China favours stronger yuan to fight inflation

AFP, *Beijing*

Confronted with fresh US pressure over its currency policy, China appears more willing to let the yuan strengthen at a faster pace to control inflation, its new primary concern, analysts say.

China has let the currency appreciate five percent against the dollar since vowing greater flexibility last June and Beijing has signalled the exchange rate will be used to curb rising prices and growing foreign exchange reserves.

As the world's two biggest economies meet in Washington from Monday for annual high-level talks, Washington will demand faster appreciation but experts say Beijing will go at its own speed and is prepared to change course if exports stall.

"There has been a real shift in the last couple of months," Alistair Thornton, an economist for IHS Global Insight in Beijing, told AFP.

"There's more public acceptance of what is driving inflation -- the exchange rate peg, which generates a lot of domestic liquidity in the economy."

Patrick Chovanec, an economics professor at Tsinghua University in Beijing, agreed.

China's leaders are "trying to put out fires and the fire of the day is inflation, and they are willing to allow currency appreciation if that fights inflation -- but only moderately," Chovanec told AFP.

"They are still concerned about the impact it will have on the export sector (and) if they felt they got inflation under control, then their willingness to allow currency appreciation could taper off quite a bit."

REUTERS

A customer gives Chinese Yuan notes as he purchases products from farmers at a vegetable market located on the outskirts of Beijing. China has let the currency appreciate 5 percent against the dollar since vowing greater flexibility last June.

The United States has been a strident critic of China's exchange rate policy, which it claims keeps the yuan grossly undervalued against the greenback and artificially cheapens Chinese exports at the cost of US jobs.

On Monday, the central bank set the yuan central parity rate -- the midpoint of an allowed trading band -- at 6.4988 to the dollar, the strongest rate since last June's promise for greater flexibility.

But David Loevinger, a senior Treasury Department official, said Thursday we "absolutely see a change in tone" from China as it confronts inflation.

"Eighteen months ago, the Chinese exchange rate was frozen. Today it's moving," Loevinger told reporters ahead of the two-day Strategic and Economic Dialogue.

Beijing, anxious about inflation's potential to spark social unrest in the country of more than 1.3 billion people, has made tackling soaring food and housing costs its number one priority this year.

But multiple interest rate hikes, tighter lending restrictions and price controls have had little impact. Inflation remained stubbornly high at 5.4 percent in March -- the highest annual rate since July 2008.

Premier Wen Jiabao last month made a rare pledge to increase the flexibility of the yuan's exchange rate to ease price pressures, suggesting top leaders were willing to accept a stronger currency to bring down domestic prices.

In a further sign that Beijing had shifted its stance, People's Bank of China governor Zhou Xiaochuan said last month that the size of China's foreign exchange reserves "exceeds our reasonable requirements".

Central vice governor Yi Gang was quoted by the state-run China Daily on Thursday as saying foreign exchange accumulation was the main source of excess liquidity in China.

For Thornton, those comments were "a real signal that the only way they can cap it (foreign exchange reserves) is by using the yuan appreciation a bit more aggressively".

Foreign currencies used to pay for Chinese exports are snapped up by the central bank in return for yuan, enabling authorities to control the value of the local unit.

The practice adds to China's world-beating foreign exchange stockpile, which soared past \$3 trillion at the end of March, and increases the amount of yuan in the domestic economy, fuelling inflation.

Despite the recent gains in the Chinese currency, Loevinger said the United States would press China "to let its exchange rate adjust at a faster pace to correct its still substantial undervaluation".

China made clear on Friday that while it was willing to talk about currency policy, it would not be pushed on the pace of appreciation.

"On these issues, to be frank with you, we have different views that make discussions necessary," Vice Finance Minister Zhu Guangyao told reporters.

Beijing was right to be concerned about inflation but a

India car sales growth slows

AFP, *New Delhi*

Indian car sales grew at the slowest pace in nearly two years in April, data showed Monday, as price hikes, rising fuel costs and more expensive loans kept buyers out of showrooms.

