China growth sizzles, inflation bubbles

REUTERS, *Beijing*

China's turbo-charged growth eased just a touch in the first quarter, while its inflation jumped to a 32-month high, putting pressure on the government to do more to rein in prices and keep the economy on an even keel.

China's gross domestic product increased by 9.7 percent in the first quarter from a year earlier, down from 9.8 percent in the final three months of 2010 but ahead of an expected 9.5 percent pace.

Consumer price inflation sped to 5.4 percent in the year to March, the fastest since July 2008 and topping market forecasts for a 5.2 percent increase.

Taken together, the data published by the National Bureau of Statistics on Friday showed that the world's second-largest economy was still sizzling, little hindered by the central bank's half-year tightening campaign that many investors had feared would undermine growth.

They were also another reminder of the yawning gap that has opened up between China, the world's fastest-growing major economy, and developed nations from United States to Europe that are still struggling to kick-start their economies after the global financial crisis.

"The figures show that (China's) inflation pressure will not taper off in the short term and we expect the consumer inflation to remain high in the second quarter," said Sun Miaoling, an economist with CICC, the largest Chinese investment bank.

"The government will keep battling inflation as its priority in coming months, which could prompt the central bank to further tighten its monetary policies," she added.

REUTERS
A vendor arranges sweet potatoes at a market in Beijing, China on Friday.

The People's Bank of China has increased benchmark interest rates four times since last October and has required the country's big banks to lock up a record high of 20.0 percent of their deposits as reserves.

Global markets registered little impact from the Chinese data, in large part because the numbers had been comprehensively leaked in the days prior to the official release.

The main Chinese stock index in Shanghai was down 0.5 percent after morning trading and share prices throughout Asia were also slightly softer, with investors braced for Beijing's next round of tightening. Many analysts believe the central bank could increase required reserves again as soon as this weekend.

Inflation had long been expected to run higher in March because of a lower base of comparison. The base effect also suggests that inflation is likely to level off in the coming months before jumping again in June and July, though officials are confident that it will wane in the second half of the year.

Accepting this relatively sanguine view, many economists had thought that the central bank was near the end of its tightening cycle. The median forecast of Reuters poll last week was for just one more interest rate increase over the rest of this year.

But with growth still cruising near double digits, the scope for the government to continue tightening may be bigger than previously anticipated.

Signaling a potentially hawkish stance in the coming months, Premier Wen Jiabao said this week that the government would use all tools at its disposal to wrestle inflation under control.

"We will try every means to stabilize prices, the top priority of our economic controls this year and also our most pressing task," Wen said at a cabinet meeting.

Agricultural prices have been the main driver of Chinese inflation and that remained the case, with food costs up 11.7 percent in the year to March. But there were also signs of a broadening of pressures, with non-food inflation up 2.7 percent year on year, the fastest in more than a decade.

"The risk is that high oil prices will keep headline inflation stronger for longer," said Brian Jackson, economist with Royal Bank of Canada in Hong Kong.

"This also suggests that policy rates still need to move higher in the months ahead, with Beijing also likely to favor further currency appreciation to help get inflation lower," he said.

While keeping a tight grip on the yuan, China has steered its exchange rate to a succession of record highs against the dollar in recent days, using a stronger currency to blunt the impact of high import costs.

The first-quarter data also offered a glimpse of the Chinese rebalancing that is needed to put the global economy on more stable footing.

From the World Bank to Chinese leaders, the consensus has long been that China needs to promote more domestic consumption and cut its reliance on both exports and energy-intensive investment.

That finally appears to be happening. Consumption contributed 5.9 percentage points to China's first-quarter growth rate, while investment added 4.3 percentage points, the statistics agency said. Net exports actually subtracted 0.5 percentage points, weighed down by a $1 billion trade deficit, China's first quarterly deficit in seven years.

It remains to be seen how much of the apparent rebalancing was a product of soaring global oil costs, which both boosted China's import bill and inflated consumption in price terms.

