

International Business News



A worker transports metal planks in Beijing yesterday. China's industrial output expanded by 10.8 percent in July from a year earlier, the National Bureau of Statistics said.

ECB announces move to absorb excess liquidity

AFP, Frankfurt

The European Central Bank announced a move to absorb expected excess liquidity in the eurozone banking system on Tuesday while also ensuring funds to enable banks to maintain obligatory reserves.

The central bank allocated about 73.6 billion euros (104 billion dollars) to eurozone banks under a regular weekly refinancing operation on Tuesday, the bank said in a statement, signalling an abundant liquidity stance.

The volume of money lent by the central bank was more than the amount needed by banks to maintain their minimum obligatory reserves at the central bank. The ECB had estimated that amount at 32 billion euros.

The allocation pointed therefore to a plentiful supply of refinancing funds.

However, the ECB said that it foresaw a big surplus imbalance in liquidity arising, and had said in a separate statement earlier that at 1300 GMT on Tuesday it would launch a so-called fine-tuning operation to absorb funds at a variable rate up to 1.0 percent maximum, and for an unlimited volume.

A total of 320 banks participated in the weekly refinancing operation, and the funds were allocated at a fixed rate of 1.0 percent and for unlimited amounts.

British fraud office will not probe MG Rover collapse

AFP, London

Britain's Serious Fraud Office said on Tuesday that it would not begin a criminal probe into the collapse of carmaker MG Rover in 2005, after taking legal advice.

Last month, business Secretary Peter Mandelson had referred an independent report on MG Rover's demise to the Serious Fraud Office (SFO) -- and called on it to consider whether a criminal investigation was necessary.

"The Serious Fraud Office has announced that it does not intend to begin a criminal investigation into the sale of car manufacturer, MG Rover Group, following a review of documents sent by the Department of Business, Innovation and Skills," the SFO said in a statement on Tuesday.

It added that a small team of investigators have studied the report and made recommendations to SFO Director Richard Alderman, who also took advice from lawyers.

"The director then made the decision not to initiate a criminal investigation. As the inspectors' report has not been made public, the SFO is unable to go into detail about the reasons for its decision," the statement continued.

Philippine exports show signs of rebound in June

AFP, Manila

Philippine shipments, which have been battered by the slump in global trade, showed signs of a rebound in June, data showed Tuesday, with analysts seeing a pick-up for exporters in the second half.

Exports rose 10.4 percent from the previous month as demand around the world for the country's key electronics picked up, according to the National Statistics Office.

Although the 3.41 billion dollars in June shipments was 24.7 percent lower year on year, it was still better than the 26.9 percent drop in May, giving hopes a recovery from the exports slump that began in October is under way.

"The good news is that month-on-month, exports are growing," said Ernesto Santiago, president of the Semiconductors and Electronics Industries in the Philippines Inc.

"They have been going up since January," said Santiago, whose association represents the country's top exporters.

SKorea freezes key interest rate for sixth month

AFP, Seoul

South Korea's central bank Tuesday froze its key interest rate at a record low two percent for the sixth straight month in an attempt to nurture a nascent economic recovery.

At a monthly policy meeting the Bank of Korea left the benchmark seven-day repo rate unchanged.

It had cut the rate by a total of 3.25 percentage points between October and February to prop up the export-dominated economy amid the global slowdown.

Asia's fourth largest economy grew 2.3 percent in the second quarter from three months earlier, the fastest pace in more than five years, thanks to economic stimulus packages.

But experts said the economy may not be able to sustain this rate of growth as the effect of the government spending wanes.

ECONOMIC CRISIS

China exports at low ebb

AFP, Beijing

China's export-dependent economy remained hampered by a "grave" global situation in July, an official warned Tuesday, as new data showed continued reliance on government spending to boost growth.

Shipments abroad saw a steep drop in July from a year earlier -- although they grew month-on-month -- but investment in fixed assets in the cities rose massively, the government said.

