

# World food prices fall for first time in eight months

AFP, Rome

World food prices fell for the first time in eight months in March after hitting record highs at the start of the year, the UN's Food and Agriculture Organisation (FAO) said on Thursday.

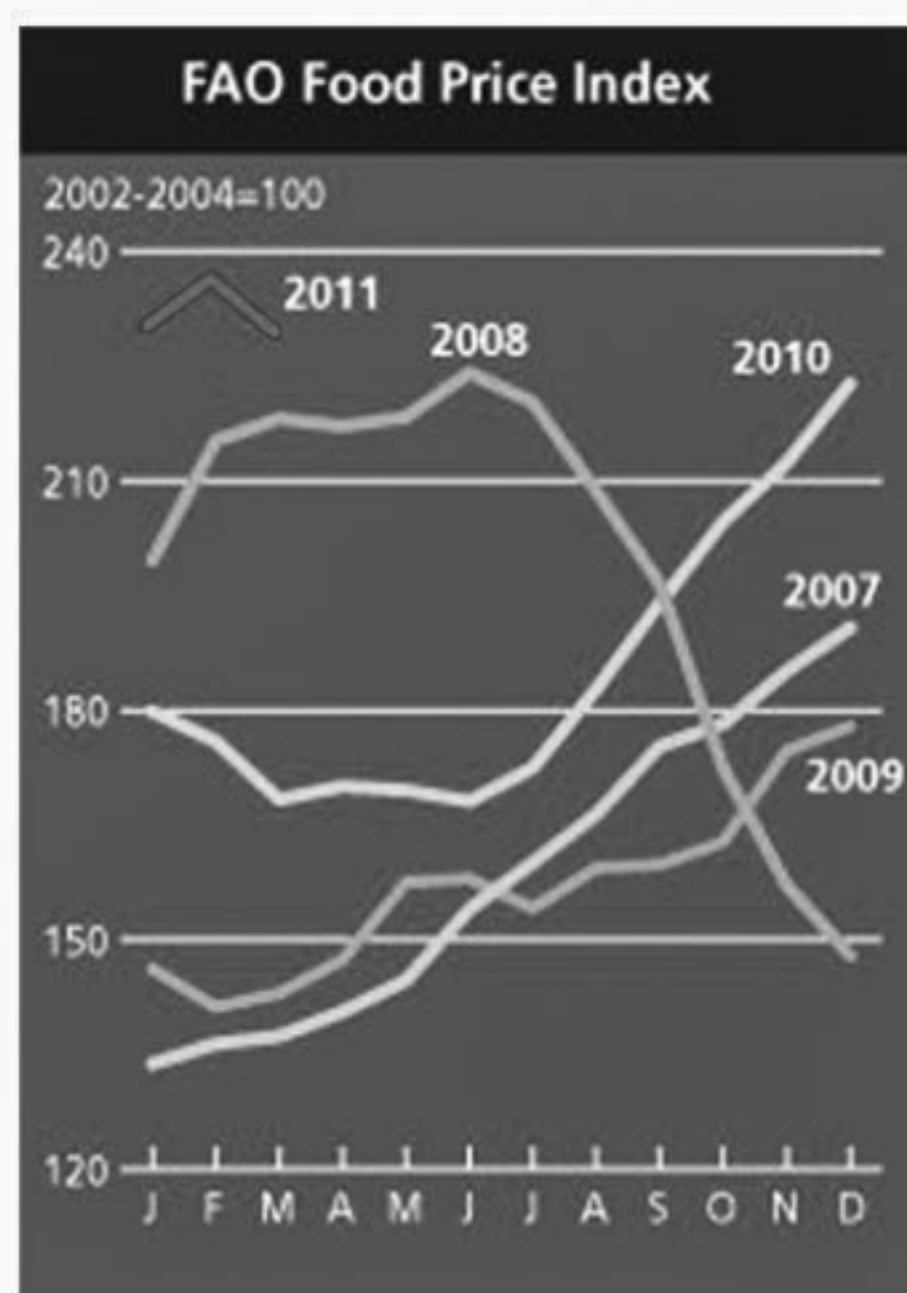
The FAO's Food Price Index dropped after eight months of continuous price spikes to an average 230 points in March, down 2.9 percent from its peak in February, but still 37 percent above March 2010, the Rome-based agency said.

"The decrease in the overall index this month brings some welcome respite from the steady increases seen over the last eight months," said David Hallam, director of FAO's trade and market division.

"But it would be premature to conclude that this is a reversal of the upward trend," he added.

March was extremely volatile for grains, largely due to growing economic uncertainties and the turmoil in North Africa and parts of the Near East as well as the Japanese earthquake and tsunami, the FAO said.

