Indian, European factories heat up as China cools

REUTERS, *London/Mumbai*

Eurozone factories ramped up output and prices last month while manufacturers in India also powered ahead, business surveys showed on Monday, keeping two cycles of likely further interest rate hikes on track.

In China, monetary tightening looked to be biting into the economy more deeply than expected as the factory sector there cooled, while data due later from the United States is expected to show factories in the world's largest economy have eased off the gas too.

The Markit Eurozone Manufacturing Purchasing Managers' Index (PMI), which records manufacturing activity across all the major euro area economies, rose to 58.0 last month from March's 57.5. The index hit a near-11 year high of 59.0 in February.

Frustratingly for policymakers, the bounce was once again driven by Germany, Europe's largest economy, and France whose growth overshadowed a continued slide to stagnation in Spain and a persistent contraction in Greece.

"Manufacturing activity was once again robust in April in the core northern euro zone economies, led by Germany. Elsewhere the situation was not so bright," said Howard Archer at IHS Global Insight.

Earlier figures showed India's factories expanded in April for the 25th consecutive month and at their strongest pace since November with the PMI rising to 58.0 from 57.9 in March, well above the 50 mark that divides growth from expansion.

REUTERS

Workers at LG Electronics India assemble television sets inside a factory at Greater Noida in Uttar Pradesh.

Data on Sunday showed China's official PMI fell to 52.9 in April from 53.4 in March, falling short of market forecasts for a rise to 54 as growth in new orders weakened to an eight-month low.

"Overall, the PMI shows there is still a possibility that the Chinese economy may slow down, especially as falling demand growth leads to adjustments in inventories, increasing the possibility of slowing economic growth," said Zhang Liqun, a government researcher.

"The fall may show that export growth will continue to slow down," Zhang said in a comment on behalf of the China Federation of Logistics and Purchasing, which compiles the official PMI.

The data sends worrying signals to the global economy, which has grown reliant on Chinese demand as a source of growth with the United States, Europe and Japan struggling to recover from the financial crisis.

South Korea's HSBC Markit manufacturing PMI fell to its lowest level since November last year at 51.69 in April from 52.84 in March. The increase in output is coming at a cost and the euro zone PMI output price index stayed high at 61.0, only nudging down from March's survey peak of 61.5, which was revised up from a flash reading of 60.7.

Official flash data released on Friday showed consumer prices in the bloc rose 2.8 percent in April, up from March's 2.7 percent and above expectations for an unchanged reading.

The figures will bolster those policymakers at the European Central Bank who believe the strong recovery in Europe's core economies calls for more monetary tightening before price rises become entrenched, even while weaker euro zone states remain engulfed in the debt crisis.

The ECB was the first of the world's big four central banks to raise rates when it upped them by 25 basis points from a record low of 1.0 percent earlier this month but is not seen making its next tightening move until July.

"By showing ongoing robust euro zone manufacturing activity and rising price pressures, the purchasing managers' survey reinforces belief that the ECB will pull the interest rate trigger sooner rather than later," Archer said.

Indian inflation indicators showed some easing in price pressures but from elevated levels, suggesting the Reserve Bank of India (RBI) will also hike again, as early as Tuesday, for the ninth time since March 2010.

"The number confirms that growth is not a concern and that the RBI can continue its tightening cycle uninterrupted," said Leif Eskesen, chief economist for India and ASEAN at HSBC.

The Reserve Bank of India is expected to hike on Tuesday, probably by 25 basis points but possibly by 50 after March headline inflation rose to nearly 9 percent.

In China, inflation is running at its fastest in nearly three years even after a series of policy steps to rein in prices, including raising interest rates and banks' reserve requirements several times, as well as ordering banks to lend less and speeding the pace of currency appreciation.

Economists polled by Reuters still expect strong economic growth in China this year of over 9 percent, so remain on guard for further monetary tightening to bring inflation under control.

