Japan economy shudders after shocks, BOJ pumps $182b

REUTERS, *Tokyo*

Japan's central bank on Monday rushed to bolster markets in the wake of the country's worst disaster since World War Two and although the authorities said it was too early to put a figure on the damage, critics said a stronger initial response had been needed.

Markets swooned at the shock of an 8.9 magnitude earthquake and a tsunami that may have killed more than 10,000 and has left millions of people without power, water or homes. The Nikkei average closed 6.18 percent lower on Monday.

At the same time, engineers were battling to prevent a nuclear meltdown at the Fukushima Daiichi complex owned by Tokyo Electric Power Co (TEPCO), where three reactors threatened to overheat in the worst atomic power accident since Chernobyl in 1986.

Investment bank Credit Suisse put economic losses from the quake at no less than $171 billion, although Finance Minister Yoshihiko Noda said it was too early to put together a firm figure to compile a supplementary budget.

Japan's central bank doubled its asset buying scheme to 10 trillion yen ($122 billion) and held interest rates at 0-0.1 percent after it earlier said it would pump a record 15 trillion yen ($182 billion) into the banking system, though some economists said it could have done more.

A swathe of high profile Japanese manufacturers, including Sony Corp, Toyota Motor Co and Panasonic have shuttered production lines, with restart efforts hampered by quake aftershocks.

About a fifth of the country's nuclear power generation capacity has been shut down by the disaster. Thermal plants also shut down, forcing the world's third-biggest economy to instigate rolling blackouts to conserve energy.

"The tremors will likely continue for one to two months, experts say, and are continuing now, so there's an immense amount of uncertainty and unclear points." said Masayuki Kubota, a senior fund manager at Daiwa SB Investments.

Economists said that the triple blow of quake, tsunami and nuclear accident is set to damage the already struggling economy harder and longer that initially expected.

Analysts have grown increasingly cautious about forecasting a quick economic rebound similar to that after the Kobe earthquake in 1995, thanks in part to Japan's indebtedness which at twice the size of gross domestic product means the government has less room for maneuver. Some say a recession is possible.

"Power supply is a critical factor," said Michala Marcussen, head of global economics at Societe Generale. "If power production output is damaged in a sustainable fashion, that could have a durable impact on the economy.

TEPCO, the biggest power company in Japan, said on Sunday rolling blackouts would affect 3 million customers, including large factories and buildings from Monday onwards. It aims to end the blackouts by the end of April.

Policymakers face a monumental task reviving the economy, not only because of the scale of the disaster but because of their limited options.

After the Kobe earthquake, the government adopted an extra budget worth around 3 trillion yen.

"This time, the government can't afford to spend as much as after the 1995 quake given Japan's dire fiscal situation," said Takuji Okubo, chief economist at Societe General in Tokyo, who reckons a more realistic figure to expect is 1 trillion yen.

The Bank of Japan (BOJ) had little room to move on rates, thanks to the legacy of the global financial crisis and years of economic stagnation, in stark contrast to New Zealand, where the central bank last week slashed interest rates by half a percentage point to 2.5 percent to support an economy hit by a 6.3 magnitude earthquake on February 22.

"My initial impression is that the BOJ could have done more. Its traditionally reserved stance on policy easing remains in place even after the massive earthquake," said Masamichi Adachi, senior economist at JPMorgan Securities Japan.

"The BOJ also kept its economic assessment unchanged. The bank thus seems to be not fully taking account of strong uncertainty shrouding Japan."

AFP

A businessman walks past a share prices board in Tokyo yesterday showing a drop in the markets following the first full day of trading after the deadly March 11 earthquake and tsunami. Tokyo shares plunged almost six percent by the afternoon as investors reacted to the biggest earthquake in Japan's history, a devastating tsunami and an unfolding nuclear emergency.

Russia emerges as unlikely energy safe haven

AFP, *Moscow*

Turning the page on former disappointments, the world's energy giants are flocking to Russia, whose vast resource riches look even more tempting at a time of turbulence in the Middle East.

In just a matter of weeks, the country has put the finishing touches on a clutch of joint exploration and share-swap agreements whose negotiation seemed impossible just a few years ago.

But with natural gas production stagnant and new oil wealth resting in hard-to-reach reserves, Russia is swinging the door open to Western companies, their presence now seen as essential to the country's economic growth.

"Russia is today the go-to place for energy deals," said Chris Weafer, chief strategist at Moscow-based UralSib Bank.

"It has the resource base, is open for business with clear investment rules and it is a lot safer than other resource-rich countries."

The ball began rolling in January, when BP and Rosneft -- Russia's number one oil company, which is controlled by the state -- announced a massive deal that was blessed personally by Prime Minister Vladimir Putin.

The country's de facto leader has since voiced frustration at a BP boardroom dispute involving its Russian joint venture that is preventing the $16 billion share-swap and Arctic drilling project from going ahead.

But analysts doubt that Rosneft will turn on the British company, its interest in foreign players confirmed by a similar agreement for Black Sea exploration that was signed later that month with Exxon Mobil.

