

International Business News

India says good times over, warns deficit must go up

AFP, New Delhi

India's ruling Congress party warned Monday the good economic times were over in a pre-poll mini-budget and said the fiscal deficit would have to rise sharply to fight the global slump.

The government, whose five-year mandate expires in May, said the economy had enjoyed a "dream run" over the past few years with annual growth running at an average of close to nine percent -- "much faster than ever before."

But acting finance minister Pranab Mukherjee said the worldwide economic downturn meant there was now a need for more spending to stimulate domestic growth.

The fiscal deficit will be 6.0 percent of gross domestic product for the fiscal year to March 2009 -- more than double the government's target of 2.5 percent.

"Extraordinary economic circumstances (call for) very extraordinary measures," Mukherjee told parliament, presenting what was tantamount to a political manifesto for general elections due in April-May.

The increased spending will have to be financed through borrowings and credit rating agencies have warned that a rise in the fiscal deficit could lead to rating downgrades and deter investors from buying Indian debt.

China firm offers \$1.7b for debt-laden Australian miner

AFP, Sydney

Chinese firm Minmetals has made a 2.6 billion dollar (1.7 billion US) offer to take over debt-laden Australian miner OZ Minerals, which said Monday it would recommend the deal to its shareholders.

The announcement came just four days after China's state-owned aluminium firm Chinalco said it was putting 19.5 billion US dollars into another troubled Australian mining giant, Rio Tinto.

OZ Minerals said it had agreed to a cash offer from Minmetals, or China Minmetals Nonferrous Metals Company Ltd, of 0.825 Australian dollars a share, a 50 percent premium over OZ Minerals' last traded share price of November 27.

Under the deal, Minmetals will repay all of OZ Mineral's outstanding debt and also redeem its outstanding convertible bonds.

"The board has determined that Minmetals' cash proposal is in the best interests of OZ Minerals' shareholders and believes this is the best outcome for shareholders compared with any of the other options available to us," OZ chairman Barry Cusack said in a statement to the stock exchange.



AFP

The Limited Edition Bernie "Made Off With My Money" Madoff Action Figure and "Obamaman" by ModelWorks on display during the opening day of the 2009 Toy Fair at the Jacob Javits Centre in New York on Sunday. The Toy Fair is the largest toy trade show in the Western Hemisphere. More than 1,500 manufacturers, distributors, importers and sales agents from 30 countries showcase their toy and entertainment products.

Thai airports lost \$48m in Q4 amid blockade

AFP, Bangkok

Thailand's airports announced a loss of 48 million dollars in the last quarter of 2008 amid a blockade of its two Bangkok hubs and a poor global economic climate, the airport authority said Monday.

Airports of Thailand (AOT) issued a statement revealing a loss of 1.68 billion baht between October and December last year compared to a profit of nearly 340 million baht for the same period in 2007.

The poor figures came "as a result of the world financial crisis and the economic slowdown... together with the domestic unrest situation at the end of November 2008," AOT senior executive Supaporn Burapakusolsri said.

Demonstrators opposed to the previous government occupied the capital's international Suvarnabhumi and domestic Don Muang airports in Bangkok last year for more than a week until December 4.

Singapore Airlines to cut 17 percent of fleet

AFP, Singapore

Singapore Airlines said Monday it will cut 17 percent of its fleet and is exploring other cost-saving measures amid a global economic slump which has hit travel and cargo demand.

The airline, one of Asia's major carriers, said in a statement that it will decommission 17 passenger aircraft over the financial year from April 2009 to March 2010, and was not ruling out the possibility of deferring plane orders.

Singapore Airlines (SIA) said it had originally planned to decommission four planes before the global downturn hit major markets.

"The drop in air transportation has been sharp and swift," SIA chief executive Chew Choon Seng said in the statement.

CONSUMER SPENDING

A way out of financial gloom

AFP, Hong Kong

Asians should raid their piggy banks and go shopping if the region wants to dodge the worst fallout from the global economic crisis, but analysts doubt entrenched saving habits can be broken.

As the global slowdown has spread across the region in the past few months, the call from economists for Asia to boost sluggish consumer spending has reached a crescendo.

"I think an important outcome of this global crisis is you will see Asia finally 'get religion' of internal private consumption -- the piece that was missing from the response to the financial crisis of 1997-98," Stephen Roach, chairman of Morgan Stanley Asia, said recently.

Demand for goods from South Korea and Japan is collapsing, while even China's previously unstoppable export machine is stuttering.

Chinese exports fell 2.8 percent in December for the second consecutive month -- and the largest drop in a decade.

Asian Development Bank (ADB) Institute head Masahiro Kawai said the region needed people to open their wallets.

"Asia should remain the factory of the world, but Asians have to start consuming more. Asians have to start spending more," he said.

There is little sign that stimulus packages and moves to boost spending have stifled the region's saving habits, the experts said.

"It is hard to see Asia's consumers going on some sort of splurge," said HSBC's senior Asia economist Robert Prior-Wandesforde, who is based in Singapore.



AFP

A man begs outside a garment retailer hosting a sale in Hong Kong yesterday. As the global slowdown has spread across the region in the past few months, the call from economists for Asia to boost sluggish consumer spending has reached a crescendo.

