

India loses grip on inflation

REUTERS, Mumbai

India is risking losing control of inflation, leaving the Reserve Bank of India (RBI) with few tools other than the blunt instrument of more aggressive interest rate increases even as growth momentum slows.

The near-9 percent annual rise in the March headline inflation rate reported on Friday and a sharp upward revision in the January figure stunned investors and fuelled calls for tougher rate action by the RBI.

In addition to more hawkish language, the central bank may lift rates by 50 basis points (bps) at its May 3 policy review, twice as much as expected earlier, or more likely increase the number of times it will raise rates in its current tightening cycle.

"They have to move by about half a percentage point in the May policy just to signal to the market that they are trying to catch up to the curve," said Abheek Barua, chief economist at HDFC Bank in New Delhi.

Although most market players said they still expect the RBI to stick with its usual 25 bps point move, the 1-year overnight indexed swap has risen more than 25 bps since last week's inflation data, implying expectations for an added rate hike over the next year. The yield on the 7.8 percent 2021 bond is up 8 bps over the same period.

Nobody accuses the RBI of being passive. It has raised rates eight times since March 2010, even as inflation for the past year has been driven mainly by the prices of food as well as energy and other global commodities that it can do little about.

Fast-growing India is prone to



A man talks on his mobile phone as he walks past the logo of the Reserve Bank of India in Mumbai.

REUTERS

inflation after years of underinvestment in everything from power and roads to agriculture and education, which creates capacity constraints that will take years to rectify and leave the economy vulnerable to shocks like a bad harvest or a spike in coal prices.

"India needs to address several structural reform issues on a priority basis to make monetary policy more effective," said Rupa Rege Nitsure, chief economist at Bank of Baroda.

"The ultimate solution for the current inflation problem is not within the control of the RBI alone," she said.

However, core inflation, driven by demand of the sort that

is more receptive to monetary fixes, has also been on the rise in Asia's third-largest economy, hitting a 29-month high in March, according to Barclays.

That may compel the central bank and its mild-mannered governor, Duvvuri Subbarao, to shed its oft-stated "calibrated" approach to monetary tightening and make a bolder gesture.

Unlike China, which has been raising reserve ratio requirements for banks to tame inflationary lending, India is unlikely to pull this lever, with liquidity already tight and the government's need to fund its borrowing programme.

Meanwhile, the likely increase by the government in diesel

prices once elections in a handful of states are completed next month will only add to near-term inflationary pressure.

Diesel in India sells at 30 percent below cost, according to Standard Chartered, which said a 5 percent increase in the fuel price could add about 30 bps to headline inflation, not counting knock-on effects.

Standard Chartered on Monday doubled its prediction for rate rises for the remainder of 2011 to 100 bps from 50, while Barclays raised its forecast to 75 bps of increases by September, from 50 bps earlier.

"Tightening monetary policy to engineer a soft landing is a better option than allowing infla-

tion to persist and risking a hard landing at a later stage," Standard Chartered economists wrote, lifting their average inflation forecast for the fiscal year that started this month to 8.4 percent from 7.9 percent.

Beyond raising fuel prices, the growth-obsessed government is unlikely to implement new fiscal restraint, leaving it to the RBI to manage the aftermath of financial crisis-era stimulus and other programmes that have helped fuel demand, especially in rural areas.

"Other than rate hikes, not many options are available to the RBI as liquidity is tight and expected to tighten further," said Sandeep Bagla, senior vice president at ICICI Securities Primary Dealership in Mumbai.

While the March inflation figure surprised just about every forecaster, the fact that the RBI's own prediction was so far off also hurt its credibility.

It raised its outlook for end-March inflation to 8 percent on March 17, adding to upward revisions it made in November and January.

"At this stage I think the RBI is very seriously concerned about its credibility, and the fact that inflation expectations are getting sort of revised up to a permanently high level," said HDFC Bank's Barua.

RBI action will, however, be tempered by signs of weakness in India's growth story, including sluggish investment activity and industrial output.

Almost no private economist shares New Delhi's view that India will grow at 9 percent in the fiscal year that started this month. Rather, many predict a decline from last year's growth of about 8.6 percent to below 8 percent.

Europeans slams China govt procurement practices

AFP, Beijing

The European Union Chamber of Commerce has accused China of trade protectionism for refusing to grant EU companies a level playing field in the lucrative government procurement market.

China responded Thursday by insisting that the government followed the principles of "justice, fairness and openness" in bidding on government procurement, but admitted its system had some "defects."

In a report released Wednesday, the EU chamber urged China to increase transparency in the bidding process and ensure the fair evaluation of contract tenders.

"Currently European companies are barred from much of this estimated one trillion US dollar market through poor implementation of overlapping regulations," chamber president Jacques de Boisserson said in a statement.

"It is vital that this enormous market be regulated in a transparent and non-discriminatory way."

The chamber said barriers keeping EU companies out of the market included a lack of clarity on bid criteria and an unsatisfactory appeals process.

Such barriers give Chinese companies an unfair advantage over foreign enterprises seeking to bid for government contracts, said the report, which was based on surveys of many top EU companies working in China.

Chinese foreign ministry spokesman Hong Lei acknowledged that the procurement mechanism was still in its infancy and had some shortcomings, such as still being "relatively small-scale" compared to Western countries.

"But the Chinese government procurement still follows the principles of justice, fairness and openness," he said.

The government procurement market is just one bone of contention for foreign firms in China, who have increasingly complained about what they see as unfair treatment over the past year.

