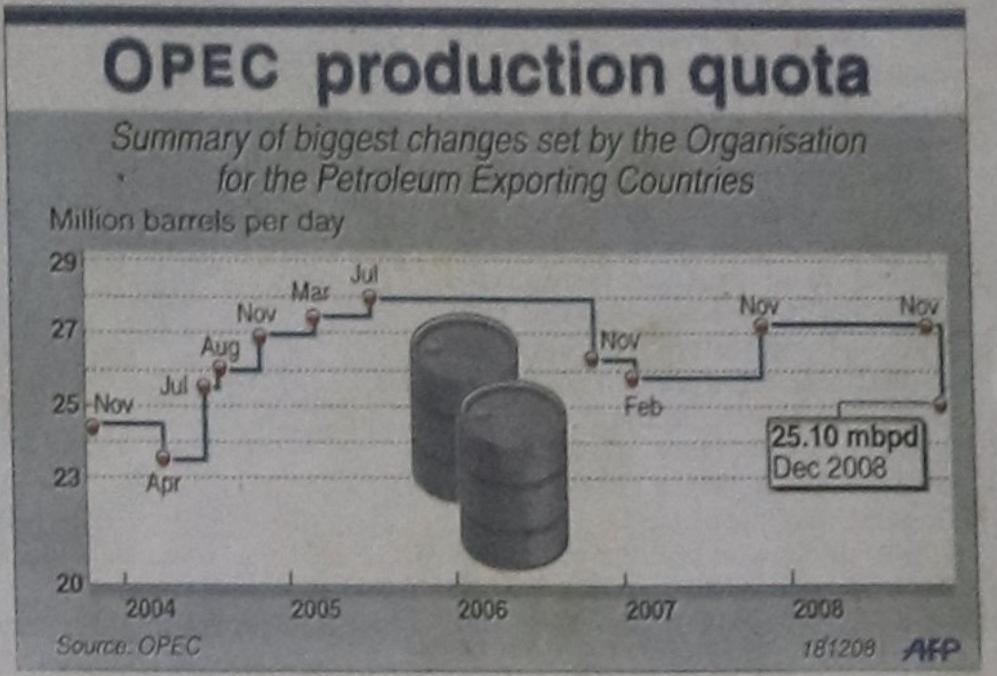
"As a result of the financial crisis, the automotive market remains depressed due to the continued lack of consumer credit for potential buyers," the Detroit firm said in a statement.

"Last week several automakers announced significant downward adjustments in production for the first quarter of 2009, and to make sure our inventory remains aligned with market demand, Chrysler will also extend the holiday shutdown already in place."

Chrysler said the shutdown of its plants is part of an effort "to keep production and dealer inventory aligned with US market demand."

ANALYSIS

# Oil output cut no quick fix




AFP

**Algerian President Abdelaziz Bouteflika (C) poses with members of the Organisation of Petroleum Exporting Countries (Opec) meeting at a hotel in Oran on Wednesday. Oran hosted a key meeting of the oil cartel to block a steady slide in oil prices, which are now 70 percent off their high points of 147 US dollars a barrel in July, as demand dries up in recession-hit industrialised consuming nations.**

XINHUA, ORAN, *Algeria*

OPEC on Wednesday agreed on a deepest-ever net cut of 2.2 million barrels per day (bpd) as of Jan 1, bringing the total output cut in 2008 to 4.2 million bpd, in another attempt to bolster sagging oil prices under the global economic slowdown.

Yet analysts say it still costs the Organisation of Petroleum Exporting Countries (Opec) several months and even further cuts to harvest at the level it is craving for, ruling out the possibility of a quick fix in the volatile market.

The decision made at the oil cartel's 151st extraordinary meeting in northwestern Algerian city of Oran came without surprise given the previous slump and a succession of pro-cut announcements by oil powers.

Chakib Khelil, Opec's current rotating president, and also Algerian Minister of Energy and Mines, announced in Oran that the cartel "agreed to cut 4.2 million bpd from the actual September 2008 Opec-11 production of 29.045 million bpd, effective of Jan. 1,2009," in light of observing "crude volumes entering the market remain well in excess of actual demand."

Over the past five months, oil prices have witnessed a steep slide in the international markets after a record high of some 147 US dollars per barrel in July 11.

After Opec's announcement of cut on Wednesday, light, sweet crude for January delivery dropped to the lowest in more than four years of some 40 dollars in the New York Mercantile Exchange, while Brent North Sea crude for delivery in January stood at some 45 dollars in London's Inter Continental Exchange, shedding more than 60 percent from its zenith.

Khelil said on Dec 6 that Opec, which pumps nearly 40 percent of world's oil, is to cut its oil output in a "significant magnitude" in order to stem the tumbling oil prices. He reiterated on Dec 11 that the reduction in Oran would be "severe".

