## International Business News

### India's Tata Motors swings to quarterly profit

AFP, *Mumbai*

India's top vehicle maker, Tata Motors, swung to a quarterly profit from a loss a year earlier on improved demand for cars and a revival in economic activity, figures showed on Tuesday.

The company posted a consolidated net profit of 19.88 billion rupees (422 million dollars) in the three-month period to June from a net loss of 3.28 billion rupees in the same period a year ago.

Sales for the April-June period jumped 64 percent to 268.76 billion rupees, the company, which owns British luxury car brands Jaguar and Land Rover, said in a statement to the Mumbai stock exchange.

The latest data include sales of Jaguar and Land Rover vehicles.

"Overall economic growth, robust industrial production and availability of liquidity led to strong domestic demand in the quarter, resulting in volume growth for all vehicles," the statement said.


AFP

**Indonesians buy blackberry device at a shop in Jakarta yesterday. There are reportedly about 1.2 million BlackBerry users in Indonesia, a country of 240 million people seen as a major emerging market for information technology and mobile communications.**

### Bank of Japan keeps interest rate steady at 0.1pc

AFP, *Tokyo*

The Bank of Japan on Tuesday kept its key rate unchanged at 0.1 percent, as expected, but stopped short of new steps to brake the rise of the yen, which is close to 15-year highs against the dollar.

Governor Masaaki Shirakawa also tried to allay concerns voiced by the government about the yen's ascent, which has cost companies tens of billions of yen in lost profit and shaken Japan's fragile recovery.

"Speaking from a general perspective, a rising yen can depress exports in the short-term," he told reporters after the bank's monetary policy meeting in which the currency was a "subject of long debate".

But he said the Japanese economy was moving in line with the bank's outlook report issued in April and its assessment issued last month, in which it raised its growth forecast to 2.6 percent for this fiscal year.

### ICBC to spend $1.4b to take HK unit private

REUTERS, *Hong Kong*

Industrial and Commercial Bank of China Ltd, the world's most valuable bank, said it will pay shareholders of its Hong Kong arm a 27 percent premium to take it private, as part of an effort to expand its presence there.

Each ICBC (Asia) Ltd shareholder would receive HK$29.45 per share, ICBC said in a proposal posted on the Hong Kong exchange on Tuesday, an exercise that would cost the bank HK$10.8 billion ($1.4 billion).

"While ICBC (Asia) is currently trading at its recent high, we believe further growth of the business may be limited by its status as a listed company in Hong Kong," the banks said in a joint statement.

"After ICBC (Asia) has been privatized, it will have much greater flexibility to take advantage of ICBC's resources as the business continues to develop in the coming years."

### Siemens wins billion-dollar NAmerica wind power orders

AFP, *Berlin*

Germany's Siemens said Tuesday it has won two orders in the United States and Canada to supply wind turbines that experts said were worth around 800 million euros (1.1 billion dollars).

Siemens will supply wind turbines capable of producing 600 megawatts of electricity, enough for 240,000 households, in Ontario. It will also provide 98 turbines for an Oklahoma wind farm, enough for 227 megawatts.

Market prices for land-based wind turbines are around one million euros per megawatt, meaning the orders are worth around 800 million euros for Siemens, industry specialists said.

"North America is a very important market for wind power," said Rene Umlauft, head of Siemens' Renewable Energy division.

ANALYSIS

# Clothing discounts set for snip

REUTERS, *Bangalore*

Just as recession-battered US consumers are trickling back to malls, clothes retailers there face a tough choice.

Squeezed by ballooning raw material, labour and freight costs, manufacturers from Nike Inc and VF Corp to Hanesbrands Inc and Levi Strauss & Co are fretting they might have to raise prices in fragile markets to maintain margins.

Price tags on everything from jeans to jumpsuits are likely to rise next year, ending about three years of serious discounting.

"It's sort of the worst time possible," said Nate Herman, Vice President of International Trade with the American Apparel and Footwear Association (AAFA), which represents over 700 apparel companies, brands and suppliers.