However, the Food Price Index, which monitors average monthly price changes for a variety of key staples, showed



REUTERS

A shopper looks at fruits at a market in Beijing, China.

that international prices of oils, sugar and cereals had dropped.

Rice prices also fell as a result of abundant supply in exporting countries and sluggish import demand.

By contrast, dairy and meat prices were up, although only marginally in the case of meat.

"We need to see the informa-

tion on new plantings over the next few weeks to get an idea of future production levels," Hallam said.

"But low stock levels, the implications for oil prices of events in the Middle East and North Africa and... Japan all

make for continuing uncertainty and price volatility over the coming months," he said.

The oil and fats price index fell 19 points in March, breaking nine months of consecutive increases, while the sugar price index averaged 372 points -- down as much as 10 percent from the highs of January and February.

The dairy price index averaged 234 points, up 1.9 percent from the previous month and 37 percent above its level in March

2010, while the meat price index changed little from its February levels at an average of 169 points.

World food prices hit record highs at the beginning of the year and the agency had warned in March that oil price spikes could push them even higher as increasing violence in Libya sent jitters through commodity markets.

## BoJ unveils loan scheme, warns on quake impact

AFP, Tokyo

The Bank of Japan on Thursday warned of the pressures facing a nation reeling from its biggest recorded earthquake, a tsunami and a nuclear crisis, as it bolstered funding for quake-hit areas.

It left its key rate unchanged at between zero and 0.1 percent and downgraded its view of the economy due to last month's disasters, which have plunged the nation into its worst crisis since World War II.

"Japan's economy is under strong downward pressure, mainly on the production side, due to the effects of the earthquake disaster," the central bank said.

"The earthquake has sharply dampened production in some areas by damaging production facilities, disrupting the supply chain, and constraining electric power supply."

The BoJ unveiled a 1.0 trillion yen (\$11.7 billion) scheme to keep banks in affected areas sufficiently funded.

The programme offers cheap one-year loans at 0.1 percent interest to

ensure that financial institutions in disaster-hit areas can meet demand for post-quake reconstruction funding, the bank said in a statement.

It also said it would consider broadening the range of eligible collateral for money market operations to ease the burden of banks in affected regions.

Japan's biggest companies are still trying to gauge the full impact of the March 11 disasters which have left at least 28,000 dead or missing.

The damage crippled supply chains and led to power outages that have forced the likes of Toyota, Honda and Sony to shutter plants.

Output overseas has also been compromised, with a shortage of key components sending shockwaves through global markets.

However, analysts saw the BoJ's move as a small step with limited economic benefits, which suggested it was holding back in anticipation of the need for more dramatic action later.

"It's just a very small amount," said Christian Carrillo, senior rates strategist at Societe Generale.

## World trade growth to slow in 2011 after record 2010

AFP, Geneva

Growth in global trade is expected to slow to 6.5 percent this year after a record-breaking expansion of 14.5 percent in 2010, the World Trade Organization said Thursday.

Last year's gain came in a recovery from a record slump of 12 percent in 2009 as the global financial crisis sapped growth, meaning all the lost ground was not made up, WTO data showed.

"Large gaps remain on where we are now and where we would have been had the crisis not happened. This gap is likely to persist for some time," WTO head Pascal Lamys said.

While overall world trade is continuing to post above average growth in 2011, risks arising from Middle East unrest and Japan's deadly earthquake are significant.

"Recent events in the Middle East and Japan have raised the level of global economic uncertainty and tilted the balance of risk towards the downside," the WTO said.

"Fears of a prolonged conflict in Libya and spreading unrest in the Middle East have lifted oil prices above \$100 per barrel," it noted.

"An interruption of supplies from any other major producer would raise prices higher still, with potentially significant implications for the global economy," it said, warning that such a development could change its forecasts.

The deadly earthquake in Japan is expected to cut exports from the world's fourth largest trading nation by between 0.5 percent and 1.6 percent.

At the same time, the disaster could boost imports into Japan by between 0.4 percent and 1.3 percent, as the country brings in supplies for reconstruction of damaged infrastructure.

## Europe hits point of no return with Portugal bailout

AFP, Lisbon

Portugal on Wednesday said it had finally decided to request financial assistance from the European Union, paving the way for a third bailout of a eurozone country after Ireland and Greece.

Analysts have said that Portugal could require a package worth 70 billion euros (100 billion dollars), compared with 85 billion for Ireland and 110 billion for Greece.

The pressures on Portugal had raised doubts about weaker eurozone members including neighbour Spain.

Having resisted pressure from the markets as well as European partners for months, outgoing Prime Minister Jose Socrates in a televised address said the request was needed after parliament rejected his new austerity programme which, he said, "aggravated in a dramatic way the country's financial situation."