China's Western trading partners accuse it of making it difficult for foreign companies to operate in the country. Beijing, though, has been vocal in its opposition to protectionism and denies it puts up investment barriers.

Apple crushes forecasts again

REUTERS, San Francisco

Apple Inc's results smashed Wall Street's expectations after iPhone and Mac sales scaled new heights while iPad supplies could not keep up with roaring global demand.

Shares of the world's most valuable technology corporation rose 3 percent after it said a record 18.65 million units of the category-defining iPhone -- its flagship product -- moved in the March quarter, outpacing the 16 million or so expected.

Apple sold just 4.69 million iPads -- which command an 80 percent share of a burgeoning tablet market in which Motorola Inc and Samsung Electronics also compete -- but investors argued that would not detract from strong long-term demand.

But investors largely ignored the lower-than-expected sales for iPads during the quarter as company executives said they were scrambling to

meet "staggering" demand and were heavily backlogged for now.

"I'm not going to predict when supply and demand will come into balance," Chief Operating Officer Tim Cook said. "I can only be confident on supply side."

Apple's iPad 2 dominated the nascent market for tablets with competing products like Research In Motion's PlayBook receiving poor reviews from customers and experts.

The stellar results on Wednesday came as concern is growing over how component supply constraints after Japan's earthquake and tsunami would squeeze margins and restrain iPhone and iPad sales in coming months.

"Dynamite numbers across the board. The only hiccup is lower than expected iPad numbers," said Capital Advisors Growth Fund portfolio manager Channing Smith.

"We can attribute some of the weakness to stocking issues at some

of the retail outlets and obviously the supply chain issue in Japan. Unfortunately, the supply chain issue will likely persist for the coming months but once we get past summer and the supply chain issues are resolved it's all systems go again for Apple."

Apple executives told analysts on a conference call they foresaw a hit to revenue this quarter of about \$200 million -- less than 1 percent of projected global quarterly sales -- but expected no cost impact.

The company, known for its tight relationship with Asian suppliers, stands at the head of the queue for electronics components even if the supply crunch continues. Japan accounts for an estimated 6 percent of overall revenue.

"We source hundreds, literally hundreds, of items from Japan, and they range from components such as LCDs, optical drives, NAND flash and DRAM, to base materials such as resins, coatings," Cook said.

Carmakers look to an electric future in China

AFP, Shanghai

Major carmakers' high hopes for electric vehicles are on clear display at the Shanghai auto show, but industry leaders say it could be a decade before such eco-friendly cars go mainstream.

Wary over its growing dependence on foreign oil, China plans to become a world leader in clean-energy vehicles, pledging to invest more than \$14 billion by 2020 -- and have five million of them on the road by then.

Beijing's determination has executives predicting China, the world's largest auto market, will be one of the first to see widespread adoption of electric cars.

"Two-hundred million ride electric motor scooters (in China) now. They know the limitations of batteries and about recharging so they don't run out of power," General Motors China President Kevin Wale told AFP.

"As soon as someone provides them with the right vehicle at the right price, they'll start to move towards them. The government's going to support that transition as well," Wale said.

General Motors, Toyota and Volkswagen, and Chinese firms such as BYD, Geely and Chery, are among those displaying hybrid and electric cars at the Shanghai show, alongside more traditional models, as they jostle to woo Chinese buyers.

The scale of China's market -- a record 18 million vehicles were sold last year -- provides Chinese auto manufacturers with a huge laboratory to help find the right electric-car formula, Wale said.

"They won't wait until research and development gives the perfect solution. They'll move much more quickly in terms of putting options in front of people and learning from that and putting the next one out," Wale said.

GM signed an agreement this



A visitor looks at the engine system of a car made by Chinese car manufacturer FAW Car at the Shanghai Auto Show in Shanghai 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.

week with an eco-city development in the northern port city of Tianjin to provide electric vehicles that will operate on a GPS network designed to eliminate traffic jams.

China's drive for electric cars is motivated by its fear of being addicted to foreign oil, said auto market analyst Michael Dunne of Hong Kong-based Dunne and Co.

"Let's be clear: This effort to go electric is 90 percent about energy security and less than 10 percent about the environment," Dunne said, adding China will generate most of the electricity to run the cars by burning polluting coal.

Either way, global automakers expect China to set the pace in developing a market for electric cars.

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

But the transition will not happen overnight. Ford forecasts that by 2020 perhaps 10 to 25 percent of global auto sales will be hybrid and electric cars.

"The batteries need to get smaller. They need to be capable of holding more storage and they need to be able to extend the range. But importantly, they also need to get less costly," Ford Asia Pacific President Joe Hinrichs said.

Battery development "has not kept up with the hype" surrounding new energy vehicles, he said, adding government involvement was necessary to keep innovation moving.

"It's so important to the global economy. It's not about any one country or any one industry," Ford's Hinrichs said. "It's going to take the better part of this decade to get the development cycles going better."

For their part, Chinese automakers are powering ahead to avoid falling behind Western competitors with these new technologies, the way they did in developing conventional internal combustion engines.

"We cannot wait until these technologies are fully mature, otherwise we will always be late," said Chen Hong, president of SAIC Motor, the leading Chinese manufacturer by sales.



AFP

Vendors of fried insects hands over a plate of fried grasshoppers at a local market in Vientiane, Laos. Raising crickets for foods is seen as a solution to the malnutrition in the poor landlocked country where a great number of people, especially children, suffer from.