The head of France's Total said his firm's decision to pay $4 billion for a 12-percent stake in the private natural gas producer Novatek -- a surprise deal announced on March 2 -- was logical.

"The upheavals taking place in a number of the oil and gas producing countries now send a signal to investors to come to Russia, because it offers much safer environment for investment," said Total Chief Executive Christophe de Margerie.

India inflation quickens, central bank steps seen

REUTERS, *New Delhi*

Inflation in India unexpectedly quickened in February on rising fuel and manufacturing prices, raising expectations for aggressive Reserve Bank tightening beginning later this week.

The reading suggested that measures taken to tame prices in Asia's third-largest economy were not sufficient and could be undermined by rising crude oil prices, a concern earlier flagged by a central banker.

Bond and swap yields rose after the data, while shares trimmed gains, reflecting expectations the data would prompt sharper and more numerous rate increases from the RBI than earlier expected.

Faced with persistently high inflation, the Reserve Bank of India (RBI) has been the most aggressive central bank in the region, lifting its key rates seven times since last March. Most analysts expect another rise of 25 basis points when the central bank reviews policy on Thursday.

"A 25-basis-points rate hike was anyway likely and this data reinforces our view for a rate hike not just in this week but through this year. So I think this number is going to worry the central bank a little bit," said Ramya Suryanarayanan, a Singapore-based economist at DBS Bank.

Central banks across Asia are under pressure to act to stave off inflationary pressures as crude oil prices stay near a 2-1/2-year high on unrest in the Middle East. China, South Korea, Vietnam and Thailand have raised rates multiple times this year.

Several analysts have cited the risks to India's economic growth and budget from inflation, especially as oil prices rise on unrest in the Middle East. Some of them have cut their forecasts for growth on these concerns.

RBI Governor Duvvuri Subbarao said last week the central bank was struggling to balance inflation and growth, and was caught between arguments to keep rates low and to lift them.

REUTERS

A labourer works at a rice mill on the outskirts of Agartala, India. Inflation unexpectedly quickened in February on rising fuel and manufacturing prices, raising expectations for aggressive Reserve Bank tightening beginning later this week.

The government expects India's GDP to grow 8.6 percent in the year to end-March, accelerating to around 9 percent in the next fiscal year.

"Inflation is not easing as quickly as policymakers had hoped... Risks are increasingly skewed towards more aggressive action," RBC Capital Markets said.

After the data, Finance Minister Pranab Mukherjee reiterated the government's hope inflation would ease to 7 percent by end-March, a forecast that many analysts view skeptically.

High inflation is a major headache for Prime Minister Manmohan Singh's government, which faces an erosion of support as it nears key state elections next month. A poor showing could unravel the Congress party-led ruling coalition, which is already under attack for a series of corruption scandals.

The wholesale price index, India's main gauge of prices, rose 8.31 percent in February from a year earlier, government data showed on Monday, well above the 7.8 percent forecast in a Reuters poll and up from January's 8.23 percent.

Manufacturing inflation, which the RBI monitors as a gauge for demand-driven inflation, accelerated to 4.94 percent from 3.75 percent in January, the sharpest rise since April.

"The high food prices, high raw material prices and the high wages which we had seen -- we are now beginning to see the second-round impact of those increases in the manufacturing sector," said D.K. Joshi, principal economist at ratings agency CRISIL in Mumbai.

In a sign the latest readings could be an underestimation of underlying inflationary pressures, December's initial inflation reading was upwardly revised by almost 1 percentage point to 9.41 percent.

Wholesale food inflation eased to 10.65 percent in February from 15.7 percent in January, while fuel inflation quickened to 11.49 percent from 11.41 percent in the previous month.

Food inflation has eased on better harvests, but analysts say headline inflation could quicken if the government and oil firms decide to raise fuel prices in response to high crude prices.

Eight nations accuse India over unpaid Games bills

AFP, *New Delhi*

Eight countries have lodged an official complaint with the Indian government over $74 million of unpaid bills after the Commonwealth Games, saying the delays could affect future investment.

Senior diplomats from seven European countries and Australia signed a letter demanding action over broken contracts and valuable equipment that is still stuck in Indian customs since the Games were held in October last year.

The Games were hit by poor preparations and shoddily-finished stadiums despite an estimated budget of $6 billion. A number of senior figures have since been arrested in a widening police probe into corruption.

"The long delay in settling these matters is damaging India's national reputation, denting the confidence of foreign business and raising doubts about the enforcement of contracts," the envoys wrote.

Australia, Belgium, Britain, France, Germany, Italy, the Netherlands and Switzerland all signed the letter, which was delivered to Finance Minister Pranab Mukherjee last month.

Diplomats confirmed the letter after it was printed in the Hindustan Times on Monday.

Australian companies have also complained bitterly about unpaid fees for organising the opening and closing ceremonies, while British firm SIS Live is in a legal battle to be paid in full for

Chinese premier rejects faster currency rise

AP, *Beijing*

China's premier ruled out allowing a faster rise in its tightly controlled currency to cool surging inflation, saying Monday that Beijing has to consider the impact on Chinese companies and jobs.

