

Demise of Osama bin Laden brings risks as well as relief



REUTERS/ISSEI KATO

A man is seen between TV screens showing news that a US-led operation had killed al Qaeda leader Osama bin Laden, at an electronic shop in Tokyo.

IAN CAMPBELL and UNA GALANI

Osama bin Laden's death is an important landmark which leaves hope for the Arab spring intact. The initial, obvious, response is to expect celebratory gains and for global equities and commodity prices to advance. But while the medium-term outlook is undoubtedly improved -- for the United States and the rest of the world -- bin Laden's death may heighten investors' sense of risk in the near term, bolstering the dollar and curbing flows into speculative assets.

In recent weeks and months markets have been partying on something bin Laden himself might have welcomed: a plunging dollar. Traders have been shorting the greenback and going long a host of other assets, not least in emerging economies. Last week Ben Bernanke, the Federal Reserve chairman, fuelled this tendency by suggesting the Fed was in no hurry to raise its policy interest rate. U.S. dollar weakness has been a big factor in record prices for silver and gold and the highs for currencies such as the Australian and Singapore dollars.

The euro is at \$1.48, despite the great difficulties of the euro zone periphery.

Bin Laden's death doesn't change the broad market picture materially -- U.S. interest rates will remain very low -- but it may, at least temporarily, alter the market mood. It could make markets wary of reprisal attacks and of heightened risks in North Africa and the Islamic world. It is easy to overstate the al Qaeda influence on world finance, however. The risks posed have not helped world growth but the bursting of the dot-com bubble and the credit crunch, balanced by the emergence of new economic powers such as China, have been of greater importance.

There is little direct danger posed to the Arab spring. The ambitions of this movement are socially and economically progressive: vastly different from al Qaeda's aims. Bin Laden's diminishing influence since 2001 may also be observed in the Middle East and North Africa where tyrants are being toppled without recourse to the violent tactics, intolerance and religious extremism he represented. Though the democratisation process will be slow, and

will doubtless suffer some setbacks, the Arab spring is a catalyst that brings real hope for broad-based prosperity over the longer term.

Bin Laden's death is an advance that may eventually help the U.S. economy and its currency by providing scope to reduce defence spending and the budget deficit. But near-term market moves will depend on whether or not risks associated with his death bolster the dollar, and curb the dollar carry trade that has been favouring speculative excesses. The silver price, which had become ridiculously extended, the most egregious example at present of speculative excess in the global economy, plunged overnight. It would not take much for silver, equities and commodities to turn tail and retreat more.

Bin Laden's death is a victory that comes with uncertain consequences in the short term. For all that, though, it is still a victory, and an important one for the world and the United States.

The authors are Reuters Breakingviews columnists. The opinions expressed are their own.

US debt ceiling debate -- a high-wire act

TIM REID, Reuters

Despite rhetoric and partisan point-scoring, in the past both Republicans and Democrats have accepted they had no choice but to raise the cap on how much the government can borrow, and mustered the votes to do so.

This time could be different. With Congress back this week from a spring recess, the battle resumes over whether to raise the United States' \$14.3 trillion debt ceiling. Negotiations are expected to stretch into the summer, leaving markets jittery.

With a fragile economic recovery, opposition from lawmakers backed by the conservative Tea Party movement to increased borrowing, and a hyper-partisan Washington heading into election season, some fear a protracted fight over the borrowing limit could trigger another economic crisis.

"We are walking on eggshells," said Robert F. Wescott, president of Keybridge Research, which advises Fortune 500 companies on political and economic strategy.

"The markets are nervous. The economy is still getting its feet under it. One wrong word from a debt ceiling negotiator could produce a snowball effect in the markets -- and when it leaves, confidence leaves with the cavalry."

Treasury Secretary Timothy Geithner said on Monday he would begin to take extraordinary measures this week to stave off a potential U.S. government default. He predicts the debt limit will be breached next week, on May 16.

Geithner said he could avoid default until Aug. 2, but repeated his warning that a failure to raise the borrowing cap would have a "catastrophic" impact on the economy. And for the first time, he acknowledged that it could take weeks for Congress to vote on the issue.

If the debt ceiling is not raised, investors may fear that the United States could not repay its loans and so would sell U.S. government bonds. That would drive down bond prices and

force the United States to offer higher interest rates to make its debt more attractive to lenders -- a move that would lead to a dangerous spike in interest rates throughout the economy.

Geithner, along with a coalition of Wall Street banks, manufacturers and business groups, have been engaged for weeks in an intense lobbying campaign to persuade Republicans to back a borrowing limit increase, and to do it quickly.

But hopes of an early vote are fading. While Republican and Democratic leaders still believe a deal will eventually be reached, there are so many complications that nobody knows how an agreement will be struck or what it will look like.

"There are many moving parts, all of these wheels are spinning," said Stephen Hess, a senior fellow in governance studies at the Brookings Institution think tank in Washington.

