

Indian govt ducks big decisions on food inflation

REUTERS, New Delhi

The embattled Indian government failed to announce major policy decisions on Thursday to tackle soaring food prices after days of wrangling, taking only minor measures seen as unlikely to make a major impact.

The government announced a review of the import and export of essential commodities, dashing expectations it could ban the export of wheat products or futures trading in some commodities to tame food prices that rose 16.91 percent in 2010.

It was the latest case of Prime Minister Manmohan Singh's government avoiding unpopular but potentially necessary steps.

Governments around the world have been taking measures to tackle soaring grain prices and head off social unrest, with north African countries Libya, Algeria and Morocco cutting taxes on foods or regulating prices and stepping up supplies.

India has the highest food inflation of any major Asian economy, but other emerging markets such as China and Brazil are also battling double-digit food price rises.

The government said in a statement it had contracted the import of 1,000 tonnes of onions and would step up purchases of essential commodities such as edible oils and lentils, and create a panel to recommend ways to fight inflation.

Analysts questioned whether the measures went far enough to tame prices, after days of fractious meetings between the ruling Congress party and a major



A labourer carries a sack of potatoes over his head at a market in Mumbai on Saturday. India's inflation rose again to 8.43 percent in December, data showed, as the government announced steps to curb food prices amid mounting public anger over the cost of living.

ally over who should be held responsible for the increases.

"Looking at these measures, the government appears helpless. It literally has thrown up its hands. For the past one year officials have been saying prices will come down," said Paranjoy Guha Thakurta, a political economist.

The government has already taken a series of steps from banning onion exports to putting the pending export of 500,000 tonnes of sugar under review, but food inflation has remained stubbornly high despite policymakers' forecasts of a slowdown.

Officials have blamed unseasonal rains and supply bottlenecks for high prices that have put pressure on a beleaguered coalition already battling multi-billion dollar corruption cases and an emboldened opposition.

The government is widely criticised for failing to implement reforms such as allowing foreign investment in multi-brand retail and modernising distribution networks to tackle infrastructure bottlenecks.

"Government will review import and export of all essential commodities on a regular

basis and impose controls on exports and ease restrictions on imports, including tariff reduction where necessary, to improve domestic supplies," a statement said.

Food inflation has eased marginally from a one-year peak but remained high enough to keep pressure on annual headline inflation in December and reinforce expectations of an interest rate rise this month.

World food prices hit a record high in December after adverse weather affected crops, the UN food agency said in a report that

raised concerns about inflation, protectionism and social unrest -- factors in the 2008 food crisis.

Rising prices of basic foodstuffs like onions could threaten the Congress party's chance in elections in states like West Bengal and Tamil Nadu that are key for Singh's coalition to keep a majority in parliament.

India's food price index rose 16.91 percent, driven mainly by high vegetable prices, in the year to Jan. 1, government data on Thursday showed.

The figures may signal some relief to the government.

"I do see the beginning of an easing trend in weekly inflation, especially since the spike was caused by onion prices and that seems to be easing now with the arrival of fresh supplies," said N. Bhanumurthy, economist with the Delhi-based National Institute of Public Finance and Policy think-tank.

The wholesale price index, the most widely-watched gauge of prices in India, rose 7.48 percent in November from a year earlier, compared with 8.58 percent in October.

Monetary policy is generally seen as ineffective in tackling supply-led inflation in food. However, the Reserve Bank of India is widely expected to tighten policy in its Jan. 25 review as food inflation has spilt over to the broader economy.

India's central bank, which raised interest rates six times in 2010, is expected to increase rates by at least 25 basis points on Jan. 25, a Reuters poll showed on Wednesday. Analysts forecast rates to rise 75 basis points in 2011.

Russian firm builds web empire

AFP, Moscow

It's a company with a stake in Facebook, the leading position in one of the world's fastest-growing Internet markets and a listing on the London Stock Exchange.

But this is not a firm from Silicon Valley or a high-tech Asian economy. It is from Russia, in recent years not a place known for cutting-edge corporate innovation.

While President Dmitry Medvedev ploughs on with his state-sponsored drive to modernise Russia, the privately-owned Mail.ru and its sister holding firm DST have grown with breathtaking speed.

Like other countries with a distinctive culture and non-Latin script writing, the Russian net market has allowed local web sites to expand alongside established international players like Facebook and Google.

With penetration of broadband Internet now finally growing fast in Russia, Mail.ru has the capacity to expand its domestic email, gaming and networking empire and set its targets high abroad.

"The Internet sector in Russia is one of the fastest-growing in the world," analysts at the Renaissance Capital brokerage in Moscow said in a report on Mail.ru this week. "The Internet run has quite a way to go."

Russia's Internet penetration rate is still only 45 percent, compared with 84 percent in Britain, but broadband Internet access is now expanding fast, it said.

Mail.ru can boast full ownership of Russia's number one email provider, mail.ru, its number two social networking site Odnoklassniki (Classmates) and number three Moi Mir (MyWorld).

