Libyan turmoil hits stocks as oil surges

AP, *London*

Mounting concerns over Libya's violent crisis battered stocks once again Tuesday and sent oil prices surging, while the earthquake in the New Zealand city of Christchurch pushed the country's currency sharply lower.

With deep rifts opening up in Moammar Gadhafi's regime, air force pilots defecting and a bloody crackdown in the capital of Tripoli, investors are fretting over how the crisis will end and what the impact on the North African country's oil production will be.

Libya is the world's 18th largest oil producer, pumping out around 1.8 million barrels a day, or a little under 2 percent of global daily output. The OPEC country also sits atop the biggest oil reserves in the whole of Africa.

With so much uncertainty surrounding a large chunk of the world's daily oil production, oil prices surged. Benchmark crude for March delivery was up $7.88 a barrel, or 9.1 percent, to $94.08 a barrel in electronic trading on the New York Mercantile Exchange.

"The Middle East will remain the market's focus today with moves in the oil price probably the best single indicator of the market's assessment of the wider implications of events there," said Adrian Foster, an analyst at Rabobank International.

With the oil price rising at such a rapid rate, stocks are inevitably under severe pressure.

Rising crude prices are a particular worry for investors as they reinforce fears of inflation and raw materials costs. They also stoke worries of a big drop in global demand levels, as experienced in previous oil price shocks in 1973-4, 1979 and 2008.

Given that unappetizing backdrop, investors' appetite for risk in other markets fell sharply. When risk appetite is low, investors usually look for shelter in the perceived safe havens of the U.S. dollar and gold at the expense of more risky investments such as stocks.

AFP

A pedestrian passes before a share prices board in Tokyo yesterday. Japanese shares prices tumbled 192.83 points to close at 10,664.7 at the Tokyo Stock Exchange, on worries over the intensifying unrest in countries, including oil-rich Libya.

In Europe, the FTSE 100 index of leading British shares was down 1.1 percent at 5,946 while Germany's DAX fell 0.5 percent to 7,283. The CAC-40 in Paris was 1.4 percent lower at 4,041.

Wall Street was also poised for a retreat at the open as traders come back from a three day holiday weekend - Dow futures were down 1 percent at 12,257 while the broader Standard & Poor's 500 futures fell 1.4 percent to 1,324.

In the currency markets, the euro was down 0.6 percent at $1.3567 while the dollar fell 0.2 percent to 82.88 yen even after an announcement from Moody's Investor Services that it was putting Japan's credit rating on watch for a possible downgrade.

The impact of the Moody's statement was short-lived as the agency is merely lagging its rival Standard & Poor's, which earlier this year did actually downgrade its rating on Japan by one notch below Moody's Aa2 rating.

"The impact of developments in the Africa and Middle East on the yen have far outweighed any impact from Moody's announcement overnight to place Japan's credit rating on negative watch," said Lee Hardman, currency economist at the Bank of Tokyo-Mitsubishi UFJ.

Even though Japan has massive public debts, it is widely considered to be one of the safest places for investors to park their cash in troubled times.

A powerful earthquake in the New Zealand city of Christchurch also rattled markets in the region. The quake occurred in the middle of the workday, toppled tall buildings and churches, crushed buses and killed at least 65 people in one of the country's worst natural disasters.

Following the quake, the New Zealand dollar slid to $0.7507 from $0.7636 before while New Zealand's benchmark index fell 0.7 percent to 3,358.71.

Elsewhere in Asia, the Nikkei 225 stock average shed 1.8 percent to close at 10,664.70. Hong Kong's Hang Seng lost 2.1 percent to 22,990.81 and South Korea's Kospi dropped 1.8 percent to 1,969.92.

Mainland China shares saw their biggest loss in over a month - the benchmark Shanghai Composite Index dived 2.6 percent to 2,855.52 while the Shenzhen Composite Index skidded 2.7 percent to 1262.82.

Comments by China's central bank governor, Zhou Xiaochuan, expressing Beijing's determination to rein in inflation renewed worries over the likelihood of further moves by the government to cool price increases.

German business confidence hits record high in February: Ifo

AFP, *Frankfurt*

German business confidence has hit its third straight record high, the Ifo institute said Monday, while a eurozone measure also pointed to fresh momentum for a sustained recovery, analysts said.

The German Ifo index reached a record of 111.2 points in February, Ifo data showed, an indication that "the upswing in the German economy is robust," president Hans-Werner Sinn said in a statement.

It was the index's ninth consecutive increase and the institute's business expectations index also set a new record at 107.9 points.

Analysts polled by Dow Jones Newswires had expected the main index for Germany, Europe's biggest economy, to remain at the January level of 110.3 points and had forecast a dip in the expectations index to 107.6 points.

For the 17-nation eurozone, manufacturing and service activity in February hit levels last seen in July 2006, another closely-watched survey showed.

The purchasing manager's index (PMI) compiled by the research group Markit jumped from 57.0 points to 58.4 points, following a sharp pick-up in both the manufacturing and service sector indices.

The PMI and Ifo indicators provided "further evidence that the eurozone and German economic recoveries may have regained momentum at the start of the year," Capital Economics European economist Ben May said.

In Germany, Ifo's survey of some 7,000 companies found that in the core manufacturing sector, the climate index rose though expectations saw "a slight downward adjustment," the statement said.

Sentiment in the retail sector had "cooled off somewhat," with retailers "no longer quite as satisfied with their present business situation as before," it added.

For ING senior economist Carsten Brzeski, the German economy was now "reaching for the stars.