"I am firmly convinced that that is going to be further aggravated if nothing is done," added Socrates, who resigned on March 23 after parliament's rejection, opening the way for new elections set for June 5.

The European Commission confirmed the move.

"The Portuguese Prime Minister Jose Socrates, today (Wednesday) informed the President of the European Commission Jose Manuel Barroso of the intention of Portugal to ask for the activation of the financial support mechanisms," a statement said.

"The President of the European Commission assured that this request will be processed in the swiftest possible manner, according to the rules applicable," it added.

Portuguese Finance Minister Fernando Teixeira dos Santos earlier admitted that his country would have to use EU mechanisms to resolve its debt problems.

"I believe it is necessary to have recourse to the financing mechanisms which are available within the European context," Teixeira dos Santos said in written replies to questions submitted by business daily Jornal de Negocios.

"The country has been pushed, in an irresponsible manner, into a difficult situation on the financial markets," the minister said, referring to the fall of the government last month when parliament



AFP

Portuguese Prime Minister Jose Socrates addresses the nation on Wednesday in Lisbon. He announced that the government has decided to request financial assistance from the European Commission.

rejected its austerity programme.

The International Monetary Fund (IMF) said it stood ready to assist Portugal although it had not yet received any request.

There had been mounting speculation that Portugal would need outside help to resolve its debt problems as the markets piled the pressure on, demanding ever higher rates of return to invest in new government debt instruments.

Earlier Wednesday, Portugal had to pay sky-high interest rates on its latest bond sale while insisting it would meet upcoming debt repayments and that it was not in talks on securing a bridging loan to tide it over to June 5 polls.

The treasury raised 1.005 billion euros (\$1.437 billion) at the sale but the average yield, or rate of return earned by investors, jumped to 5.902 percent on the 12-month bills from 4.331 percent at the last such auction on March 16.

For the six-month paper, the rate soared to 5.11 percent from 2.984 percent.

"Portugal has once again managed to sell its debt but the rates are prohibitive," said Filipe Silva, a strategist at the Banco Carregosa.

Portugal must repay some 4.2 billion euros (\$6.0 billion) of debt by April 15 and another 4.9 billion euros (\$7.0 billion) by June 15.

"While we believe that the country has sufficient funds available

for next Friday's redemption, we doubt that it is capable -- at the moment -- of meeting the June obligation," analysts at Lloyds Bank Corporate Markets told Dow Jones Newswires.

Significantly, Germany, the eurozone's paymaster, said Lisbon would only be able to approach the European Financial Stability Fund (EFSF) for help, ruling out any effort to arrange a bridging loan.

The EFSF was set up last year after fellow struggling eurozone member Greece had to be bailed out by the EU and International Monetary Fund and was used to mount a similar rescue for Ireland in November.

The finance ministry had insisted Portugal would meet its debt payments.

"The current interest rates lead to the conclusion that the damage caused by the rejection of the (austerity) plan is irreparable," it said earlier in a statement, insisting the country was "able to meet its scheduled financial commitments."

Moody's Investors Service on Tuesday downgraded Portugal's ratings by a notch from A3 to Baa1 and warned that it expected the country to have to seek outside help to resolve its debt problems.

"Pressure on Portugal to ask for external aid is mounting both internally and externally," said Tullia Bucco, an analyst at UniCredit.

## German economy powering ahead

AFP, Berlin

Germany will steam ahead in 2011, leaving most of its rivals trailing in its wake, the country's leading economic institutes predicted Thursday, publishing bullish forecasts for Europe's top economy.

Output is expected to grow by 2.8 percent this year, with the pace dropping slightly next year to 2.0 percent according to the five top institutes in their twice-yearly report.

This was a sharp upwards revision to their previous forecasts in October, when the institutes predicted output growth of 2.0 percent for this year.

"In the spring of 2011, the world economy is enjoying an upswing, mainly due to positive results from emerging economies. Germany too is experiencing a strong upturn," the five organisations said in their report.

"The recovery is being driven both by external demand and by domestic consumption ... much indicates that the expansion will remain strong in the coming months," the economists added.

Unemployment in Germany is already at its lowest level since the country reunified in 1990 but the buoyant economy is poised to drive down jobless lines further, with the rate seen at 6.9 this year and 6.5 percent in 2012.

The strong economy will also bring down Germany's public deficit at a time when its European rivals are battling to meet EU deficit rules.

Germany's deficit should be 1.7 percent this year and shrink further to 0.9 percent in 2012.

Nevertheless, the institutes warned of clouds on the generally sunny horizon coming from the Middle East and Japan, although the economic impact of the nuclear disaster in Fukushima should be "short-lived."