

Global markets uneasy over inflation

REUTERS, London

Investors may be forced to rethink investment strategies that centre on the rosy prospect of low inflation as key central banks look set to renew pledges to print money in the coming week.

Outperformance of developed market assets relative to their oversubscribed emerging counterparts this year partly reflects a sentiment shift for investors, who are becoming uneasy about inflation in the rapidly growing developing world and an as-yet muted policy response.

Price pressures are becoming increasingly observable even in developed economies. UK inflation hit an 8-month high of 3.7 percent last month, prompting investors to price in a rate hike by mid-year.

Higher energy prices have pushed euro zone inflation to 2.2 percent, above the European Central Bank's 2 percent target.

But there's nothing to suggest these central banks will tighten monetary conditions aggressively.

The Fed and Bank of Japan are expected to stick to their quantitative easing policies when they meet in the coming week while the Bank of England minutes are likely to reveal no change in its promise to keep its asset purchasing programme on standby.

Even the ECB, whose President Jean-Claude Trichet has warned of price pressures, is unlikely to raise rates immediately.

However, further price pressures may challenge the investor perception interest rates would remain at current low levels for a foreseeable future -- which could in turn hit equities.

"You don't have runaway inflation expectations. No one



A vendor sorts red chillies at a weekly roadside spice market in Noida, Uttar Pradesh in India on October 29, 2010.

REUTERS

expects the ECB to be very aggressive. With this golden period of no interest rate rises, investors have no choice but to buy risky assets, exactly what central banks are engineering us to do," said Gary Baker, head of European equity strategy at BofA Merrill Lynch.

"But if there were anything to challenge the US... rates outlook, that may be a signal to start to get cautious on positions."

A net 72 percent of fund managers polled by BofA Merrill Lynch this month expected higher inflation in the next 12 months, the highest reading in almost 5 years.

At the same time, they have pushed back expectations for the first Federal Reserve rate rise

well into 2012.

World stocks on a MSCI measure have risen more than 1 percent so far this year, adding to their gain of 10 percent last year. Their emerging market counterparts lost 1.3 percent, having risen 16 percent in 2010.

The emerging MSCI index was on track for its biggest weekly drop in nearly two months in the past week.

"2010 was the story of EM doing well and it will continue to do well, but a surprise in 2011 will be major economies picking up," said Thanos Pappasavvas, head of currency management at Investec.

He expects the ECB, BoE and Fed to raise rates this year.

"With world growth picking

up and commodity prices rising, inflationary pressures will surprise to the upside, we're already seeing signs of that. They will start raising rates."

Stocks in India and Indonesia have come under pressure in recent sessions as investors grew concerned that monetary authorities may be behind the curve in tackling inflation.

In Turkey, which shocked markets by cutting interest rates on Thursday, concerns about inflation pushed benchmark yields to their highest level since early December over the past week. Local stocks fell nearly two percent this month, underperforming the benchmark MSCI emerging index.

The BofA survey showed

investors are trimming EM risks as a rise in inflation became a headwind for equities.

Respondents sharply cut their overweight positions on emerging economies to a net 43 percent from 56 percent in December, although the region remained as the most popular.

At the same time, they turned most positive on US equities since late 2008 with a net 27 percent of respondents overweight.

Going forward, outperformance of US and other developed markets may have further to run as investors will regard inflationary pressures in developed economies -- as long as they stay mild -- as incentives to buy risky assets with cheap valuations.

LG Display warns of lower shipments after heavy Q4 loss

REUTERS, Seoul

LG Display, the world's No.2 LCD flat screen maker, warned of lower shipments and weaker screen prices after posting its first loss in seven quarters, as it battles weak demand from television makers.

The battered liquid crystal display (LCD) sector is slowly recovering, spurred by expectations of robust demand for tablet devices, but weak sales growth of computers and televisions will continue to keep earnings under pressure, analysts said.

"TV demand appears to be weaker than expected in China and the United States. TV prices continued to fall in January, signalling that TV makers were not confident about demand yet," said Kim Young-il, fund manager at Korea Investment Trust Management, which owns LG Display shares.

"The LCD market will bottom out in the first quarter, but the strength of the rebound would be weak. The recovery will be delayed," Kim added.

LG Display, a key panel supplier for Apple's hot-selling iPhone and iPad, recently scored a major breakthrough with a deal to resume TV panel supply for Sony, which switched to sector leader Samsung Electronics Co six years ago for flat screen purchases.

With falling panel prices and weak demand threatening profit growth, however, LG Display will be hard pressed this year to keep up with bigger rival Samsung, which is planning a 10.8 trillion won (\$9.6 billion) investment in LCD and next-generation AMOLED (active matrix organic light-emitting diode) display.

"If you compare LG Display with Samsung, I would say Samsung is still in a better position to ride a recovery because of its economies of scale and a strong brand," said Andrew Deng, an analyst at Taiwan International Securities.

Compared with Samsung, a monopolistic supplier of AMOLED display, LG has just started small-scale production of the advanced screen, which is in a severe short supply due to its popularity with high-end smartphones, and considered as future television display to replace LCD.

India almost certain to raise interest rates

AFP, New Delhi

India's central bank is expected this week to hike interest rates for the seventh time in less than 12 months to clamp down on soaring inflation as clouds gather over the country's booming economy.

Shares in India, one of 2010's hottest markets, have fallen to three-month lows due to expectations of interest rate rises, which will dampen economic growth currently running at 8.5-9.0 percent in Asia's third-biggest economy.

Annual inflation zoomed in December to 8.43 percent, up by nearly a percentage point from the previous month, led by a spike in the cost of food, petrol prices and commodities.

The Reserve Bank of India (RBI) has warned of "surging inflation."