"The question is getting from here to there -- and sometimes it's a lot more painful. Ultimately, it comes to a point where they've got to reach a deal. If they don't, it would be an incredible indictment of America's claim to be a serious power."

VOTERS OPPOSE RAISING LIMIT

The debt limit was first set in 1917 so the government could fund military operations in World War One without repeatedly having to ask Congress for appropriations. Since 1960, it has been raised 78 times, about once every eight months, according to the U.S. Treasury website.

It hit \$1 trillion in 1982, when the ratio of debt ceiling to GDP was just over 30 percent. Today, that ratio has risen to 95 percent.

As a result, the issue of government borrowing and debt has become a central issue on Capitol Hill, and in the minds of voters. Recent polls show two-thirds of Americans do not want the borrowing cap raised.

That has emboldened Republicans to demand major concessions from Democrats, insisting that any vote to raise the debt limit must include a concrete plan to slash the long-term deficit -- without raising taxes.

China sees growing demand for 'soft gold' cashmere

AFP, Ordos, China

Factory worker Wu Suqing hunches over a machine knitting a green cashmere sweater bound for a department store in China where demand for the luxury wool is growing even as Western sales shrink.

Surrounded by towering piles of brightly coloured pullovers, Wu and dozens of workers at a factory in northern China churn out more than 100,000 sweaters a year that retail in Beijing and Shanghai for hundreds of dollars each.

"At the beginning I was tired but now I'm used to it," Wu told AFP above the clamour of knitting machines in a dingy building in Ordos in northern China's Inner Mongolia, where she works 11 hours a day.

China is the world's largest producer of cashmere, churning out 75-80 percent of the global supply -- worth an estimated five to six billion yuan (\$770 million to \$920 million) per year.

This "soft gold" or "diamond fibre," as highly prized cashmere is known in the industry, has traditionally been exported to affluent overseas markets.

But China's growing taste for luxury products is changing that.

High-altitude northern and western China are ideal for producing the cloud-like wool. Their cold, dry winters cause the long-haired goats scattered across the region to give forth rich coats to keep the animals warm.

The soft fibre is spun into yarn and then knitted into sweaters, scarves and shawls sold by luxury brands such as Hermes and Eric Bompard in Paris, New York, and Sydney.

More than half of the country's cashmere clothing and accessories are still exported, but are finding a growing market in increasingly affluent Chinese cities.

"It is easy for a Chinese person to buy a cashmere sweater now. People are much richer than before," Zhang Quanxiang, vice director of the China Livestock Marketing Association's cashmere department, told AFP.

The number of Chinese-made cashmere sweaters exported in 2010 fell to 12 million, down 33 percent 2007, as the financial crisis hit US and

European buyers, said Zhang, former vice president of China's largest cashmere producer, Ordos Group.

But he adds that the growing Chinese market has helped offset that.

Raw cashmere prices have nearly doubled in recent years due to the Chinese demand, fewer goats following recent bitterly cold winters, and a ban on grazing the sharp-hooved animals on open land in Inner Mongolia to prevent soil erosion.

The rising prices have been life-changing for herders such as Meng Lounu, 77, whose family lives in a village on the edge of the vast Gobi Desert where they raise hundreds of goats in large earthen-floor pens.

The family earns one million yuan per year selling cashmere to factories in Ordos. Recently, they have been able to buy a new pick-up truck and build several block-shaped cement houses for family members.

"Our standard of living gets better and better," Meng said, herding dozens of long-horned goats around a yard strewn with dung and straw.

"Before, our life was bad, but now it's great. We can eat as much as we want -- we make more and more money," she told AFP, her brown face creased with wrinkles.

China is the world's fastest-growing market for luxury goods and is forecast to be the biggest by 2015, according to consultancy PriceWaterhouseCoopers.

A woman shopper at a wholesale outlet in Ordos, where a 100-percent cashmere sweater sells for up to 2,000 yuan, said she liked the soft fibre because it was comfortable.

"Our products are not considered that expensive -- it is more expensive to buy them in the stores in Beijing," a saleswoman told AFP.

The picture is less rosy for China's cashmere factories, whose profit margins have been eroded by the soaring wool prices and increasing competition from other Chinese manufacturers enticed by the growing market.

"The business is becoming more and more difficult," said Yang Wang, the owner of a factory in Ordos which makes about 100,000 sweaters a year mainly for the Chinese market.

"Cashmere factories are popping up every-



A young Cashmere goat, raised among others for their wool at a farm in Ordos, with head stuck outside a fence in Inner Mongolia, northwest China, where across the country demand for the soft wool is growing even as overseas demand falls.

where in China. And there are more than 10 factories of the same size in Ordos."

While Wu Suqing may not be able to afford one of the beautiful sweaters she makes, she understands why people are prepared to pay the equiv-

alent -- or more -- of her entire monthly salary for the luxuriant wool.

"It feels nice and is comfortable to wear," she said, sitting on a steel chair piled with folded cloth as a cushion.

"Cashmere factories are popping up everywhere in China. And there are more than 10 factories of the same size in Ordos"