Domestic passenger car sales in Asia's third-largest economy rose by 13.18 percent to 162,825 units in April from 143,862 units in the same month the previous year, the Society of Indian Automobile Manufacturers (SIAM) said.

The growth was down from the more than 24 percent year-on-year jump posted in March and SIAM said it marked the slowest pace of expansion since June 2009.

"Consumer confidence is low" amid economic uncertainty, SIAM senior director Sugato Sen said.

Domestic car sales grew by 30 percent to 1.98 million units during last year -- the most in more than a decade -- fuelled by an increasingly affluent middle class, new model launches and cheap loans.

But industry experts have warned that surging raw material input costs of such goods as steel and rising domestic borrowing costs would put the brakes on such explosive growth.

"We expect there will be some delay in purchases due to higher interest rates and higher prices," SIAM's Sen said.

However, India remains the second-fastest growing auto market in the world after China and SIAM expects the Indian industry to overtake Brazil to become the sixth-largest auto market in the world during this fiscal year.

SIAM has forecast passenger car growth for the industry will "settle down at around 12 to 15 percent this year."

But other industry experts now suggest year-on-year growth in passenger car sales this year may turn out to be below 10 percent with interest rates rising.

India's commercial banks have hiked their lending rates in wake of aggressive tightening by the country's central bank to clamp down on stubbornly high inflation, pushing car loan interest rates as high as 14 percent.

EU eyes lower rates for Greece, Ireland amid chaos

REUTERS, *Brussels/Berlin*

The European Union is looking to lower interest rates on bailout loans to Greece and Ireland and is working on a second rescue for Athens in a chaotic effort to prevent a disorderly debt restructuring.

The executive European Commission said on Monday it hoped to see a decision within weeks on reducing the rate charged to Ireland to make Dublin's debt more sustainable.

"The Commission is clearly in favor of a rate cut," a spokesman for EU Economic and Monetary Affairs Commissioner Olli Rehn said. "The Commission is against debt restructuring."

The new Irish government's bid for lower interest payments has so far been blocked by Germany and France, which want Dublin to drop its veto on harmonizing the corporate tax base in Europe in exchange or raise its own low corporate tax rate.

In Germany, a senior lawmaker in Chancellor Angela Merkel's conservative party said a further cut in the rate on emergency loans to Greece, already reduced by one percentage point in March, would be justified if it carried out further reforms to reduce its debt risk.

Michael Meister, finance policy spokesman of Merkel's Christian Democrats, told German radio he opposed any idea that Athens should restructure its debt or that it should consider leaving the euro zone.

However, German Finance Ministry spokesman Martin Kotthaus told a news conference: "There is no discussion at the moment about extending the payment schedule or lowering the interest rates for Greece.

The calls for lower interest rates came after a select group of top euro zone policymakers held not-so-secret talks in Luxembourg on Friday evening on how to stem the currency bloc's deepening sovereign debt crisis.

The cost of insuring Greek, Irish and Portuguese debt against default rose further on Monday as market

REUTERS

A sculpture showing the euro currency sign is seen in front of the European Central Bank headquarters in Frankfurt.

jitters intensified over the risk that Greece may have to restructure its debt, forcing investors to take losses.

European shares fell amid signs the three euro zone states in intensive care are staging a bidding war for easier terms by pointing to concessions made to each other.

The jitters also followed a report by German magazine Der Spiegel alleging that Greece was considering leaving the euro zone, which drew indignant denials from Athens and EU ministers.

A German government spokesman said Merkel would meet European Commission President Jose Manuel Barroso, head of the EU's executive arm, and European Council President Herman van Rompuy, who chairs the bloc's regular summits, on Wednesday to review the situation.

A Greek exit from the euro had never been under discussion and was not now, he told a news conference.

Euro zone and EU finance ministers are due to meet next week to approve Portugal's aid program amid lingering uncertainty over whether Finland, which has a caretaker government and has not yet begun negotiations for a new coalition, will be in a position to give the required agreement.