Further souring the mood, investment house Goldman Sachs issued an alert this month on India and China over inflation, telling clients to shift into Wall Street and other Old World share markets as a safer bet in coming months.

"We expect the Reserve Bank will raise rates by 25 basis points but the possibility of 50 basis points also has to be enter-

tained," said HSBC chief economist Lief Lybecker Eskesen.

Rising prices have emerged as a major political and economic challenge in emerging markets across Asia, with China also expected to raise interest rates early next month to combat 5.0-percent inflation and a property bubble.

In India, pressure has been steadily growing on the central bank and government to act to rein in inflation which threatens Prime Minister Manmohan Singh and his Congress party in the run-up to key state elections this year.

Rising food prices have added to public anger over a series of massive corruption scandals, creating a toxic mix for Singh's administration just 18 months into its second term.

The price of onions, for example -- a staple on family shopping lists and known as a politically potent issue -- has tripled to 80 rupees (\$1.75) a kilogram in a few months.

"A lot of countries are still flirting with deflation. On the other hand, we are having surging inflation," RBI governor Duvvuri Subbarao said last week.

NEC, Lenovo in talks on joint venture

AFP, Tokyo

Leading Japanese and Chinese electronics firms NEC Corp. and Lenovo Group are in the final stages of talks to form a joint venture in the personal computer business, a report said Friday.

A likely scenario would see Lenovo taking a majority stake in NEC Personal Products Ltd., a wholly owned NEC unit that makes and sells PCs, the Nikkei business daily said.

NEC released a statement on Friday, saying "no decision has been made" in relation to the Nikkei report.

An official at Lenovo also told AFP that he was unaware of the matter.

The leaders in their respective domestic PC markets aim to boost their competitiveness through economies of scale by combining development, production and materials procurement, the Nikkei newspaper said.

They could also decide to work together in other areas such as information technology equipment and services, it said.

NEC controlled about 18 percent of the Japanese PC market in 2009, but globally it came in 12th with a share of less than one percent, the Nikkei said, citing data by IDC intelligence firm.

Lenovo had roughly 27 percent of its home market and was ranked fourth in the world with a market share of about eight percent, it said.

By working together, they hope to catch up with such global giants as top-ranked Hewlett-Packard Co. of the United States, the Nikkei said.

Entrepreneur builds media empire on funny cat photos

REUTERS, Seattle

Boredom and funny cat photos were catalysts for Ben Huh to create one of the Web's fastest-growing media companies.

Three years ago Huh's Web log about pets, which he started to counteract the effects of a boring tech job, crashed after another website linked to one of the pictures he posted. When he investigated, Huh discovered a quirky local pet photo-sharing site - I Can Has Cheezburger (www.icanhascheezburger.com) - was sending too much traffic for his blog to handle.

More fascinated than mad, Huh befriended the site's owner - Eric Nakagawa - and even provided him some pro bono consulting. A short time later Huh offered to buy the company.

"There was a lot of traffic there and when I was talking to my investor friends about it, they suggested that I buy the site," said Huh, who would not disclose how much he paid for the acquisition or the angel seed round he raised to buy it. "The whole deal got done over Instant Messenger."

Huh created an umbrella corporation called Cheezburger Network (www.cheezburger.com) and quickly rolled out a handful of humorous companion sites to flagship I Can Has Cheezburger, including Failblog.org, TheDailyWh.at and Memebase.com.

"What we do is take content that users have submitted and create the best, most amusing site for peoples' collections," said Huh, 33, who works alongside his wife Emily, 31, and has expanded his network to a total of 50 websites.

Cheezburger, which doesn't pay for its user-generated content, receives "tens of thousands" of submissions every week, said Huh. He added that half his staff of 50 are dubbed "air traffic controllers" whose job is to sort through the content to determine if it's worthy



Ben Huh, founder and chief executive officer of Cheezburger Network, poses at his office in Seattle, Washington on December 21, 2010.

REUTERS

of posting. Huh said he is looking to hire an additional 20 to 40 people over the next year.

When Huh first acquired I Can Has Cheezburger, he said it generated about 15 million page views and reached a little more than one million people per month.

Since then traffic has gone through the roof.

"We generate about 375 million page views every single month," said Huh, referring to Cheezburger's entire network. "About 100 million video views, which makes us one of the largest, independent distributors of video on the Internet and we reach about 16.5 million people."

Huh credits Cheezburger's success to the "real cultural shift in the way people consume media," noting that engagement levels are far higher when people are commenting and trying to remix content.

"It's no longer about passively sitting back and reading something, but it's about getting engaged with the story and getting engaged with even the company that actually generated the content."

While Huh won't disclose numbers, he said revenue last year more

than doubled from 2009.

"We have well more than doubled every single year since we started," Huh said, adding the company generates money through merchandise of its Web characters, sold online through LOLmart.com, as well as advertising, which he said is the "bulk of our revenue stream."

Huh said he's been getting calls from VCs about being an attractive target, but was non-committal about raising more future funding.

"It's kind of interesting to see a startup that's profitable in the media space, especially during the recession," he said. "It's always something that we think about, the question is where would we use the money? And if we found a good place to use the money, I think we would certainly go down that path but being profitable is a very envious position to be in and we're very comfortable being profitable."

Huh said Cheezburger's biggest competitor is unemployment, because the more people work, the more they need a break. The major challenge for him is to maintain the company's rapid growth since he acquired it.



A street child sleeps in a makeshift hammock by a roadside in Mumbai yesterday. Some 42 percent of Indians, or 455 million people, live on less than 1.25 dollars a day, according to the World Bank and India's statistics on health, infant mortality and malnutrition are worse than those for sub-Saharan Africa.

AFP