"The grave international environment affected our exports," said Li Xiaochao, a spokesman for the National Bureau of Statistics.

"The growth of some sectors' industrial output remained rather slow," he told a briefing in Beijing.

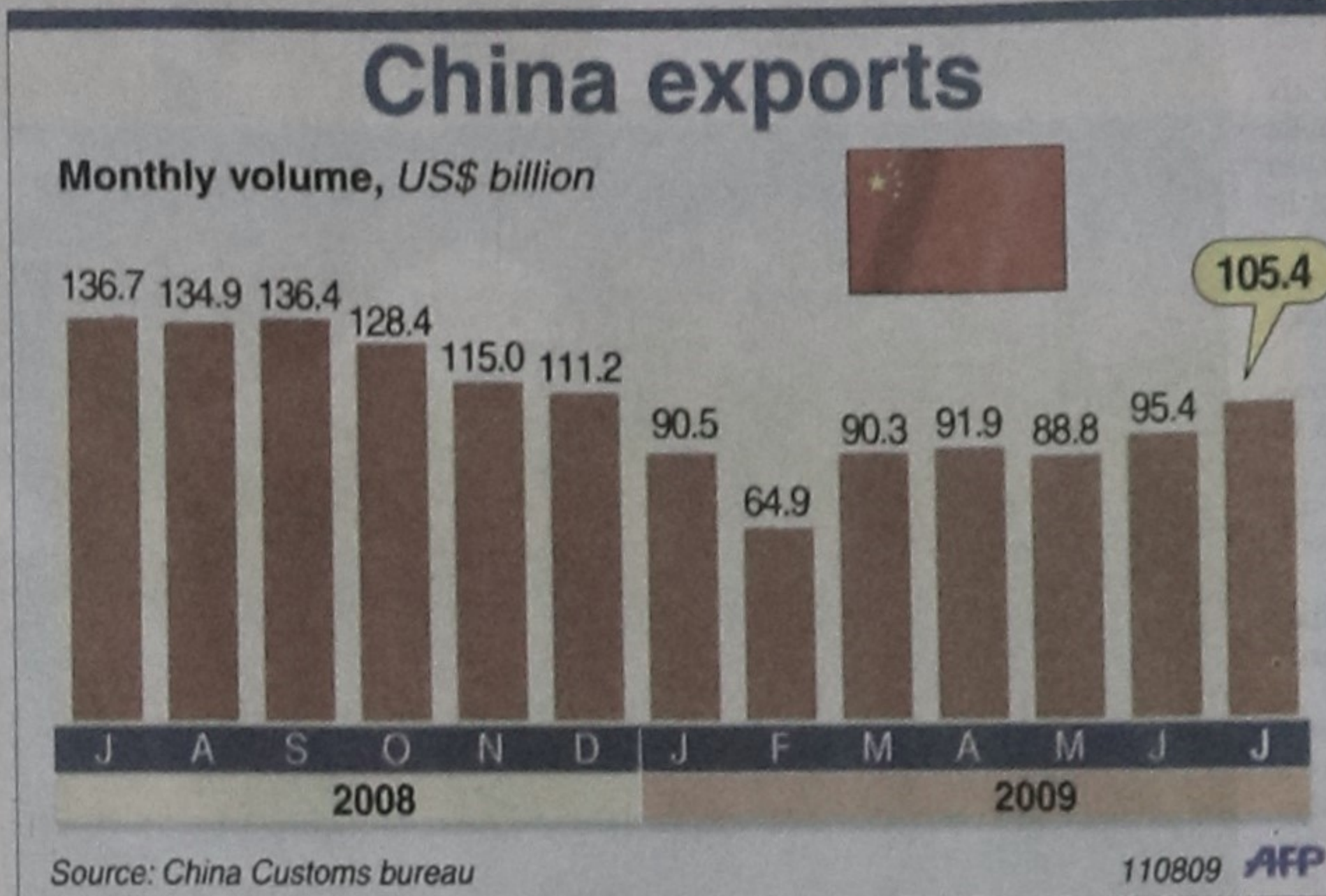
China's economy, the world's third-largest, has taken a heavy hit from the global crisis, growing just 7.1 percent in the first half. That compares with double-digit annual expansion between 2003 and 2007 as well as for the first two quarters of last year.