But that hasn't stopped governments across the region from trying.

In Taiwan, the government dished out shopping vouchers worth 105 US dollars to each of the island's 23 million residents.

The government is still to release figures on whether the scheme has been successful, but Johnny Lee of President Securities in Taipei doubted it would help.

"I think most people will use the vouchers and put their own money in the banks," he said.

Similar scepticism was evident in Japan, Asia's largest economy, where the government has handed back 22 billion dollars,

around 130 dollars a person, to fight the recession.

A recent opinion poll showed 44 percent of people will use the money just to finance living expenses, followed by 18 percent who plan to save it.

Government data showed Japan's household spending slumped 4.6 percent in December year-on-year, the 10th consecutive month of decline, and a pattern repeated across Asia.

South Koreans are hawking jewelry -- even their wedding rings in extreme cases -- to get extra cash. Office staff are taking packed lunches or using the company cafeteria rather than dining out.

The justice ministry is even considering cutting fines for minor offences committed by poor people because of the economic downturn.

In Malaysia, the government has cut monthly contributions that workers must make to pensions, but there are doubts this will translate into ringing tills.

"People are cautious and they prefer to keep their cash. It will be difficult to convince people to part with their money," said Wan Suhaimi Saidi, an economist at Kenanga Investment Bank Berhad in Kuala Lumpur.

Global and local retailers are inevitably suffering.

COMMODITY

Oil is getting cheaper. So why isn't gas?

AP, New York

Crude oil prices have fallen to new lows for this year. So you'd think gas prices would sink right along with them.

Not so. On Thursday, for example, crude oil closed just under \$34 a barrel, its lowest point for 2009. But the national average price of a gallon of gas rose to \$1.95 on the same day, its peak for the year. On Friday gas went a penny higher.

To drivers once again grimacing as they tank up, it sounds like a conspiracy. But it has more to do with an energy market turned upside-down that has left gas cut off from its usual economic moorings.

The price of gas is indeed tied to oil. It's just a matter of which oil.

The benchmark for crude oil prices is West Texas Intermediate, drilled exactly where you would imagine. That's the price, set at the New York Mercantile Exchange, that you see quoted on business channels and in the morning paper.

Right now, in an unusual market trend, West Texas crude is selling for much less than inferior grades of crude from other places around the world. A severe economic downturn has left U.S. storage facilities brimming with it, sending prices for the premium crude to five-year lows.

But it is the overseas crude that goes into most of the gas made in the United States. So prices at the pump will probably keep going up no matter what happens to the benchmark price of crude oil.

"We're going definitely over \$2, and I bet we'll hit \$2.50 before spring," said Tom Kloza, publisher and chief oil analyst at Oil Price Information Service. "This is going to be an unusual year."

On the last day of 2008, gas went for \$1.62 on average, according to the auto club AAA, the Oil Price Information Service and Wright Express, a company that tracks transportation data.

The recession in America has dramatically cut demand for crude oil, and inventories are piling up. So prices for West Texas crude have fallen well below what oil costs from places like the North Sea, Saudi Arabia and South America.

That foreign oil sells in some cases for \$10 more per barrel -- and that doesn't even include shipping.

Brent North Sea crude, which feeds some East Coast refineries -- and therefore winds up at many gas pumps around America -- now costs about \$7 more per barrel than the West Texas crude. Deutsche Bank analysts say the trend should continue.

Historically, West Texas International crude has cost more. So nobody bothered building the necessary pipelines to carry it beyond the nearby refineries in the Midwest, parts of Texas and a handful of other places.

Now that the premium oil is suddenly very inexpensive, refiners elsewhere can't get their hands on it.

"It's so cheap," said Lynn Westphall, the senior VP of external affairs at San Antonio-based Tesoro, which owns a half dozen refineries on the West Coast and Hawaii. "But you can't just build a pipeline to everywhere. We know we can't get it."

Tesoro's refineries in North Dakota and Utah use locally drilled oil and Canadian oil, which also has been running about \$10 more per barrel than West Texas crude.

So why not build more pipelines? Because investing billions of dollars over several years makes no sense when the prices could just flip a year from now to where they were before.

"How long is WTI going to be cheaper than Venezuelan oil? Than Canadian?" asked Charles T. Drevna, president of the National Petrochemical and Refiners Association. "You just don't build a pipeline like that."

At the same time, refiners have seen the same headlines as everyone else about job losses and consumer spending. They've slashed production just to avoid taking losses on gasoline no one will buy. Result: Higher gas prices.

"Why should a refiner produce more gasoline when the stuff we produce is not being used?" Drevna said.

Of course, complex explanations of the diverging price paths of West Texas crude and gas are unlikely to placate frustrated drivers. Memories of last summer's \$4-plus gas have not



AFP

receded.

"Drivers are being ripped off even more now than before," said Stuart Pollok, who was filling up recently at a Chevron station in

downtown Los Angeles. He pointed out Exxon Mobil Corp. reeled in billions in profits last year when oil prices neared \$150.

Others see the conspiracy reaching higher.

"It got really low during the elections and now it's going back up," said Christel Sayegh, a 23-year-old graphic designer in Los Angeles. "They do that every election, though, right?"