BMW launches new hybrid brand

AFP, *Frankfurt*

The German luxury carmaker BMW unveiled on Monday its long-awaited new brand, BMW i, with two new models to be equipped with electric and hybrid drive systems from 2013.

The group is also creating a venture capital unit to offer mobility services such as car sharing and navigation systems.

"This is BMW i - Born Electric," a statement quoted sales director Ian Robertson as saying as the group presented the BMW i3 electric car for city use and the BMW i8 plug-in hybrid for those seeking a more powerful vehicle.

The group added that it had created a New York-based venture capital unit to "significantly expand its range of mobility services over the years ahead," with an initial investment that is to total $100 million (73 million euros).

AFP

German automaker BMW's board member Ian Robertson presents a new brand, BMWi, which will use electric and hybrid drive systems.

The vehicles are to be built at BMW's plant in Leipzig, eastern Germany, which will benefit from an investment of 400 million euros and create 800 jobs, the statement said.

Auto analysts said the company announced little that was completely new, but were interested in BMW's marketing strategy and the combination of an electric powertrain, aluminum chassis and carbon fibre-reinforced plastic (CFRP) body.

BMW said in November that it would invest more than 500 million euros with a new partner, SGL Carbon, to launch the lightweight i3 city car.

"The decisive point will be the price," which was not revealed, said auto expert Stefan Bratzel from the University of Applied Sciences in Bergisch Gladbach, western Germany.

"If it is too expensive it won't be a big success I would say," he told AFP.

BMW i Ventures will work with the mobile telephone application My City Way meanwhile to provide services such as car-sharing, route planning and local information like the location of parking places.

"Mobility requirements are changing in rapidly expanding megacities," Robertson explained.

The initial roll-out is planned for 40 US cities and 40 others worldwide, including BMW's home of Munich, southern Germany.

Christophe Stuermer at IHS Global Insight called this "the big field of experimenting and guesswork that the auto industry is working on at the moment."

He also noted that "there seems to be a strategy behind the fact that they (BMW) are making the sub-brand so weak, a single letter."

"They want to set it apart just a little bit," but "at the same time, will make sure that the BMW umbrella brand is always mentioned," Stuermer noted.

BMW already has a premium line of small cars in its Mini brand, and the IHS analyst said the new brand will "certainly be a challenge communications-wise for the Mini people," who could well incorporate electric systems in the future.

BMW will face a lot of competition with experience in the electric and hybrid car market, as Nissan of Japan is set to introduce its Leaf model in December.

Nissan's French partner Renault is to sell the Zoe version from mid-2012, while Peugeot-Citroen are betting clients will go for a long-term rental scheme offered with their Ion and C-Zero models.

Daimler plans to launch an electric Smart ForTwo car in Europe early next year and is working with the Chinese company Build Your Dreams (BYD) on a concept for the Chinese market.

VW, the biggest European carmaker is gearing up for the launch of an electric Golf and is also working on several hybrid models.

Chevrolet's Volt model is already on the road, as is the Toyota Prius, the first widely distributed hybrid vehicle.

ECB economist issues new inflation warning

AFP, *Frankfurt*

European Central Bank chief economist Juergen Stark sounded Monday a warning on inflation and said the ECB would act quickly at any sign that people expected it to climb much higher.

His comments suggested the central bank could raise its main interest rate from the current record low of 1.0 percent sooner than most analysts expect, possibly within a few months.

Inflation across the 17-nation zone could increase from the present level of 2.4 percent, and is "likely to stay above two percent in 2011, before moderating again," Stark told an event at Frankfurt's Goethe University.

His comments were also published on the ECB's website.

The bank has a mandate to maintain price stability, which it defines as inflation that is below but close to 2.0 percent over the medium term, a period of roughly 18 months.

Soaring commodity and oil prices stemming from strong demand in emerging economies and unrest in the Middle East have raised concern that the ECB's monetary policy geared towards heavily-indebted eurozone members could fuel inflation.

"Risks to the medium-term outlook for price developments in the euro area as a whole could move to the upside," Stark acknowledged.

Moody's cuts Japan's rating outlook to negative

AFP, *Tokyo*

Ratings agency Moody's on Tuesday cut its outlook on Japan's sovereign debt to "negative", arguing that government policy may not be strong enough to contain the industrialised world's biggest debt.

The move will put further pressure on Japan's centre-left Prime Minister Naoto Kan, in power less than a year, with legislative gridlock in parliament threatening his reform agenda and imperilling his leadership.

Last month rival ratings agency Standard & Poor's cut Japan's credit rating for the first time since 2002, accusing the government of lacking a "coherent" strategy to ease its mountainous debts.

Moody's previously held a "stable" outlook on Japan's "Aa2" rating, the third highest on a scale of 19, and analysts said the outlook change would likely lead to a downgrade for Japan from the agency.

"The rating action was prompted by heightened concern that economic and fiscal policies may not prove strong enough to achieve the government's deficit reduction target and contain the inexorable rise in debt, which already is well above levels in other advanced economies," Moody's said.

Japan has the industrialised world's highest debt, at around 200 percent of GDP, after years of pump-priming measures by governments trying in vain to arrest the economy's long decline.

A rapidly ageing population, entrenched deflation and a feeble economy have made it hard for lawmakers to curb borrowing.

A street vendor walks past an electricity pole with individual metering boxes in downtown Hanoi yesterday. Vietnam will raise electricity prices by 15 percent to help attract investment for new power plants in the energy-hungry nation, which is also battling rising inflation, according to the official media.

AFP