Speaking at a business forum in southern China on Friday, President Hu Jintao said that the country's economic model was still out of kilter.

"Over the next five years China will make a great effort to boost domestic demand, especially consumer demand," he said.

Opec worried by patchy global recovery

REUTERS, *Kuwait*

High oil prices represent a potentially major burden for importers with global economic recovery still fragile, leading Opec ministers said on Monday.

Saudi Oil Minister Ali al-Naimi, a day after confirming the kingdom slashed oil production by more than 800,000 barrels per day (bpd) in March due to weak demand, warned of continued weakness in the global economy.

"The recovery remains patchy, in many countries unemployment remains at unacceptable levels," Naimi told a meeting of Middle Eastern and Asian energy officials, according to the text of his speech obtained by Reuters.

Consuming nations have warned that rising oil prices, which earlier this month touched $127 a barrel, their highest level since July 2008, pose a threat to economic growth.

Opec ministers for the most part have acknowledged the risk high oil prices pose but say there is little the group can do about it as demand for crude is being met with sufficient supplies.

"At these high price levels, spending on oil imports could represent a significant economic burden for many import dependent countries," Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said in a speech at the meeting.

Opec Secretary General Abdullah Al-Badri called on consuming nations to rein in speculators, saying they had added a $15 to $20 risk premium to the price of crude.

Oil has been pushed higher since the start of the year by the wave of discontent that has swept through the Arab world, toppling the leaders of Tunisia and Egypt and touching off a civil war in Libya that has brought oil exports to a halt.

Saudi Arabia, Kuwait and the United Arab Emirates boosted output when Libyan supplies were lost but they have struggled to find buyers for the extra crude they are pumping.

Saudi Arabia tried to replicate Libya's very low sulphur, high quality sweet oil with a special blend of crude, but refiners have only bought 2 million barrels of the blend.

Emerging market inflows seen strong after IMF meet

REUTERS, *Washington*

Yield-hungry investors pouring money into emerging markets and shunning the dollar will not be deterred by a warning from finance leaders at the weekend about the danger of inflation in the developing world.

With interest rates in many advanced economies including the United States at record lows, global investors have bid up assets in countries such as China and Brazil, which boast much more rapid growth than the West and offer higher returns.

The US dollar has shed more than 5 percent this year against major currencies. It has even lost nearly as much against the tightly managed Chinese yuan and Brazil's real.

The wave of incoming money has led to high inflation in emerging markets, prompting countries such as Brazil to use taxes and other capital controls to temper the inflow.

International Monetary fund members at their semi-annual meeting this weekend warned of the risk of inflation in emerging markets and debated how best to temper it.