Opec Secretary General Abdalla Salem el-Badri also hinted a further oil output cut. He told Iran's Energy and Oil Information Network in Tehran on Dec 1 that "the organisation is ready to cut production by another million barrel, which is a good amount," adding that "we are all geared towards it."

The sensitive future market has been digesting the expectation of the mega cut, which was mirrored in the recent rallies after the price touched a four-year nadir of 40 dollars on Dec. 5.

Despite its fresh ambitions to revive the crude prices, "Opec has not been successful in being ahead of demand destruction, which has caused a drop in oil prices which is starting to have an impact on non-Opec supply," said Olivier Jakob, an oil analyst at Petromatrix, a Switzerland-based oil consultancy.

The oil cartel slashed its oil output on Sept. 10 by 520,000 bpd and another 1.5 million bpd on Oct. 24, but in vain. Both of them failed to forge substantial rallies.

The Organisation for Economic Cooperation and Development (OECD) forecast in November that the economy of the United States, the biggest oil consumer, will shrink by 0.9 percent next year with contraction in the first half of the year giving way to a "languid" recovery.

Prior to the meeting, the US Federal Reserve decided Tuesday in a surprise move to cut the benchmark interest rate to a range of zero to 0.25 percent, the lowest level ever seen to prevent the country's ailing economy from plunging into deep recession.

The growth rate for the 27 European Union countries in 2008 is estimated to be only 1.4 percent, less than half of that in 2007.

The International Energy Agency (IEA) projected in a report on Dec 11 that oil demand in 2008 would shrink for the first time since 1983, shedding 200,000 bpd on a year-on-year basis.

The global downturn is now still unfolding itself, chorused by a series of dire demand outlooks that haunt the traders. As a result, the market has turned into a see-saw battle between shrinking supplies and gloomy statistics and projections, at least in the coming few months.

"The demand for Opec crude is projected to decline sharply in 2009, falling 1.4 million bpd to average 30.2 million bpd," Opec said in its monthly oil report published Tuesday, which also put the global total demand at 85.7 million bpd.

The IEA also said in the report that the oil demand in 2009 would rebound to 86.3 million bpd, based on the hypothesis that the world economy will come to life in the second half of the year.

"The impact of the grave global economic downturn had led to a destruction of demand, resulting in unprecedented downward pressure being exerted on price," the cartel said at its meeting in Oran.

Vincent Lauerman, president of Geopolitics Central, a Canada-based energy consultancy, said the recovery might take "several months," recommending a more aggressive cut.

Moreover, non-Opec producers must be taken into account. "In the United States, the number of operating drilling rigs is dropping and projects to develop the oil sands in Canada have been dropped one after another," said Jakob.

According to Opec statistics, Canada is now the biggest oil supplier for the United States, whose production could enable traders to catch a glimpse of the new equilibrium.

Opec's cut was also echoed by Russia, which sent a high-ranking delegation to the meeting and pledged a coordinated policy, but the biggest non-Opec exporter did not give any tangible words of output cut in Oran on Wednesday.

Khelil told the press conference after the meeting in Oran that Opec may make further cut in its next ministerial meeting in Marchat the headquarter in Vienna if the 2.2 million cut can not stabilize the market.

Lauerman also hinted the possibility of further cuts if the current one turns out to be a damp squib. "Depending on the length and depth of the global economic slowdown, Opec may have to cut a whole lot more."

It might be intriguing to define the "fair price" in the unfolding rainy days, since the exploiting costs among the Opec members are inevitably uneven.

A Morgan Stanley report released in early October revealed that the United Arab Emirates' fiscal accounts would remain balanced even if oil prices were to drop to around 25 dollars a barrel, and it would remain in surplus even at the current prices.

According to an International Monetary Fund report, Iran, the traditional hawk in Opec, would suffer from deficit in current account in the near future if the oil is priced below 75 dollars.

Saudi King Abdullah bin Abudul-Aziz told a Kuwaiti newspaper Al-Seyassah on Nov. 29 that oil should be priced at 75 dollars a barrel, setting a benchmark for the next round of cuts.

The king's definition of "fair price" was endorsed by experts, who downplayed a widespread fallacy that a higher price will prolong the current global economic downturn.

"King Abdullah's recently announced target price of 75 dollars per barrel is spot on," Lauerman said.

"We do believe that the 75 dollars per barrel level proclaimed by the king ... is probably the best estimate of the fair price." Jakob said, adding that the declining price only helps the U.S. consumers. "The world is being hurt rather than being helped by the current oil prices."