Abu Dhabi, hedge funds to back Glencore IPO

REUTERS, *London*

An Abu Dhabi vehicle, big hedge fund managers and Swiss private banks are set to serve as "cornerstone" investors backing commodity trader Glencore's $12 billion flotation, a person familiar with the matter said.

The listing, which could be London's biggest ever, will be aided by strong support from cornerstones, who could buy nearly 30 percent of the shares sold -- or some $3.6 billion worth, if the listing raises its maximum target of $12.1 billion.

Such investors back many Asian listings, committing to take large, guaranteed stakes and hold them for at least six months.

Glencore, the world's largest diversified commodity trader, is preparing to float in London and Hong Kong, with a prospectus and an initial price range due on Wednesday.

Several existing investors in Glencore's convertible bonds will also serve as cornerstones, including US fund manager BlackRock, Government of Singapore Investment Corp. (GIC), and China's Zijin Mining, the person added. The bond issue 18 months ago was one of Glencore's first steps toward public life.

The final roster of cornerstones could still change before Wednesday, but is likely to include at least three large hedge funds as well as representatives of the private banking industry in Glencore's native Switzerland, the person said.

Glencore will also publish a price range that could place a minimum value on the company of less than $50 billion including new funds, the person said -- below a widely cited $60 billion valuation, but within a wide $45 to $73 billion range implied by Glencore's own figures.

Abu Dhabi's big state fund, Mubadala, plans to invest about $16 billion this year. But the emirate could instead make its investment via Abu Dhabi Sources, or ADS, a recently established trading house that is targeting some of the same commodities Glencore markets.

Europe's carmakers rev up global ambitions as profits surge

AFP, *Paris*

Two years after a world economic downturn all but wiped them out, European carmakers have bounced back to the spotlight with Volkswagen aiming to be the industry leader and Fiat carving out a global brand for itself.

Unfettered of their obligations to repay state aid and riding out the expiry of government "cash-for-clunkers" schemes that initially plunged their revenue, carmakers this week gave rosy outlooks for the rest of fiscal 2011.

Germany's Volkswagen reported a three-fold profit leap in the three months from January through March to 1.71 billion euros ($2.5 billion), selling two million cars, a new milestone for Europe's biggest automaker.

The comparable figure for 2010 was 473 million euros.

Finance director Dieter Poetsch said a cash pile worth 19.6 billion euros gave the group impetus to overtake General Motors and Toyota and become the leading global car maker by 2018.

With respect to 2011, Chairman Martin Winterkorn, who has boosted VW's fortunes since he took over in 2007 said: "Volkswagen shifted into the fast lane in 2010 and that's exactly where we intend to stay this year."

Fellow carmaker Daimler also posted stellar first-quarter net profit thanks to burgeoning demand in China, where an increasingly affluent middle class snapped up its luxury Mercedes-Benz cars and its heavy trucks met construction demands.

The automaker said net profit jumped to 1.18 billion euros ($1.75 billion) in the first quarter, from 612 million euros in the same period of 2010.

In one of the most noteworthy shake-ups in the sector, Italy's Fiat took a step closer to joining the ranks of the world's top automakers with a $1.3-billion deal to boost its stake in US unit Chrysler to 46 percent.

The carmaker, known more for its small city cars largely targeting the domestic market and niche-market Ferrari and Maserati sports car brands, has not shied away from displaying its ambitions under its chief Sergio Marchionne.

Fiat took over management of the iconic US company after it emerged from bankruptcy in 2009 and currently owns a 30-percent stake. Chrysler suffered from an implosion of auto sales in the United States.

Fiat gave Chrysler access to much-needed small-car technology and Chrysler offered dealership networks which the Italian manufacturer lacked, notably in the United States.

Marchionne has also in recent months suggested moving Fiat's headquarters from Turin to Detroit, drawing the ire of Italy's politicians and labour unions.

Although carmakers are changing gears into the fast lane, speed bumps remain ahead, including potential shortages of critical components after the devastating earthquake and tsunami in March hit Japanese components firms.

