

Chinese shoppers struggle with spiralling prices

AP, Beijing

Spiralling prices have made the grocery store a scary place for Chu Yun, a 27-year-old office clerk.

"Prices for everything are going up and it seems it will never stop," Chu said as she hunted bargains in a supermarket. "I have no confidence prices can be brought under control this year. I think they will keep going up."

China's public is struggling with a months-long surge in food prices that has defied government efforts to combat inflation with interest rate hikes, price controls and a campaign to boost vegetable and grain output.

On Tuesday, the government reported inflation accelerated in January, rising to 4.9 percent from December's 4.6 percent. That was driven by a 10.3 percent jump in food costs amid tight supplies and strong demand.

Economists expect more sharp price rises in coming months because China faces a problem it cannot quickly fix: Demand is outstripping food supplies, while high global commodity prices mean it can't fill the gap cheaply with imports.

"Inflation is unlikely to come down substantially in the first half of the year," said Mark Williams of Capital Economics. Analysts expect more rate hikes, but Williams said that on their own, "they aren't going to bring more crops to the market."

Inflation is dangerous for China's leaders because it erodes economic gains that underpin the Communist



A child eats food on a street in Beijing yesterday. China said that inflation moderated slightly in January but remained stubbornly high at 4.9 percent.

Party's claim to power. And it hits the poor majority hardest in a society where millions of families spend up to half their incomes on food.

That is politically awkward as Beijing tries to enforce stability ahead of a once-a-generation handover of power next year to younger Communist Party leaders.

"The political backdrop of the transition is paramount in the policymakers' minds," said Dariusz Kowalczyk, senior economist at Credit Agricole CIB.

"They realise the poorer people who still are the majority of China's population are hurt by inflation to a larger degree than

they benefit from growth."

Beijing has tried to mollify the public by paying food subsidies to poor families, holding down prices in university cafeterias and ordering local leaders to see that vegetable markets have adequate supplies. It has tried to diffuse public frustration by claiming hoarding and price-fixing by speculators is partly to blame.

But analysts say Beijing also failed to act quickly enough to head off inflation after it deflected the 2008 crisis by flooding the economy with stimulus money and bank lending. The economic rebound gave consumers more money to spend and banks are pumping out loans

despite orders to curb credit.

Beijing has raised interest rates three times since October, but economists say more rate hikes are needed and it will be months before the effect is seen.

"It seems Chinese policymakers are behind the curve in fighting inflation," Kowalczyk said. "They have been too cautious."

The headline inflation numbers hide even sharper increases in key items.

In January, the price of fresh fruit soared by more than a third from year earlier, while eggs rose by a fifth, the National Bureau of Statistics reported.

At the Xinya Shopping Centre, a supermarket on Beijing's east

German economy slows in late 2010

AFP, Frankfurt

The German economy, Europe's biggest and one of the fastest growing, lost some steam in the fourth quarter of 2010 owing to a cold snap, official figures showed Tuesday.

Activity expanded 0.4 percent in the three months to December, missing analyst forecasts for 0.5 percent compiled by Dow Jones Newswires.

Cold weather and snow in December curtailed construction activity and economists said it would probably bounce back like it did last year.

"The construction sector should rebound forcefully in January," Goldman Sachs economist Dirk Schumacher said.

For all of 2010, the Destatis office confirmed the economic expansion of 3.6 percent initially estimated in January, marking the strongest growth since east and west Germany were reunited in late 1990.

In the last three months of the year, activity expanded by a price-adjusted 4.0 percent from the same period in 2009, it added, slightly less than analyst forecasts for 4.1 percent.

"The upswing of the German economy continued at the end of 2010, though at a slightly slower pace," a Destatis statement said.

The economy grew 2.2 percent in the second quarter, slowing to 0.7 percent in the third.

"We think that the absolute boom in German industry is behind us," UniCredit economist Andreas Rees said.

Once again in the fourth quarter, "a positive contribution was made mainly by net exports," Destatis said.

"Also, on a domestic scale, both capital formation in machinery and equipment and consumption were up, so that especially the weather-related decrease in capital formation in construction could be offset."

Detailed results are to be released on February 24.

German Economy Minister Rainer Bruederle said in a statement that "these results show that the upward trend of the German economy is continuing," and the government still expects growth of 2.3 percent this year.

Bruderle said Germany remained an economic locomotive but some eurozone partners complain that its exports come at their expense.

Barclays bank hikes profit

AFP, London

British bank Barclays on Tuesday said its 2010 net profit rose a third to over £3.5 billion and announced it had cut bonuses following a government-brokered deal to clamp down on excessive pay.

Barclays said net earnings jumped 36 percent to £3.56 billion (4.24 billion euros, \$5.8 billion) from £2.63 billion in 2009, as write-downs shrank and it almost doubled profits at its investment arm.

It said it was paying £3.4 billion in staff bonuses, down 7.0 percent compared with 2009.

Pre-tax profit was also up a third in 2010 to £6.0 billion.

"Barclays delivered a significant increase in profit ... despite continued economic challenges in our principal markets: historically low interest rates; sluggish volumes in many market segments; and considerable regulatory uncertainty," said the bank's new chief executive Bob Diamond.

"In light of those circumstances, I am proud of what my colleagues have achieved," he said in the earnings statement.