The government has set a target of 8.0 percent growth for the year, a level it says is needed to create enough jobs and avoid social unrest.

Customs authorities said Tuesday that July exports stood at 105.4 billion dollars, a decline of 23 percent from a year earlier.

Yet the figure pointed to some recovery as it marked an increase of 10.4 percent from June, customs said in a statement.

"We believe that exports will start to recover in the fourth quarter, while the real estate sector remains strong," said Li Huiyong, chief economist with Shenying and



Wanguo Securities in Shanghai.

The impact of China's four-trillion-yuan (580-billion-dollar) stimulus package, announced in November, was reflected in investments in urban fixed assets -- a measure of government spending on plants and infrastructure.

These rose 32.9 percent year on year in the first seven months of 2009, according to data published by the National Bureau of Statistics.

The figure pointed to a slight deceleration in July, given growth of 33.6 percent in the first half of the year, but economists still considered the rate of expansion strong.

Industrial output expanded by 10.8 percent in July year on year, compared with a seven percent rise in the first half, the bureau said.

"China's July data release points to continued economic recovery in the second half, led by strong government-backed investment," said Jing Ulrich, an economist with JP Morgan in Hong Kong.

"The softness in external demand has resulted in a greater reliance on investments as a driver of China's economic growth," she said.

At the same time the consumer price index, the main gauge of inflation, fell 1.8 percent in

AGRICULTURE

Indian farmers hit by drought



Indian farmers walk across their parched paddy field in Matiya village in the drought-hit district of Kamrup, some 20km from Guwahati, the capital city of India's northeastern state of Assam.

AFP, New Delhi

In vast parched swathes of rural India, farmers are eyeing their bone-dry fields with despair as they face the grim prospect of drought.

The so-called "rain deficit" or shortfall from the monsoon, which sweeps across the subcontinent from June to September, stands at an average 25 percent so far and many farmers say their crops are going to fail.

"Almost 80 percent of the country is under the threat of drought due to a shortage of rainfall," Food Minister Sharad Pawar told reporters this week with rice, a key staple, and sugar among the worst-hit crops.

Monsoon rains for the past week were 64 percent below average.

The monsoon is dubbed an "economic lifeline" in a country of nearly 1.2 billion people that is one of the world's leading producers of rice, wheat and sugar.

With only 40 percent of arable land under irrigation, India's 235 million farmers rely on the annual rains to soak the rock-hard earth and turn it into fertile soil.

"There's no doubt agricultural growth is going to be hit," Dharmakirti Joshi, principal economist at India's leading credit rating agency, Crisil, told AFP.

"Many poor states are extremely vulnerable, they're in a very precarious position," he said, adding the rains could be the weakest since 2002.

On Monday, Bihar, India's poorest

and second-most populous state and a major rice producer, declared 26 out of its 40 districts were hit by drought.

"We have not even been able to start sowing," one farmer in eastern Bihar state told India's NDTV network, standing on cracked, barren ground that normally should have been a brilliant green paddy field.

Uttar Pradesh, India's most populous state and a leading sugar producer, has declared drought in 47 out of its 71 districts.

Global sugar prices are at their highest level in 28 years due to bad weather that is hurting output in India and Brazil.

The stagnant farm sector's contribution to India's gross domestic product is just 16.6 percent, down from 50 percent in the 1950s.

But agriculture is still vital as it supports about 700 million of India's population who live in the countryside and fuels consumer demand for everything from TVs and refrigerators to motorcycles and gold.

India's Prime Minister Manmohan Singh said on the weekend the government would seek to ensure no citizen goes hungry.

"We are in a position to ensure adequate availability of foodgrains in drought-affected areas," he said, thanks to bumper crops in the past two years.