"As the economy is showing signs of resurgence and people are more willing to come out and buy, we have this huge cost pressure from the back-ends," Herman said, noting the last time the US apparel industry saw such broad-based hikes was in the mid-1990s.

During the recession, many factories in China shut down as demand dropped. Now, decreased production capacity coupled with lower cotton output and higher prices of oil and labour are pressuring production costs.

Bob Shearer, chief financial officer at VF Corp, the world's largest apparel company with brands such as Lee, Wrangler and Jansport, said "It's clearly not just us ... costs overall in apparel are going up."

"Cotton-based products might be pressured more than other types, but it's an overall trend," he told Reuters.

Both the AAFA and Perry Ellis International Inc CEO George Feldenkreis expect prices to increase by around 5 percent starting next year.

"I think price increases will be felt around the Christmas season and going forward," Feldenkreis said.

With consumer confidence still fragile -- latest retail sales numbers were a damp squib -- companies are trying to mitigate price rises by seeking cheaper inputs and suppliers, but this may only be a short-term fix, said Jeremy Rubman, strategist at retail consulting firm Kurt Salmon Associates.

"In the long term, I think we're looking at sustained inflation in the apparel supply chain. Costs are going to go up and the reality is that apparel companies don't have the margins to absorb it," he said.

During the latest recession, apparel retailers took on massive discounting to drive sales, and that trend has continued, albeit more temperately.

With consumers now conditioned to buying at discount, the stage could be set for a war of wills between retailers and their customers.

"Consumers focus more on what they're saving than they do on what they're spending and so they get really fixated on "this is a bargain," said Dr Kit Yarrow, consumer psychologist and professor at the Golden Gate University.

"It's a question whether or not they're going to just hold out for a little longer until they realise prices will be higher permanently because of higher costs of labour and fabric," Yarrow said.

In the ICE Futures market, the US benchmark December contract for cotton -- traditionally the most important raw material in apparel manufacturing -- rose to a three-month high on Friday amid supply concerns.

Company executives see no reason to believe cotton prices will come down any time soon, and rising labour rates in China, dubbed the world's factory, are an additional pressure.

"And layered on top of that, cargo prices are much higher and factory capacity is down, meaning retailers are finding they are having to pay a premium in order to get what they want," Kurt Salmon's Rubman said.

Some specialty retailers such as Abercrombie & Fitch Co and Aeropostale Inc, which have better margin buffers, are likely to begin passing on the pricing pressure by trimming discounts, followed by eventual price increases.

"The mass stores, like a Wal-Mart for example, don't have that space and margin. So you're going to see small price increases start from them," Rubman added.


AMRAN HOSSAIN

**Clothes are on display at a garment factory in Gazipur. Bangladesh earned $12.5 billion in apparel exports in fiscal 2009-10. Analysts say price tags on everything from jeans to jumpsuits in the US are likely to rise next year as recession-battered consumers are trickling back to malls.**

US ECONOMY

# Fed ponders more easing as economy stumbles

REUTERS, *Washington*

The Federal Reserve meets on Tuesday to consider, and perhaps even adopt, additional measures to prop up a softening U.S. economic recovery.

Data since the U.S. central bank's last policy-setting meeting in late June has been decidedly weak. Consumer spending is petering out and manufacturing, which had led the recovery, is losing steam. The unemployment rate is stuck at 9.5 percent, with firms showing a distinct reluctance to hire.

With U.S. interest rates already effectively at zero, the central bank is out of easy policy options. Top Fed officials argue, however, they can do more to fight renewed economic weakness, including reinvesting proceeds from maturing mortgage bonds back into that market.

The Fed could decide to announce such a shift in its post-meeting statement, which is expected around 2:15 p.m. (1815 GMT). But it may simply decide to nod to mounting risks and lay the groundwork for a possible eventual return to easing.

"We'll be looking for some acknowledgment about how growth appears to have slowed," said Jay Bryson, global economist at Wells Fargo Securities in Charlotte, North Carolina.

