China and US to spur luxury sector

REUTERS, *Paris/New York*

The global luxury goods market is recovering much faster than most expected a year ago, bolstered by China, strong tourist spending in Europe, resurgent growth in Russia and the US economic recovery.

Barring unforeseen events that could either dent consumer sentiment or hamper travel and tourist shopping, such as political unrest in the Middle East or another economic slowdown, executives and analysts expect the sector to enjoy several more years of sustained growth.

At the Reuters Global Luxury and Fashion Summit on May 23-25, top industry executives will discuss the outlook, challenges such as production bottlenecks and staff shortages, and trends in dealmaking.

Luxury's prospects are encouraging industry leaders like LVMH to resume the hunt for acquisitions, and prompting popular brands such as Ferragamo and Moncler to mull initial public offerings.

On Sunday, Germany's Labelux Group said it was buying British luxury shoemaker Jimmy Choo.

Paris-based investment firm Pictet Asset Management believes that valuations of luxury companies should rise back up to their historical averages of 20 to 22 times future earnings, compared with 17 times now, given this outlook.

If all goes to plan, fashion house Prada will soon be the first Italian company to float shares in Hong Kong, eager to tap Asia's luxury-hungry investors and consumers.

Coach Inc, a New York Stock Exchange-listed leather handbag maker, is planning to also list shares in Hong Kong to raise its profile in Asia, the fastest growing luxury market.

The effects of surging prices for raw materials such as cotton, leather, gold and silver will also be in focus at the Summit, as will the question of which emerging markets will be the next big engine of growth alongside China.

Many expect Greater China -- including Macau, Taiwan and Hong Kong -- to narrow its gap this year with Japan, the world's second-largest luxury market behind the United States, and possibly overtake it.

Several European brands such as Hermes, L'Oreal and Prada have invested in home-made Chinese design and luxury, while some Chinese luxury brand owners are looking west and seeking to make acquisitions in Europe.

REUTERS

A woman looks at a Jimmy Choo open-toed slingback shoe displayed in a shop window on Via Condotti in central Rome.

RISING COSTS, RETURN OF "ASPIRATIONAL SHOPPERS"

Earlier this month, US consultant Bain raised its 2011 growth forecast for global luxury sales to 8 percent at constant currencies from a 3 percent to 5 percent range after sales results from major luxury companies such as LVMH, Burberry, PPR, Saks Inc, Tiffany & Co and Tod's, comfortably beat market expectations.

In the United States, luxury spending has come roaring back, helping by rising consumer confidence and stock markets.

Bain's study, conducted with Italy's Fondazione Altagamma, estimates that the US luxury market -- nearly three times larger than those of Japan or China -- grew 16 percent in 2010 to reach $68 billion (48.1 billion euros).

Experts see a lot of upside left.

"When you look at luxury spending per capita, American people are still far below what you see in some other countries," Jean-Marc Bellaiche, a senior partner at The Boston Consulting Group, told Reuters. "The penetration of luxury in the US is low so there is probably a lot of potential."

After suffering large sales declines during recession, US luxury department stores such as Saks and Neiman Marcus Group Inc, have outperformed their down-market rivals.

At the same time, those retailers, as well as Coach and Nordstrom Inc, are expanding their outlet store chains to cater to the "aspirational" luxury shoppers -- people of modest means who covet brand names -- who Saks CEO Stephen Sadove said last week have returned in droves.

Outlet stores are no-frill locations where retailers sell merchandise they could not sell at their full-service stores.

Retail executives in the United States at the Summit will look at whether such initiatives, which may be profitable in the short-term, will damage their image long-term.

The 2011 Reuters Global Luxury and Fashion Summit is taking place in New York, Paris, London, Shanghai and Hong Kong.

Asia's reticence costs it a shot at IMF power

REUTERS, *Singapore*

The world's power brokers lined up candidates to head the IMF while Asia held back, and its silence means it will probably have to wait five more years to break Europe's grip on the top spot.

Emerging market powerhouses including China and India have long clamoured for more clout within the International Monetary Fund, commensurate with their growing economic strength.

Last year, they won a hard-fought battle for a bigger share of IMF voting rights and convinced the fund to reconsider its long-standing opposition to capital controls.