"In no case should we allow citizens to go hungry," Singh said, promising strong action against "hoarders and black marketeers."

But food, earmarked by the govern-

ment under ration schemes for India's poorest, is often stolen by corrupt officials and sold on the open market.

And food price inflation, already soaring before the monsoon, has been pushed higher by the meagre rainfall, hitting India's poor masses hardest.

"The lower the income category, the more of their total income they spend on food," said Crisil's Joshi. "The more food prices rise, the more it hurts the 'common man.'"

"Primary product prices have begun to spiral," said Citi economist Rohini Malkani, noting a 19 percent year-on-year jump in the price of pulses, a 15.5 percent leap in the cost of rice and similar rises for fruits and vegetables.

More is riding on this monsoon than just the summer crop.

An abundant monsoon is necessary to ensure good moisture conditions for the next winter wheat crop, which is sown in November and harvested in March.

The truant monsoon has come as India's economy shows tentative signs of recovery after being slowed by the global financial crisis.

While economists believe agricultural growth could contract this year, many believe stronger industrial output will counter the fickle rains.

The poor monsoon could be offset by the "improvement in industrial activity, continued focus on infrastructure" and a government budget that targeted help for the poor, said Macquarie Securities economist Rajeev Malik.

Fed likely to keep taps open

AFP, Washington

Federal Reserve policymakers were to meet Tuesday amid rising signs the recession is receding but they were not expected to ease aggressive efforts to boost growth until recovery is well under way.

The Federal Open Market Committee meeting Tuesday and Wednesday is widely anticipated to hold unchanged its key federal funds rate at a historically low range of zero to 0.25 percent to spur lending and economic activity.

Economists say the financial markets will be closely watching the FOMC's statement accompanying its interest rate decision Wednesday for clues about the momentum of the world's largest economy, which seems to be emerging from the worst recession since the Great Depression.

Amid the growing optimism that recovery is at hand, the markets will be focused on whether the Fed, led by chairman Ben Bernanke, will adjust its unprecedented efforts to pump over one trillion dollars of liquidity into the stricken financial system, which some call "quantitative easing."

"Considering that the US economy remains in a fragile transition to recovery, we do not expect any surprises. The likelihood is that interest rates along with the Fed's asset purchase programs will remain unchanged," said Drew Matus, senior US economist at Merrill Lynch.

Brian Bethune and Nigel Gault of IHS Global Insight also said they expected no change in the target range for the federal funds rate, the overnight rate banks charge each other for using their Fed balances, which broadly impacts borrowing rates.

"Although the Fed's programs to purchase Treasury bonds and mortgage debt are not expected to be changed, the Fed's total balance sheet is expected to continue to shrink on net over the next several months," they said.

"The Fed's exit strategy is already in motion," they added.

Analysts expected the FOMC statement would be scrutinized for news about the Fed's 300-billion-dollar Treasury purchase program.

The Federal Reserve is on pace to complete this program by mid-September and that would make this the last opportunity at a scheduled meeting for the Fed to enlarge this program," Merrill Lynch analysts wrote in a client note.

"Despite the recent decision by the Bank of England to grow their purchase program, we do not look for the Fed to follow suit," they added, noting that the program "was not effective in driving rates lower on a sustained basis."

The upbeat US economic outlook gained support from better-than-expected recent government readings on growth and unemployment.

Gross domestic product (GDP) -- the broad measure of the economy's activity -- fell at an annualized rate of 1.0 percent in the second quarter, after a 6.4 percent plunge in the January-March period.

Unemployment dipped unexpectedly in July to 9.4 percent, one-tenth point lower than the 26-year high hit in June. Although job losses narrowed to 247,000 from 443,000 in June, the labor market remained frail. A total of 6.7 million jobs have vanished from payroll since the recession began in December 2007.

"The Federal Reserve has been running a highly accommodative monetary policy. The additions of liquidity have put a bottom in nominal GDP growth rates," said Brian Wesbury, chief economist at First Trust Advisors.