According to a PetroMatrix report, gasoline at the US pumps was 40 percent lower than a year ago, but consumers of other major economies still suffer from the sticky energy prices.

In Europe, the price of diesel is only 12 percent lower than a year ago. In China and India, the retail diesel prices are even 26percent and 9 percent higher respectively.

Though a rebound of oil prices seems promising in the mid-term, the organization's primitive approach of "Slash for Cash" is not as effective as it was in 1980s, when the Opec stunned the world by boosting the price from 2.64 dollars a barrel in 1972 to 11.17 dollars in 1974 and then to 35.1 dollars in 1981.

A dearth of unity among Opec members marred the cartel's action and diluted its influence on prices. A case in point is the recent Cairo meeting, where Saudi Arabia, the most resilient producer, managed "to push the prices lower in order to force more Opec compliance," noted Jakob.

The oil bloc is seeking for coordinate efforts to reduce output from non-Opec members. Delegations from Russia, Oman, Azerbaijan and Syria also attended the Oran meeting as observers.

"We renew our call on the non-Opec producers and exporters to cooperate with the organisation to support oil market stabilisation," Khelil said in Oran.

Artificially keeping production low can lead to all sorts of ancillary issues, said Conley Turner, a senior research analyst with Wall Street Strategies, an independent market research company.

"The way things are now however provides a compelling incentive to comply," Turner said.

As for the popular accusations the oil powers have made towards the volatile Western future market where the oil is priced, oil experts recommend the producers develop a modern business approach.

"Opec could instead use the future market to hedge more of their production at what they see the fair price," Jakob said.

FINANCIAL CRISIS

# WB sees worldwide problem in 2009

AFP, *Singapore*

The president of the World Bank warned Thursday of a worldwide struggle in the first half of 2009 as a deepening global economic crisis hits Asian countries.

Robert Zoellick also cautioned against a return to trade protectionism that could worsen the crisis.

"I am afraid that the first six months of 2009 are going to be a problem worldwide, including in Asia and including in Southeast Asia," Zoellick told a news conference during a visit to Singapore.

The Bank said in a report last week that the Asia-Pacific region remained reasonably well-placed to weather the global slowdown but will see growth ease to 5.3 percent in 2009 from 7.0 percent this year.

It said the global economy would expand a mere 0.9 percent next year and world trade volume would fall 2.1 percent, the first drop in 26 years.

"In the discussions that I have had with people around the world, no one has a very good prediction for the length and depth of this crisis," Zoellick said.

Government monetary and fiscal policy, as well as open trade systems, will determine whether the situation can improve later next year, he said.

"Particularly I am concerned about the rising dangers of protectionism," he added, describing as "unfortunate" the difficulties encountered during the Doha Round of talks on a new global trade pact.

"The international system needs to stay on offence on trade because protectionist forces will raise their heads," he said.

The so-called Doha talks started at the end of 2001 in the Qatari capital. They aim to boost international commerce by removing trade barriers and subsidies, but a deal has proved elusive.

Developing countries, including China and India, want the industrialised world to scrap agricultural subsidies, while Western powers are seeking greater access for their products in emerging markets.

"Whatever parties can do to try to get the Doha Round back on track would be vitally important," Zoellick said later at a dialogue session with students from a local university.

"This financial and economic and unemployment problem is serious enough.

"If we start to trigger a round of protectionism, as you saw in the 1930s, it could deepen (the global crisis)."

Pascal Lamy, the head of the World Trade Organisation (WTO), last Friday scrapped plans to hold a ministerial meeting on the trade talks, citing the "unacceptably high" risk of failure and dashing hopes that the long-delayed global trade pact could be clinched this month.

The World Bank, which provides financial and technical assistance to developing countries, said last week that healthy growth in recent years had left major economies such as China in good shape to fight the global crisis with macroeconomic measures.

But it said "in the near term, downside risks are substantial" due to recessions in developed markets.

Zoellick, who was recently in China, said that country's leaders expected to see a decline in growth because of the global slowdown but that they were struck by the sharpness and the depth of the fall in exports.

The World Bank forecast 7.5 percent growth for China next year, which would be its slowest in nearly two decades.

Zoellick was in Singapore to sign a memorandum of understanding with the city-state to strengthen and expand collaboration on development assistance.

"Singapore and the World Bank Group intend to play a positive and growing role in helping countries tackle critical policy challenges especially in the area of urban management," said a statement from Singapore's foreign ministry.

AFP

**World Bank President Robert Zoellick (L) meets with Chinese Premier Wen Jiabao (R) at Zhongnanhai in Beijing on Tuesday. Zoellick said during a press conference a day earlier that China's efforts to deal with slowing growth, falling exports and growing unemployment would help economies across the globe weather the financial crisis.**