

# Asia voices confidence in US debt with much at stake

REUTERS, Tokyo

Some of the United States' biggest creditors moved to shore up confidence in its sovereign debt Tuesday after Standard & Poor's threatened to cut its credit rating on the world's top economy, touching a nerve among big holders of Treasuries.

Asian nations have amassed trillions of dollars in US government bonds through recycled export earnings, and have a vital interest in maintaining their value. So it was no surprise that officials were keen to play down the danger.

"The United States is tackling fiscal issues in various ways, so I still think US Treasuries are basically an attractive product for us," Japanese Finance Minister Yoshihiko Noda told reporters after a cabinet meeting.

Treasury prices did indeed prove resilient Tuesday, though that did not stop stocks markets from skidding across Asia, where investors were already worried that Greece may be on the verge of restructuring its debt.

S&P, which assigns ratings to guide investors on the risks involved in buying debt instruments, slapped a negative outlook on the United States' top-notch AAA credit rating Monday and said there was at least a one-in-three chance that it could eventually cut it unless politicians found a way to slash the yawning budget deficit within two years.

The warning sparked a general pull-back from riskier assets such as equities and commodities.

If investors start demanding higher returns for holding riskier US debt, the rise in bond yields could erode the value of Treasuries held in currency reserves and push borrowing costs up, putting the global economic recovery in jeopardy.

Japan's reserves stood at \$1.12 trillion at the end of March, the bulk of which is thought to be in Treasuries.



A sign for Wall Street is seen before the opening bell. US stocks opened sharply lower on Monday after ratings agency Standard & Poor's issued a warning on US sovereign debt.

Even that pile is dwarfed by China's \$3 trillion in reserves, and again much of that is believed to be in US government debt. China's foreign exchange regulator and other policy advisors had no immediate comment after the S&P move.

Other large holders of US debt include the United Kingdom, oil exporting nations in the Middle East, Brazil, Hong Kong, Russia, Taiwan and Canada.

So monstrous have China's holdings become that it is stoking inflation in the country while making it almost a captive investor in Treasuries, the only market large and liquid enough to absorb such

mountains of cash.

Li Jie, the head of the China Foreign Exchange Reserve Research Center, an academic institute with the Central University of Finance and Economics in Beijing, said S&P's warning would ring alarm bells for Beijing.

The scale of the potential losses from a slide in the value of US debt would drive China to cut the share of Treasuries in its holdings, he said.

"It's widely believed that US treasuries make up about 70 percent in China's foreign exchange reserves, but China may cut the proportion to 50 percent or

less in the coming decade," Li said.

Achieving such a shift without spooking the market and driving down Treasury prices would be no small feat, however.

The danger of a US downgrade could also draw unwanted attention to Japan's huge debt burden, which is likely to grow larger as the government secures funding to rebuild after last month's devastating earthquake and tsunami.

Japan is set to compile an extra budget worth about 4 trillion yen (\$48.4 billion) to start reconstruction after the March 11 earthquake and tsunami, which also triggered the world's worst nuclear crisis in a quarter century.

This is likely to be the first of several spending packages. Japan's public debt is already twice the size of its \$5 trillion economy, and policymakers have said new bond issuance would be needed after the first extra budget to pay for reconstruction costs.

S&P cut Japan's sovereign rating to AA-minus in January, although it said shortly after the March disaster that it did not expect to change its ratings stance on Japan.

Japan's third-largest private life insurer, Meiji Yasuda Life also expressed confidence in US Treasuries and said it had no plan to change its stance after the S&P outlook downgrade. It added it planned to increase its holdings of yen bonds and foreign bonds, with a focus on dollar bonds.

"US President (Barack) Obama is saying he is serious about fiscal reform. US Treasuries are the world's largest bond market and our confidence is unshaken," Yasuharu Takamatsu, Meiji Yasuda's director of investments, told a news conference.

"How we will invest depends on yield levels and, more importantly, currency levels. But we won't change our initial investment plan," he added.

The market seemingly most threatened by a downgrade -- Treasuries -- was among the least alarmed.

## Vedanta snaps up 11pc of Cairn India

REUTERS, Mumbai

Vedanta Resources Plc has bought an 11 percent stake in Cairn India, a source said, pushing ahead with plans to take control of the Indian oil and gas company despite regulatory delays plaguing the \$9.6 billion deal.