AFP

A Mercedes-Benz E-class car hangs on the production line at the Mercedes-Benz production plant in Germany.

Nearly all automakers source at least some vehicle parts from Japan.

France's PSA Peugeot-Citroen and Sweden's Volvo have either already, or plan, to slash production of thousands of vehicles in the United States and Europe due to worries about a shortage of key parts made in Japan.

Europe's automakers will also face increasing competition from rivals in China that have long-held hopes of freeing the auto market -- now the world's largest -- from domination by foreign brands.

Toward that goal, they are expanding aggressively, buying foreign automakers, acquiring technology and setting up factories and dealer networks across Asia, the Middle East and Eastern Europe.

"China has never made any secret of its ambition to have a great auto industry," said industry analyst Michael Dunne, president of research firm Dunne & Co.

SAIC, the largest Chinese automaker by sales because of its joint ventures with General Motors and Volkswagen, earlier this month launched the first model of its Baojun brand, co-developed with GM and Wuling Motors, as part of a new breed of local brands which are increasingly seen as a new condition for international carmakers operating in China.

Greek debt restructuring not part of EU strategy

AFP, *Brussels*

EU economic affairs chief Olli Rehn warned on Monday that debt restructuring for Greece is not part of Europe's strategy and would have "devastating" consequences, one year to the day after a rescue enabled Greece to avoid default.

"Proponents of debt restructuring seem to ignore the potentially devastating consequences for the country itself (Greece) and the euro area as a whole," European Union Economic Affairs Commissioner Rehn said.

"I repeat it is not part of our strategy," he told financial policymakers in Brussels at a conference looking at the European Union response to the finanial crisis of the last 30 months.

On May 2, 2010, European Union leaders agreed a 110-billion-euro joint bailout of the Greek government with the International Monetary Fund.

A week later, they set up a crisis fund worth a trillion dollars all told, which has since been tapped by Ireland -- to the tune of 67.5 billion euros -- and negotiations are currently under way with Portugal over a bailout estimated at some 80 billion.

However, with the recession in Greece meaning its economy has not performed as well as hoped amid huge cuts in public spending, many financial experts are convinced Greece will have to restructure its public debts -- pegged last week by the European Commission at

India clears $12b S Korean steel plant

PALLAB BHATTACHARYA, *New Delhi*

India yesterday gave the final clearance to South Korean steel giant POSCO's proposed $12 billion plant in eastern Indian state of Orissa, ending months of uncertainty over the country's biggest foreign investment in a single project.

Indian Environment and Forest Minister Jairam Ramesh gave the permission for diversion of 1253 acres of forest land for building the plant but attached the condition that the South Korean company should export raw material from the project site.

The project has faced stiff opposition from local population and green activists.

The POSCO deal was originally announced in 2005 and was seen as a test case for foreign investors eager to enter one of the fastest-growing economies of the world.

Ramesh said the approval was conditional on POSCO regenerating an equal area of forest in an area decided by the government of Orissa state, as well as paying for the land.

The plant had "considerable economic, technological and strategic significance," the minister said, adding "at the same time, laws on the environment and forests must be implemented seriously."

Ramesh said he believed 60 conditions imposed on POSCO would protect the ecology and livelihoods.

While POSCO India Vice President Vikas Sharan welcomed the Indian government's decision, Madhuresh Kumar, national organiser for anti-POSCO National Alliance of People's Movements, called the government's decision "deeply unfortunate".

"The government is neglecting its own committee reports on the project and granting clearance. The decision is completely illegal and unconstitutional," Kumar said.

AFP

Protesters parade through the streets of Hong Kong on Sunday in the annual May Day march. Several thousand Hong Kong activists hit the streets in May Day marches to protest over soaring rent and food prices in the southern Chinese city. The demonstration came as Hong Kong ushered in its first minimum wage, a controversial measure that has divided labour and business groups for years.