But it has also acquired a holding of 32.55 percent in Russia's top social networking site, Vkontakte (In Contact), and also 2.38 percent in Facebook itself, which still lags behind homegrown competitors in Russia.

US economy facing headwinds, but Bernanke hopeful

REUTERS, Washington

US jobless claims hit a 10-week high last week while producer prices shot up in December, pointing to headwinds for an economy that Federal Reserve Chairman Ben Bernanke said was showing fresh vigor.

However, a surge in exports to their highest level in two years, which included record sales to China, helped narrow the US trade deficit in November, an encouraging sign for fourth-quarter economic growth.

The data on Thursday marked one step forward and two steps back for an economy that appeared to gain a bit more momentum toward the end of last year.

Bernanke said he was hopeful about the recent improvement in the outlook, saying he expects the economy to expand between 3 percent and 4 percent this year.

"That's not going to reduce unemployment at the pace we'd like it to, but certainly it would be good to see the economy growing," Bernanke said at a conference on small business sponsored by the Federal Deposit Insurance Corporation.

In November, the Fed's estimates for 2011 were in a range of 3 percent to 3.6 percent.

"I think deflation risk has receded considerably and so we're moving in the right direction," Bernanke said.

Still, Thursday's data showed just how torturous the economy's path to recovery would be.

The number of Americans filing for first-time unemployment benefits rose unexpectedly to 445,000 from 410,000 in the prior week, a Labor Department report showed. It was the biggest one-week jump in about six months and confounded analyst forecasts for a small drop to 405,000.

The jobs figures weighed on US stocks and boosted government



Federal Reserve Chairman Ben Bernanke (L) and Federal Deposit Insurance Corporation Chairman Sheila Bair (R) participate in a panel discussion of Small Business Forum on Tuesday in Virginia.

bonds, which were also benefiting from concerns about Europe's debt struggles.

"The jobless number highlights the patchy recovery we've seen in the job market and reinforces that it will be a slow process bringing down the jobless rate," said Omer Esiner, market analyst at Commonwealth Foreign Exchange in Washington.

The rebound in benefit claims came in the wake of the holidays, which may have hindered new applications and created a backlog. Claims, which peaked around 650,000 in April of 2009, had been on a downward trajectory, dipping below 400,000

for the first time in two years during the week of Christmas.

The four-week moving average of new claims, which strips out short-term volatility, rose by 5,500 last week to 416,500.

A separate report from the Philadelphia Federal Reserve Bank showed factory activity in the US Mid-Atlantic region accelerated less in December than originally reported.

Though underlying inflation trends remain tame in the United States, food and energy costs were rising briskly at the wholesale level as 2010 drew to a close.

US producer prices climbed 1.1 percent in December after a 0.8 percent rise in November, according to another Labor Department report. Economists had been looking for a repeat of that 0.8 percent advance in December. For the year as a whole, the PPI index was up 4 percent.

Inflation excluding food and energy, however, rose just 0.2 percent, in line with forecasts. That left the year-on-year gain in core producer prices at 1.3 percent, just below analyst estimates,

helping tame inflation fears.

The rising prices producers receive ultimately could put upward pressure on retail prices, acting like a tax on consumers that could slow growth. Up to now, companies have not been able to pass increasing costs onto consumers because of weak demand, but that too has consequences.

"Eventually this means corporate profits could be squeezed," said Robert Dye, senior economist at PNC Financial Services in Pittsburgh.

A recent spike in global food costs has raised fears of a crisis in the poorer corners of the developing world.

World food prices hit a record high last month, outstripping the levels that sparked riots in several countries in 2008, and key grains could rise further, the United Nations' food agency said recently.

Opec only likely to act if oil rally lasts

REUTERS, Dubai/London

Opec will only hold an emergency meeting if oil climbs above \$100 and stays there, although the group's Gulf members could informally add supply if needed, a delegate from a Gulf Opec member state said on Thursday.

Brent crude this week hit a 27-month high of close to \$99 a barrel, raising concern in consuming countries about the impact of higher fuel costs on the tenuous economic recovery.

"Opec will only have an extraordinary meeting if oil prices exceed \$100 and stay there. We don't want the market to panic," the delegate told Reuters.

"And if the prices reach \$100 and we see that there is a need of supply from our customers, Gulf countries will start pro-

ducing above their quotas, but this has not happened yet."

Most officials in the Organisation of the Petroleum Exporting Countries maintain there is no need to change a production-restraining policy adopted in 2008, in the aftermath of economic crisis. Opec is not scheduled to hold another meeting until June.

That stance was reiterated earlier on Thursday by Libya's top oil official, who said \$100 oil would not harm the world economy and there was no need for Opec to add more supplies.

"We think there is enough supply and there should not be any meeting at this point in time," Shokri Ghanem, chairman of Libya's National Oil Corporation, told Reuters by phone.



A labourer pulls his cart laden with goods on a street in Karachi on Saturday. US President Barack Obama on Friday offered to look at new ways to help Pakistan's troubled economy as he showed support for President Asif Ali Zardari at a White House meeting, officials said.

AFP