Vedanta's move to acquire Cairn India is part of London-based mining magnate Anil Agarwal's plans to grab a slice of India's oil reserves and get exposure to surging demand.

But its agreement to buy a 40 percent to 51 percent stake from Cairn Energy is yet to be cleared by the Indian government. Vedanta is also aiming to buy a further 20 percent through an open offer.

Vedanta bought the 11 percent stake from Malaysia's national oil corporation Petronas, a source familiar with the matter said. The source could not be named as he was not authorised to speak to the media.

Petronas sold the remainder of its stake, almost 4 percent, to some foreign portfolio investors, the source added.

Analysts said Vedanta's \$1.5 billion share purchase in Cairn India would be useful if it fails to get a big response from minority shareholders for its open offer.

"This is a strategic move by Vedanta and it makes the open offer inconsequential," said Jagannadham Thunuguntla, head of research at brokerage SMC Global Securities.

"Vedanta will now be able to get a comfortable controlling stake in Cairn India even if the open offer response is very poor," he said. "But all this is subjective to the government clearing the deal and that is an unknown factor."

Spokesmen for Cairn India and Vedanta in India did not respond to calls by Reuters seeking comment on the block deal. Petronas confirmed it had sold its stake.

Vedanta's deal to buy a majority stake in India's No. 4 oil and gas company hasn't received approval from the Indian government, eight months after its announcement, due to a dispute in royalty payments.

## Apple sues Samsung, says stop copying us

REUTERS, San Francisco/seoul

Apple Inc sued Samsung Electronics claiming the South Korean firm's Galaxy line of mobile phones and tablets "slavishly" copies the iPhone and iPad, according to court papers, a move analysts say is aimed at keeping its close rivals at bay.

Apple is one participant in a web of litigation among phone makers and software firms over who owns the patents used in smartphones, as rivals aggressively rush into the smartphone and tablet market which the U.S. firm jumpstarted with iPhone and iPad.

Nokia and Apple have sued each other in numerous courts and as recently as last month Nokia filed a complaint with the U.S. trade panel alleging that Apple infringes its patents in iPhones, iPads and other products.

Samsung is one of the fastest growing smartphone makers and has emerged as Apple's strongest competitor in the booming tablet market with models in three sizes but it remains a distant second in the space.

"If Apple fails to fend off Android, it will within a year or two find itself in a situation like Research in Motion, even if at a higher level (initially)," said Florian Mueller, a technology specialist and blogger on patent battles.

"Apple has realized this already as its

new lawsuit against Samsung shows, but given what's at stake, I think Apple would have to do much more than this. It would have to sue more Android device makers and over more patents."

Samsung's Galaxy products use Google's Android operating system, which directly competes with Apple's mobile software. However, Apple's claims against Samsung focus on Galaxy's design features, such as the look of its screen icons, the lawsuit said.

The lawsuit, filed on Friday, alleges Samsung violated Apple's patents and trademarks.

"This kind of blatant copying is wrong," Apple spokeswoman Kristin Huguette said in a statement. Apple is bringing 16 claims against Samsung, including unjust enrichment, trademark infringement and 10 patent claims.

"...Samsung has made its Galaxy phones and computer tablet work and look like Apple's products through widespread patent and trade dress infringement... By this action, Apple seeks to put a stop to Samsung's illegal conduct and obtain compensation for the violations that have occurred thus far," Apple said in the court document.

Samsung's shares closed up 0.9 percent after slipping to their lowest level in one month in a broader market down 0.7 percent.

## Eurozone firms' price rises nearing all-time high

AFP, Brussels

The rate of inflation for eurozone goods and services raced towards an all-time high in April, a closely-watched growth indicator said Tuesday.

Prices charged by firms surveyed across the 17-state currency area showed "the largest monthly jump since the all-time high seen during the oil price peak of 2008," said Chris Williamson, chief economist with London-based researchers Markit.

The picture emerged from Markit's composite eurozone index for manufacturing and services output, which otherwise showed job creation hitting a three-and-a-half-year high, albeit from a high base of unemployment.