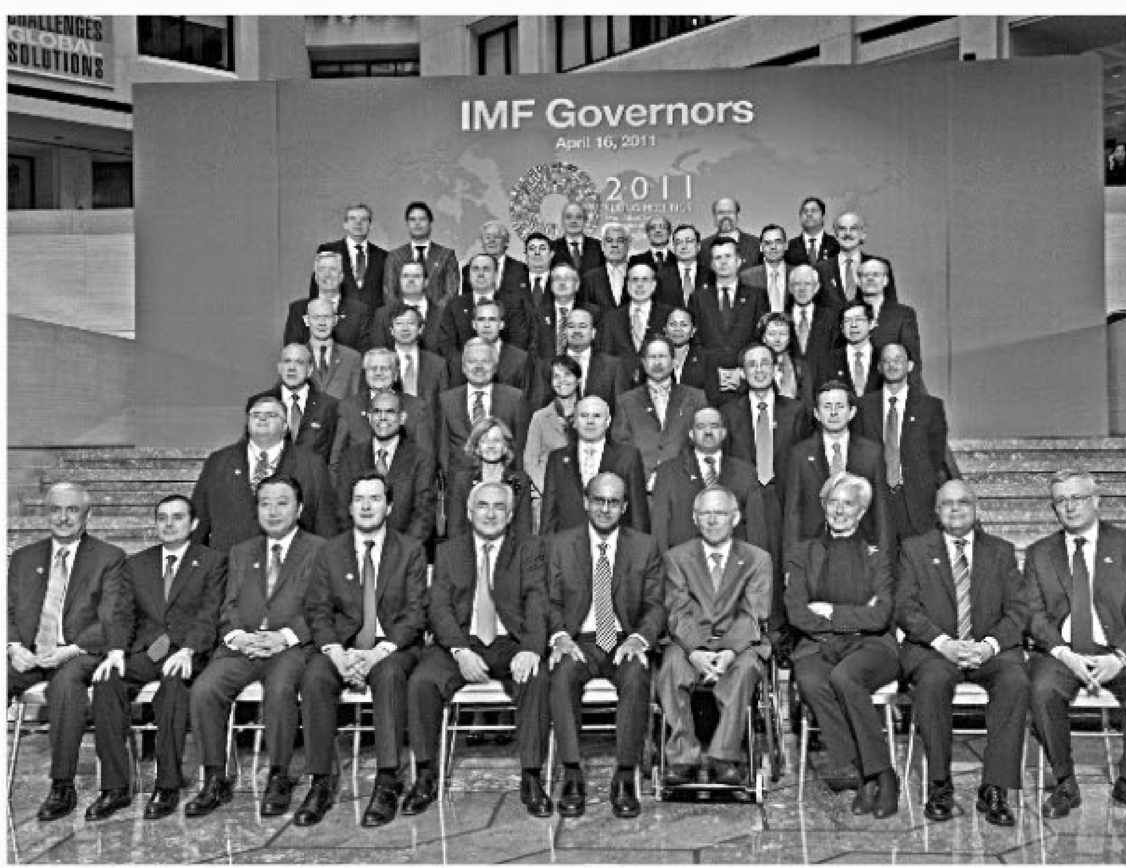
But nothing will change overnight.

"Investors will get to work (on Monday) and ask themselves, 'are there still excess returns to be made by going into emerging markets?'" said Steven Englander, head of G10 FX strategy at Citigroup. "Broadly speaking, the answer to that is 'yes'."

The Group of 20 leading advanced and developing countries, at a meeting ahead of the IMF gathering, agreed on a plan to weigh the debt levels and trade balances of seven major nations to find policies aimed at fixing uneven global growth.

That could put more pressure on the United States to trim its massive budget deficit and push other economies such as China to allow faster currency appreciation, which would help temper rising price pressures.

Englander said the G20 deal yields "nothing positive for the dollar" and reinforces the notion that emerging market currencies will keep rising to offset inflation and rebalance the world economy.



AFP
Finance ministers and central bankers pose for the International Monetary and Financial Committee (IMFC) family photo at the IMF/World Bank Spring meetings in Washington on Saturday.

"Markets are likely to see risk of more emerging market appreciation against G10 currencies," he said, which will keep "hot money piling in".

China, which reported another quarter of sizzling growth this week and further acceleration in consumer prices, has let the yuan rise nearly 5 percent against the dollar since mid-2010. Premier Hu Jintao said last week that Beijing should consider more currency flexibility to combat inflation.

Brazil's real neared a two-year high against the dollar last week despite authorities' efforts to limit incoming money. Without taxes on foreign inflows, the real might be as strong as 1.35 or 1.40 per dollar instead of its current level around 1.58, Brazilian Finance Minister Guido Mantega told Reuters.

Taking a longer view, Jens Nordvig, global head of G10 FX strategy at Nomura, said policies that lead to stronger emerging market currencies, particularly in China, "would be positive for both global inflation and growth" and decrease risks to a still-uncertain recovery from the 2007-2009 financial crisis.

"A further (rise) in the yuan would be a very helpful way to address the issue," he said.

One potential shortcoming of the G20's deal is that countries will not be bound to act on policy recommendations that emerge from the increased surveillance. The plan is being readied for a G20 leaders' summit in November.

That means China could continue to let the yuan rise at its own pace or the United States could drag its feet on cutting its deficits.