Premier Wen Jiabao repeated Chinese complaints that the U.S. Federal Reserve's efforts to spur American growth are partly to blame for global inflation, though he avoided mentioning the Fed by name.

Chinese prices rose 4.9 percent in February, driven by an 11 percent jump in politically sensitive food costs despite government efforts to increase supplies and curb a bank lending boom that analysts say is partly to blame.

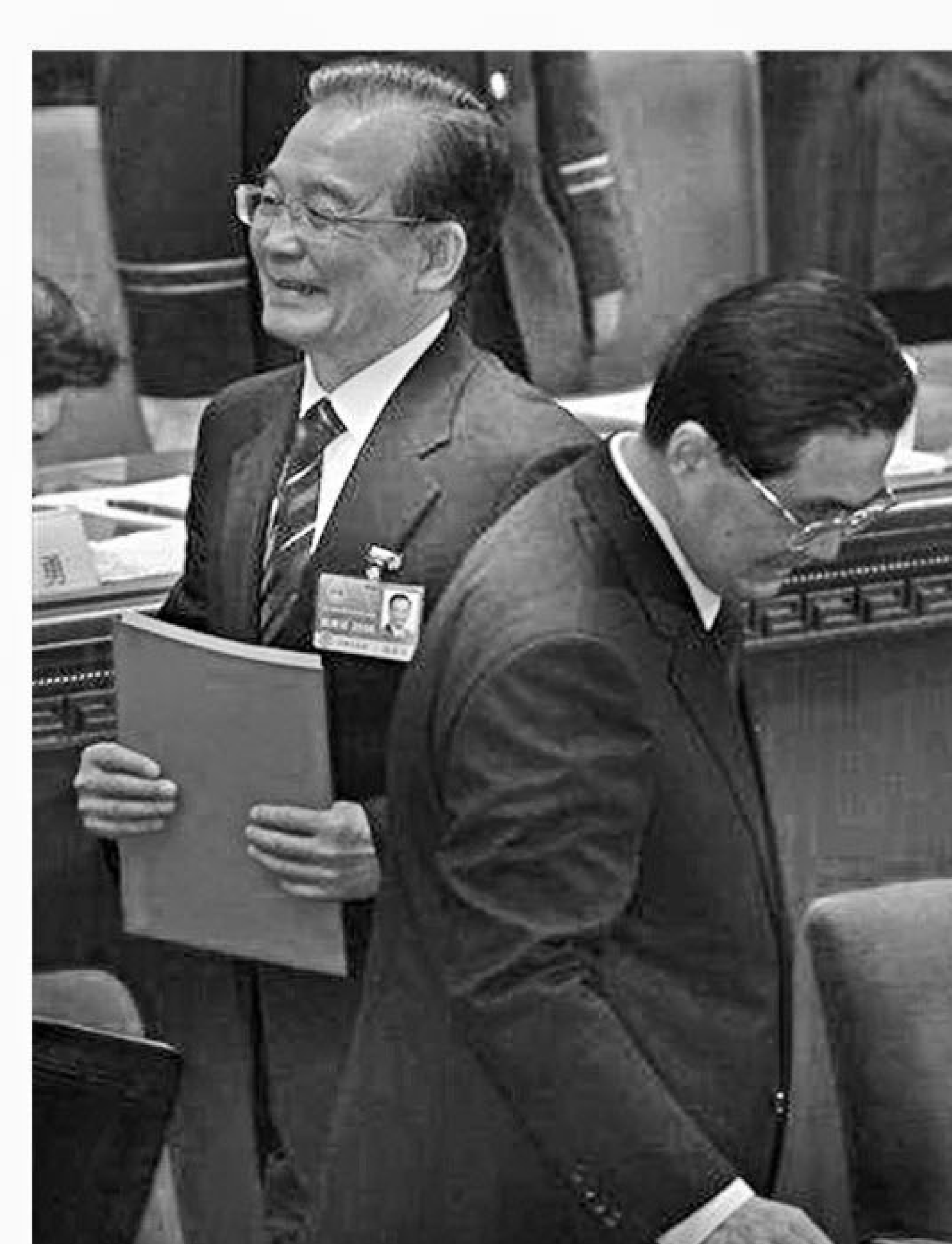
Wen rejected letting the yuan rise faster against the dollar, a move analysts say could cool prices by making oil and other imports cheaper in Chinese currency terms. Beijing has restrained the yuan's rise since the 2008 global crisis to help exporters that employ millions of workers compete abroad.

"The appreciation of the Chinese currency should be a gradual process, because we must bear in mind its impact on Chinese businesses and our employment situation," Wen said at a news conference that followed the closing of the annual session of China's legislature.

Inflation is politically dangerous for China's leaders because it erodes economic gains on which the Communist Party bases its claim to power. Consumer prices are especially sensitive in a society where poor families spend up to half their incomes on food.

"The government has confidence that we will be able to anchor inflation expectations," Wen said. But echoing forecasts that inflation is likely to rise further before declining, he added, "We still face a difficult situation in the first half of this year."

Chinese Premier Wen Jiabao (L) walks next to Chinese President Hu Jintao after the closing session of the annual National People's Congress in Beijing's Great Hall of the People, China, yesterday.



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