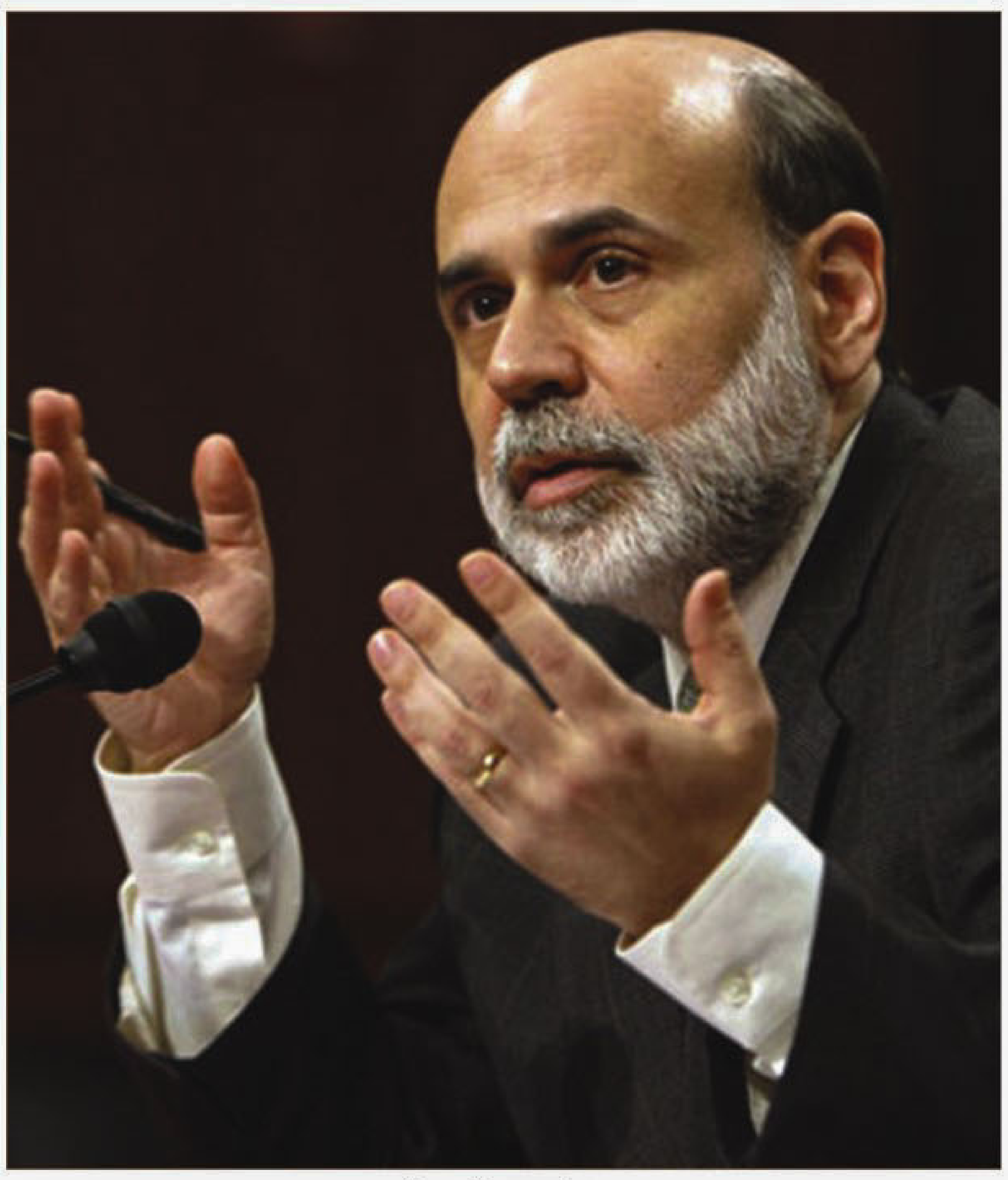
Reinvesting proceeds as mortgage bonds mature could prevent a "passive" tightening of monetary policy, although the impact on overall financial conditions would be minimal.