Pressure is mounting for those meetings to deliver decisions on Ireland and Greece as well.

Responding to anger in some countries that were not invited to Friday's talks, a German Finance Ministry spokesman insisted there was no attempt to create a two-class euro zone.

Greek Finance Minister George Papaconstantinou, who attended the Luxembourg meeting, said investors did not believe his country could return to capital markets next year as envisaged in its EU/IMF plan, so it might need alternative funding.

Jean-Claude Juncker, chairman of the Eurogroup of finance ministers of the 17-nation euro area, said after Friday's talks there was a consensus that Athens would require a second rescue.

"We think that Greece does need a further adjustment program," he said after meeting with ministers from Germany, France, Italy, Spain, the EU's Rehn and European Central Bank President Jean-Claude Trichet.

He gave no details, but a euro zone source said one idea under consideration was for the European Financial Stability Facility rescue fund to buy Greek bonds in the primary market upon issuance next year, in return for a new form of collateral.

Germany posts record exports of €98.3b

AFP, *Frankfurt*

A pick up in global trade saw Germany post record exports and imports in March, official data showed Monday, while its trade surplus climbed more than 11 percent on a yearly basis to 18.9 billion euros (\$27 billion).

Germany recorded exports worth 98.3 billion euros (\$142 billion), a monthly increase of 7.3 percent, and also received a record amount of imports, worth 79.4 billion euros, for a monthly increase of 3.1 percent, the figures showed.

"That was the highest monthly figure recorded for both exports and imports since the collection of foreign trade statistics had started in the Federal Republic of Germany in 1950," the national statistics service said.

When adjusted for calendar and seasonal effects, the country's trade surplus came to 15.2 billion euros in March, the Destatis office said.

Citing data provided by the German central bank, it added that the current account of the balance of payments, a broad measure of a nation's trade with partners, came to 19.5 billion euros in March, up from 18.8 billion a year ago.

Also on an annualised basis, exports by Germany, the world's second biggest exporter after China, gained 15.8 percent, while imports were 16.9 percent higher, the figures showed.

"Since the trough of the recession, exports have increased by more than 30%, returning to their pre-crisis level," ING senior economist Carsten Brzeski noted.

Japan's Toshiba returns to the black

AFP, *Tokyo*

Japan's Toshiba on Monday said it returned to the black for the year to March, but warned the outlook remains uncertain due to the impact of the massive quake and tsunami in March.

Toshiba, whose business spans consumer electronics and nuclear reactors, reported a net profit of 137.8 billion yen (1.7 billion dollars) for the financial year, reversing a bottom line loss of 19.7 billion yen a year earlier.

The company's operating profit nearly doubled to 240.3 billion yen on revenue of 6.4 trillion yen, up 1.7 percent from the previous year, it said.

The electronics giant said the profit and sales gains were mainly due to strong demand for television sets and its memory chips, which are used in smartphones and tablet computers.

For the year to March 2012, it forecast a net profit of 140 billion yen, an operating profit of 300 billion yen on revenue of 7.0 trillion yen.

But it said "the outlook still remains uncertain" due to the impact of the disasters that paralysed the economy in northeastern Japan and crippled a nuclear power plant in Fukushima.

Toshiba was forced to close a chip-making factory in Iwate Prefecture in Japan's quake-hit northeast, which has since partially resumed production.

Supply chains have been broken and power shortages have hit production across key industries, with the impact of the disasters threatening to throw Japan's export-driven economy into a temporary recession, analysts say.

Many key component manufacturers are based in the worst-hit regions of Japan, their facilities damaged by the 9.0 magnitude earthquake or inundated by the giant wave that followed.

The shortage of key parts has hit companies worldwide and affected production across Europe, the United States and Asia.

AFP

A vendor pushes his cart laden with tomatoes with his son sleeping underneath along a street of Hyderabad, India yesterday. Inflation, fed by food and fuel price rises, has been one of the biggest headaches for the Congress-led government headed by Premier Manmohan Singh, whose coalition is also reeling from a string of corruption scandals.