German exports set record pace

AFP, *Frankfurt*

Germany's trade surplus grew by 11.2 percent in 2010 as exports leapt by a record 18.5 percent, but Europe's biggest economy also bought more from neighbours as it bounced back from a historic recession, data showed Wednesday.

The value of German exports rose to 951.9 billion euros ($1.3 trillion), the national statistics office said, while Berlin's trade surplus climbed to 154.3 billion euros.

It was the biggest annual rise in exports since Germany's reunification in late 1990 and the biggest for the former West Germany since 1974, a Destatis spokesman told AFP.

It was also the third highest level of exports ever after 2008 and 2007, he added.

But Germany, the world's second biggest exporter after China, also took in imports worth 797.6 billion euros, the Destatis office said, a jump of 20.0 percent from the level in 2009.

Germany has been criticized by eurozone partners for not buying more goods from them but a breakdown of the data showed imports rose faster than exports for both the eurozone and broader 27-member European Union in 2010.

German exports to eurozone partners, which numbered 15 last year, grew by 12.7 percent while imports were up by 16.7 percent.

World inflation scare nears critical juncture

REUTERS, *London*

REUTERS

A vendor stands next to tomatoes at a local market in Shanghai.

Like the timing of most investment decisions, the moment to stop betting on higher world inflation may well be when everyone else starts worrying about it.

For sure, mass expectations of higher inflation have proven to be a self-fulfilling prophecy in the past via aggressive wage bargaining and firms' greater confidence in their pricing power.

But timely and pre-emptive interest rate rises by the world's major central banks too have proven to be powerful in containing those expectations.

So gauging that balance of risks right now has rarely been more critical to money managers. Are monetary policymakers prepared to tolerate a period of higher inflation to insure the nascent economic recovery? Or are they emboldened sufficiently by accelerating world growth to fire shots across the bow?

After six months in which some major central banks were still actively fostering higher inflation via near-zero interest rates and money printing, there seems to be a change of tack.

Financial markets at least are starting to bet again on monetary tightening this year in the major economies.

The European Central Bank last month deliberately raised the red flag about inflation risks and, for all the angst about euro sovereign debt markets, interest rate futures are now pencilling in a quarter-point ECB rate rise by September.

The Bank of England -- meeting on Thursday and facing the highest inflation rate among major developed economies of near 4 percent -- is under even greater pressure to act. Markets are now betting on a UK rate rise as soon as May.

With inflation at just over 1 percent, the US Federal Reserve is expected to lag. But even there, futures have shifted to price a move as soon as December.

The People's Bank of China -- monetary guardian of the world's biggest emerging power -- is already moving to push up official interest rates gradually to rein in inflation that is expected at more than five percent for January. It hiked again by another quarter point to 6.06 percent on Tuesday.

So if futures markets are correct and major central banks are preparing to mobilise against rekindled inflation, asset managers may be tempted to rethink the big asset price moves of the past six months -- all of which have had a growth and inflation hue.

Taking Fed chairman Ben Bernanke's effective pre-announcement of the second round of quantitative easing -- dubbed QE2 -- at the Fed's Jackson Hole symposium on Aug. 27 as a rallying point, it is curious to see what has moved since.

As you might expect, commodities and energy have taken the bulk of the inflation rush -- copper has returned a whopping 35 percent since then, oil some 16 percent and the broad CRB commodities index is up 26 percent.

Equities, fairly intuitively, also caught the reflation slipstream. MSCI's world index has returned almost 20 percent.

Low-yielding fixed income is clearly the loser in an inflation scare, with benchmark US and German bonds losing 6 and 7 percent respectively.

What is more surprising is how developed equity markets, where the US Nasdaq index returned almost 30 percent over the past six months, have outperformed emerging markets. But, once again, watching the inflation cycle might be the best way to explain that -- catching the markets where prices were troughing in favour of those where they may be cresting.

The conundrum now is whether sabre-rattling from the central banks may warrant a reversal of all those relative assets moves. The hawks are certainly making noises again.

"The distinct improvement in the economic outlook since the (QE2) program was initiated suggests taking that re-evaluation quite seriously," Richmond Fed's Jeffrey Lacker said on Tuesday.

This is where it becomes a game of chicken. Can central banks avoid turning words to action if inflation subsides of its own accord? Would that negate a need to rebalance portfolios?

Food and energy prices, exaggerated in part by series of natural disasters and severe winter weather, have been largely responsible for driving up inflation rates for six months.

Even though there is some concern that these typically volatile prices have risen for longer than many had forecast, hopes remain that annual headline inflation will top out around mid-year, flattered by comparison with last year's price surges.

What is more, five-year inflation expectations embedded in index-linked government debt prices continue to show a relatively relaxed inflation horizon close to 2 percent in both the United States and euro zone. The UK is an outlier at well in excess of 3 percent.

And on a global level forecasters remain relatively relaxed.

Barclays, for example, expects global inflation to peak at 3.1 percent in the second quarter of 2011 even though it sees world growth persisting at a 4.5 percent rate through year-end.

It reckons emerging market inflation has already peaked.

The key is whether central banks have the nerve to match the market's current assumption of their response.