Overall, the closely-watched indicator rose only slightly to 57.8 points from 57.6 points in March, signalling an expansion in economic activity for the 21st consecutive month. Any score above 50 equates to growth.

Expansion throughout France's economy overtook that of Germany, hitting its fastest rate since September 2000 thanks to a spike in the services sector, the data also said.

But broadly speaking, the eurozone "upturn remains all-too dependent upon France and Germany," Williamson underlined.

Figures out at the end of last week showed eurozone inflation gaining "alarming" momentum, leaving analysts tipping a sharper rise in interest rates by the European

## Shanghai showcases auto world's China hopes

AFP, Shanghai

Foreign and Chinese carmakers unveiled plans on Tuesday to ratchet up investment and introduce new models in China as Shanghai's auto show opened with all eyes on the world's largest car market.

World premieres at the show include Volkswagen's new retro-styled Beetle, General Motors' new Chevrolet Malibu, Buick Envision and its China-only Baojun 630, and France's PSA Group introducing its Citroen DS5.

As the first auto show since the March 11 earthquake and tsunami disaster in Japan, source of a large number of auto components, Shanghai will allow industry analysts to gauge the impact of the catastrophe on the sector.

Since the previous Shanghai auto show in 2009, China has overtaken the United States as the world's top car market and the event has accordingly emerged as one of the world's biggest auto fairs.

"From an importance standpoint, when you think about where the centre of gravity is in terms of volume and commercial benefit -- it's here," Tim Lee, the Shanghai-based president for GM International Operations told AFP.

US giant Ford Motor Company announced plans to introduce 15 new vehicles to China by 2015 as it seeks to increase its share of the world-leading market.

China's auto market is showing signs of slowing to "a growth rate the market can sustain" of five to 10 percent after a decade of near non-stop double-digit annual growth, Joe Hinrichs, chairman and chief executive of Ford China said.

"Even if the percentage doesn't look as big as it used to, volume-wise it's the largest growth market in the world," he said.

Ford's rival General Motors, the leading foreign automaker in China by sales, said on Monday it aimed to more than double its



The Buick Envision SUV concept is displayed at the Shanghai Auto Show in Shanghai on yesterday. About 2,000 car and parts makers from 20 countries are participating in the Shanghai auto show, showcasing 75 new car models, 19 of them making their world premieres.

Chinese sales by 2015.

GM China Group President Kevin Hale said the US auto giant aimed to capitalise on "the unmatched opportunities that the Chinese market offers" and sell around five million cars a year by 2015, up from 2.35 million last year.

German automaker Audi's Q3 sports utility vehicle made its world debut in Shanghai, with chief executive Rupert Stadler saying on Tuesday that China would become the company's largest sales market in 2011.

Auto sales in China rose more than 32 percent last year to a record 18.06 million units as its economy powered out of the world economic downturn.

China's largest automaker SAIC -- whose partners are GM and Volkswagen -- said it aimed to nearly double its annual sales to over six million units by 2015 and warned that by then its own brands should rival its foreign partners, SAIC president Chen Hong said.

Automakers are also seeking to get a foot in the burgeoning "green" car market in China, where the government is encouraging electric-car development in a drive to reduce

the country's notorious air pollution and conserve energy.

China's FAW Group said Tuesday it would invest \$1.5 billion to develop clean energy vehicles in the next five years while Guangzhou Automobile Group said it would work with its joint-venture partner Honda Group Co to make electric cars.

"The new energy vehicle opportunity here is probably bigger than in other countries," BMW board member for sales and marketing Ian Robertson said.

"There is a clear agenda to develop (green) technology."

The show, which opened on Tuesday to the media, covers 230,000 square metres (2.5 million square feet) of exhibition space.

About 2,000 car and parts makers from 20 countries are participating, showcasing 75 new car models, 19 of them making their world premieres. A total of 1,100 vehicles will be on display.

Having already conquered China's coastal areas and first-tier cities such as Beijing and Shanghai, the industry is looking to less-developed car markets in the country's vast interior for future growth.



Customers look at smartphones behind Samsung Electronics' Galaxy Tab tablet (L) and Apple Inc's iPad tablet displayed at a registration desk at the headquarters of South Korean mobile carrier KT in Seoul.