Barclays' share price rose to the top of the FTSE 100 leaderboard in early trade, gaining 2.0 percent to 317 pence. London's benchmark FTSE 100 index was

down 0.14 percent at 6,051.62 points.

"Barclays has opened the bank reporting season in some style, exceeding analyst estimates despite a challenging 2010," said Richard Hunter, head of UK equities at Hargreaves Lansdown Stockbrokers.

"The sporadic trading difficulties in the core Barclays Capital (investment) unit had been flagged at the third quarter update in November, although the fourth quarter performance was rather more resilient.

"Of equal note was the significant decrease in writedowns, which will be a theme as the season unfolds over the next few weeks."

Barclays is the first of Britain's major banks to report annual earnings, with HSBC and state-rescued Royal Bank of Scotland and bailed-out Lloyds Banking Group set to unveil their results over the next two weeks.

Amid public anger over bankers' high pay and a fragile economic recovery in Britain, the coalition government last week struck a deal with all of the country's major lenders on bonus pay and overall lending.

Finance minister George Osborne said total bonuses paid to British-based staff of the biggest banks would be lower than last year as part of Project Merlin, brokered after weeks of talks with the Conservative-led coalition.

Huawei leaves US deal's fate to Obama

AFP, Shanghai

China's Huawei said Tuesday it would not back down after a US panel voiced security concerns about the firm's acquisition of US computer technology, shunting the issue to President Barack Obama.

The Chinese tech giant said its image would be hurt if it complied with a request by the Committee on Foreign Investment in the United States (CFIUS) to go back on a \$2 million deal last May in which it acquired computer firm 3Leaf Systems.

"CFIUS asked us to withdraw from the regulatory review and sell patents, but in light of the possible further damage to the Huawei brand and reputation, we have been compelled to decline," Huawei said in an e-mailed statement.

The decision not to back down means Obama himself must decide whether the firm must reverse the deal, the Financial Times reported, calling it a "highly unusual move".

The report cited experts as saying that Huawei's decision to resist the advice of CFIUS, which vets deals on security grounds, was "virtually unprecedented" and in most cases when companies are quietly advised to walk away, they have done so.

"We have great respect for and trust the fairness and impartiality of the US government and American due process and we welcome the next step in the 3Leaf transaction review," Huawei said.

The move puts Obama in a difficult position after last month's state visit by Chinese President Hu

Europe decides on Egypt asset freeze

AFP, Brussels

EU ministers Tuesday debate Egypt's request to freeze the assets of leading members of president Hosni Mubarak's regime while considering proposals to increase aid and investment in the Arab world.

Finance ministers winding up two days of talks on the rumbling eurozone crisis have been directed by their governments to prioritise an accord on how to handle requests for action against the assets of Mubarak henchmen - but not against the deposed president himself.

Britain, Germany and France have each been asked by Egypt to freeze the assets of former regime officials.

An EU diplomat, who asked not to be named, said a list of "six or seven" Egyptians, "but definitely not including Mubarak," were being targeted in Cairo.

The EU would look at using a United Nations convention against corruption as grounds for freezing accounts and seizing assets, he said.

There was no word on the Egyptian requests from the ministers as they went into talks. A press conference is expected at around 1300 GMT.

A French foreign ministry spokesman on Monday confirmed that the requests from Cairo "concern neither former president Hosni Mubarak nor members of his family."

In London, British foreign minister William Hague on Monday pointed to the similar course of action taken with Tunisia, whose president Zine El Abidine Ben Ali was toppled last month in a popular revolt which lit the fuse for the mass protests that deposed Mubarak.

"We will of course cooperate with this request, working with EU and international partners as



Italian Finance Minister Giulio Tremonti arrives for a meeting at the EU headquarters in Brussels yesterday to decide on Egypt's request to freeze the assets of ousted President Hosni Mubarak's henchmen.

we have done in the case of Tunisia," Hague told British lawmakers in London.

Hague added: "If there is any evidence of illegality or misuse of state assets we will take firm and prompt action."

Mubarak stepped down last Friday after 30 years of rule but remains in Egypt, holed up in the Red Sea resort of Sharm el-Sheikh.

French Finance Minister Christine Lagarde said Tuesday's discussion will also cover "the situation in all these countries, Tunisia and Egypt in particular, to examine the financial and economic aspects".

She said the EU needed to examine "how to join together to provide support for the democracy movement taking root in these countries."

The ministers would look both at investment support, with the help of the European Investment Bank, and development aid, she added.

Britain's government has been

under growing pressure to freeze funds belonging to Mubarak and his entourage amid reports they stashed millions of pounds in accounts in Britain and elsewhere.

Business Secretary Vince Cable warned last weekend that the government would act against any British bank involved in helping Mubarak improperly move funds but said the British government would not act alone.

"I wasn't aware that he (Mubarak) had enormous assets here but there clearly needs to be concerted international action on this," Cable told the BBC.

Hague also said that Egyptian Prime Minister Ahmed Shafiq had told him opposition figures would be included in a reshuffled cabinet within the next week, following Mubarak's dramatic departure.

"We would also like to see a clear timetable for free and fair parliamentary and presidential elections and a genuinely inclusive dialogue about the country's future," Hague added.



A model poses with NEC's new tablet computer with a keyboard called "LifeTouch Note NA75W" during a press conference in Tokyo yesterday. The Japanese computer company will put the new product equipped with Android 2.2 as its OS on the domestic market on March 10.