Morgan Stanley, for one, thinks central bank "reaction functions" have changed due to concerns about financial stability and uncertainty about the underlying economy.

"We think, in the short term, that central banks' strategy will be one of rational inaction."

China raises interest rates to tame inflation

AFP, *Beijing*

China's central bank on Tuesday raised interest rates for the third time in four months, as authorities ramp up efforts to tame inflation amid fears it could trigger social unrest.

The People's Bank of China said in a brief statement that it would raise the one-year deposit and lending rates by 25 basis points each, taking the rates to 3.0 percent and 6.06 percent respectively.

In October, policymakers raised rates for the first time in nearly three years as they try to restrain a flood of liquidity which has been fanning inflation and hiking property prices. They raised them again on Christmas Day.

China's consumer price index (CPI), a key measure of inflation, rose 4.6 percent year-on-year in December, down from 5.1 percent in November, which was the fastest rate in more than two years.

The full-year CPI was up 3.3 percent, exceeding Beijing's official target of three percent. The government has raised its CPI target to four percent for 2011, as it is forced to acknowledge its limits in constraining prices.

Brian Jackson, senior strategist at the Royal Bank of Canada, said the latest rate hike highlighted the fact that inflation had become the government's key policy focus.

"Price pressures are building, they're at uncomfortably high levels already and there's a good chance that they could go further in the next few months," he told AFP.

"There is a greater sense of policy urgency now in Beijing to deal with that."

Ever fearful of inflation's historical potential to spark social unrest, authorities have already pulled on a variety of levers to try and rein in consumer prices and tame the red-hot real estate sector.

These include the three interest rate hikes and a number of bank reserve requirement ratio increases.

But last month, Zhou Xiaochuan, the central bank's governor, warned that inflation was still higher than expected and said authorities had to remain vigilant, suggesting a rate hike could be on the horizon.

Philippines vows to cut poverty

AFP, *Manila*

The Philippines said Wednesday it aimed to lift eight million people out of poverty within four years, after fresh data showed economic growth over the past decade had mostly benefited the rich.

Economic Planning Secretary Cayetano Paderanga said the government of President Benigno Aquino hoped to cut the number of people living on a dollar a day or less to 16 percent of the population by 2015.

"We will try to bring it down to 16 percent. This will be admittedly difficult but we will try," Paderanga said at an economic forum attended by senior government officials.

His comments came after the government released results on Tuesday of a 2009 survey showing that poverty in the Philippines worsened over the past decade despite constant economic growth over that time.

Just over 23 million Filipinos -- or 26.5 percent of the population -- survived on 46.14 pesos (1.04 dollars) a day or less, according to the survey.

AFP

People go about their daily life in an overcrowded slum in Manila yesterday. The Philippines said it aims to lift eight million people out of poverty within four years, after fresh data showed economic growth over the past decade had not touched the poor majority.

This was up slightly from 24.9 percent in 2003.

A reduction in the poverty rate to 16 percent would mean roughly eight million had been lifted above the threshold of a dollar-a-day.

Paderanga and other cabinet members told the forum that economic growth over the past decade had not been evenly spread.

"Some sectors of the population were simply unable to participate in this (growth) and were left behind," Paderanga said, echoing criticism of former president Gloria Arroyo, who was in office from 2001 until last year.

She had pointed to high economic growth rates -- an annual average of 4.7 percent over the past decade -- as one of her administration's achievements.

But the new government led by Aquino has said she did too little to ensure economic expansion helped the poor.

Among the measures aimed at helping the poor is a Brazilian-style conditional cash transfer programme that will give 21 billion pesos (483.7 million dollars) to poor families this year, Paderanga said.

The hand-outs are dependent on the recipients going to school and getting health checks.

Central bank governor Amando Tetangco told the same forum on Wednesday the government was also promoting microfinance programmes.

He said 200 banks were now providing small loans to 700,000 entrepreneurs so they could start their own businesses.

AFP

A tourist from mainland China visits a jewellery store to check out potential purchases in Hong Kong yesterday. Over the next decade, Chinese consumers -- including a surging number of billionaires -- will account for 44 percent of global spending on goods such as bags, vehicles, watches, shoes and clothes, a recent report by brokerage CLSA said.

Facebook opens Hong Kong office in Asia push

AFP, *Hong Kong*

Facebook has opened a Hong Kong office as it looks to boost its presence in Asia, even though the social networking giant is banned in mainland China, a potentially huge market.

The opening of the sales office in Hong Kong, a semi-autonomous Chinese territory, comes after Facebook opened an office in Singapore last year, as social networking sites and Internet traffic see a marked rise in the region.

Last March the California-based group announced a new office in the southern Indian IT hub of Hyderabad to deal with advertising and customer support.

The Hong Kong opening, "following Singapore demonstrates Facebook's commitment to Asia, and in particular to Hong Kong and Taiwan, where there are active online populations and sophisticated digital marketing communities," Facebook said in a statement Tuesday.

The company, which already has a network of sales offices in North America and Europe, said more than 80 of the top 100 advertisers in the United States advertise on Facebook, adding that it is working with major brands across Asia.

"We are investing in a team to scale with the business here in the region, and will start with a handful of employees and add more as the business grows," a spokeswoman said.