Other options for the Fed include lowering the rate it pays banks to park their excess reserves at the central bank, currently at an already low 0.25 percent, or somehow redoubling its already stated commitment to keep interest rates low for "an extended period".

"They have the ammo, the question is how effective it is," Bryson said.

The dollar advanced 0.5 percent against a basket of currencies and world stocks slipped as investors opted for caution ahead of the Fed's announcement.

"We're seeing some squaring up of short positions ahead of the Fed, and there is some risk-off sentiment as well as Asian stocks closed lower," said Christian Lawrence, currency strategist at RBC Capital Markets.



**Ben Bernanke**

**WORDS OR ACTION?**

Investors fully expect a dovish tone from the Fed but were divided as to how far it would go to back up its words with action.

Ultimately, the most powerful remaining weapon would be a return to asset purchases, which the Fed undertook in earnest to combat the financial crisis and recession after it had pushed overnight rates close to zero in December 2008. However, support for such a step does not yet seem to be in place.

The Fed's already dominant presence in the mortgage-backed securities market suggests further asset purchases in that arena may not prove so effective, although it could spark some refinancing activity by narrowing the spread between mortgage rates and yields on government debt.

Instead, if the Fed really fears the economy is at risk of stalling, it could announce another round of purchases of longer-term Treasury securities. In earlier purchases, the Fed bought some $300 billion in Treasuries and more than $1.1 trillion in mortgage bonds, more than doubling its balance sheet in the process to around $2.3 trillion.

Analysts at Goldman Sachs say the Fed could eventually decide large-scale asset purchases are needed.

"Later measures would include a stronger commitment to keep rates low and/or asset purchases of at least $1 trillion, most likely also in Treasuries," Goldman Sachs economist Jan Hatzius said in a research note.

## Asian wheat buyers cautious in volatile market

REUTERS, *Singapore*

Asian wheat importers were reluctant to commit to deals on Tuesday, as Australian cash prices eased following two straight sessions of decline in Chicago futures from two-year highs.

Buyers awaited the next update on Black Sea wheat crops and reaction from global suppliers, while analysts said the near 70 percent surge in wheat prices from June lows is unlikely to have a lasting impact on food inflation.

"When I look at the damage expected out of the Black Sea as a result of the drought it doesn't seem as significant as first thought," said Jonathan Barratt, managing director at Commodity Broking Services in Sydney.

"Last week the market jumped out of bed on fear and fund involvement -- I don't think the drop in production warrants the 66 percent move up (from June's low of $4.25) that we have had," he added.

U.S. wheat futures reversed early losses to post modest gains in Asian trade as the market consolidated after around a 10 percent drop in prices since Friday.

Wheat prices touched a two-year high on Friday on worries about a severe drought and export restrictions in the Black Sea region, but tumbled after investors considered the rally overdone and cashed in on their profits.

Australian cash prices have fallen around 15 percent since Friday following losses in the futures market, but traders said supplies were tight.

"There was some panic after cancellation of deals but now people have become very cautious seeing the prices fall," said one Singapore-based trader.

"Buyers are checking offers and looking at the deals. No one seems to be in a hurry to place orders as there is a feeling that prices will come down further."

Global suppliers cancelled around 200,000 tonnes of Black Sea wheat to Bangladesh following the Russian ban, raising fears of more cargoes being dropped in the days ahead.

Chicago Board of Trade (CBOT) wheat for September delivery rose 0.28 percent to $7.14-½ per bushel after falling as low as $7.02-½ earlier.

Australian prime wheat on the east coast was quoted around A$280-A$285 per tonne, down from A$330-$A$335 on Friday. Analysts said the rally in wheat prices is not expected to stoke food inflation because of comfortable stocks, although trade barriers remained a threat.

"The jump in wheat prices shouldn't have a lasting impact on inflation, as it is due to a temporary disruption in supply," said HSBC said in a research note.

"Across a range of commodities, stock levels are much higher than they were two years ago following a bumper harvest last year. But hoarding and trade barriers, for wheat and other soft commodities, are a real threat."