Things could slip into "an unseemly finger-pointing exercise" and may add volatility to markets ahead of future G20 meetings, said Alan Ruskin, Deutsche Bank's head of global currency strategy.

But there's something to be said, Englander noted, for peer pressure.

"When you have a bunch of countries around a table and your policies are up for review, that has a certain impact," he said. "It makes it harder to brush off everyone's comments."

Tata to invest up to $27b over 5 years

AFP, *New Delhi*

India's giant Tata Group has said it will invest almost $30 billion mainly in the domestic market over the next five years as it seeks to double revenues to $150 billion.

The group, which has nearly 100 companies under its wing, said it plans to invest the money in sectors such as power, steel, automobiles, telecoms and chemicals.

"We have become a significant player globally in each of the sectors that we are present in," Tata Industries managing director Kishor A. Chaukar said in a weekend interview with the Press Trust of India.

He told the news agency that the group would invest as much as $27 billion in the next five years, most of it in its home Indian market.

When asked about the expected revenues of the group after the investment, Chaukar said: "It will be more than double in less than five years. I think it'll be around $140 billion to $150 billion."

Tata Industries is one of the investment arms of the Tata group.

The commitment comes as India's largest conglomerate seeks a successor to its chairman, Ratan Tata, 73, who plans to step down in December 2012.

Ratan, one of India's most respected corporate chiefs, has overseen a 40-fold increase in the group's revenues from 1991 when he took the reins of the family company.

The deadline for finding a replacement for Ratan has been extended to the end of May from an initial deadline of March after the search committee said it was having trouble finding

Japan's auto parts makers struggle after disaster

AP, *Ishinomaki, Japan*

In the days after Japan's earthquake and tsunami, Masahiko Horio knew he had to get his factory back online quickly.

Customers were clamoring. The backlog of orders swelled.

The zinc and aluminum widgets made by his company, Horio Seisakusho Co., appear insignificant at first glance. But the tiny metal components represent a vital fraction of the thousands of parts used in a single car.

The global supply chain that feeds the giant automakers - Toyota, Honda and General Motors - begins at unassuming companies like Horio Seisakusho. Japan's recent disaster showed that one missing link can grind production lines around the world to a halt.

The imperative to resume normal output is pressing for small parts suppliers throughout northeast Japan, which must keep customers happy or face the prospect of losing major business to competitors at home and abroad. Already, companies in Taiwan and Southeast Asia are seeing orders climb as customers search for alternative supply sources.

The 54 employees at Horio Seisakusho in hard-hit Ishinomaki produce some 600 different electronic and auto parts, including basic components for car antennas and navigation systems. It managed to avoid tsunami damage because it sits on a hill. Nonetheless, the earthquake and power shortages idled its machines for two weeks.

Horio, the manufacturer's president, faced another serious problem as he frantically worked to restart operations. An even smaller firm that finished and tested a half-dozen of his parts was wiped out by the March 11 tsunami. Horio couldn't ship supplies to customers without this final step in quality control.

A visit 40 minutes away to where the 14-person company, Ogatsu Musen, once stood revealed the extent of the destruction. The frame of the building remains, but little else. A boat juts out from the gutted structure. Horio's metal components and the equipment used to perfect them lay scattered amid the debris.

But there was urgent work to be done. And the president decided that if Ogatsu Musen had no building, he would provide the equipment and make space at his own company until it found a new home.

"We thought about other options at first," Horio said. "But Ogatsu is fast and knows how to do this work. And we didn't want to impose any further burdens on our customers."

His company is operating at about 80 percent capacity now, but the future is far from clear. Horio worries about electricity shortages in the summer that could curtail output and whether customers might turn elsewhere.

"We just need to recover as quickly as possible and make sure that our customers are confident in our ability to provide supplies," he said.

REUTERS
New vehicles damaged by the March 11 tsunami are placed in a Toyota Motor Corp. parking lot at Sendai port, Miyagi prefecture, northern Japan.