So why the reticence when presented with a golden opportunity to claim the managing director post following Dominique Strauss-Kahn's sudden resignation?

Forging quick consensus is never going to be an easy proposition in a region of such extremes, encompassing impoverished Bangladesh and wealthy Japan; Communist China and the world's largest democracy, India.

It's even tougher when the task at hand involves controversial questions of politics and economics.

It may be more convenient for Asia to sit idly by this time around with the understanding that it will make its preferences known next time. Even that seemingly anodyne point is so sensitive in Asia that no policymaker has made it publicly, although it was raised by at least one official on the condition neither his name nor his nationality was published.

Contrast that with Europe, which quickly rallied around French Finance Minister Christine Lagarde to take the job that has traditionally gone to a European since the IMF was formed at the end of World War Two.

France's budget minister said that Lagarde had China's support as well, all but assuring she would have sufficient backing to win a five-year term.

China's foreign ministry declined to comment on whether Beijing had backed Lagarde. An emerging market official said there was considerable discussion between Asia, Latin America and Africa, and another candidate could still emerge.

Internet barons gather at 'e-G8'

AFP, *Paris*

The world's most powerful internet and media barons gathered in Paris on Tuesday in a show of strength to leaders at the G8 summit, amid rows over online copyright, regulation and human rights.

French President Nicolas Sarkozy kicked off the gathering in Paris, hailing the assembled players as the leaders of the "internet revolution", but warning that with their power comes great responsibility.

He hailed the role of the internet in helping protestors organise recent Arab uprisings such as the revolutions in Tunisia and Egypt, but insisted it must be underpinned by "values" and "rules."

"The people of the Arab countries have shown the world that the internet does not belong to states," Sarkozy said. "The internet has become the measure of credibility of democracies and the measure of shame of dictatorships."

Top executives from online giants including Google, Facebook and Microsoft attended the gathering to tout the economic potential of the internet, which Sarkozy has put on the agenda of the G8 summit he is hosting two days later.

With blogs and Tweets oiling the wheels of revolutions in some countries and scans and downloads sparking trade disputes in others, the stakes are high for leaders seeking to promote and profit from the web but also to regulate it.

Authorities in several countries have clashed with Google, the world's biggest internet search engine, notably in China, where the company accused the government of hacking dissi-

Nestle buys US firm as part of food pharma drive

REUTERS, *Zurich*

Nestle, the world's biggest food group, has agreed to buy U.S. gastrointestinal diagnostics firm Prometheus Laboratories for an undisclosed sum as part of its drive into foods with health benefits.

Nestle said in a statement that Prometheus, which is expected to have annualized 2012 sales of around $250 million, focuses on conditions such as inflammatory bowel diseases, including Crohn's disease and ulcerative colitis.

Luis Cantarell, head of the health science unit created at the beginning of the year, said the acquisition would help Nestle accelerate its current and future healthcare business.

"It will enable new personalized healthcare solutions based on diagnostics, pharma and nutrition," he said in a statement.

While Nestle declined to give financial details, Vontobel analyst Jean-Philippe Bertschy estimated Nestle might have paid more than 1 billion Swiss francs ($1.13 billion) for the firm.

"The combined entity will be able to leverage the products and geographic presence in gastrointestinal diagnostics. We see that acquisition as a decisive step for Nestle," he said.

The Vevey-based maker of Nescafe coffee, KitKat chocolate bars and Maggi soup has said it plans to invest about 500 million Swiss francs into the new health science division over the next decade.

In February, it bought UK-based CM&D Pharma Ltd., which makes a chewing gum to help people suffering from kidney disease as well as other products for patients with inflammatory bowel disease, and colon cancer.

Nestle shares were up 0.4 percent at 54.70 francs at 3:32 a.m. EDT, compared to a near flat European food and beverage index.

AFP

France's Economy Minister Christine Lagarde (C), surrounded by Culture Minister Frederic Mitterrand and anked by Ruppert Murdoch (C), chairman and CEO of News Corporation, and wife Wendi Deng, attends the e-G8 meeting gathering internet and information technologies leaders and experts at the Tuileries gardens in Paris yesterday. The heads of virtual giants Facebook, Google, and eBay were invited to meet to formulate proposals on the future on the internet ahead of the G8 summit in France.

Diesel demand may surge as subsidies prompt switch

REUTERS, *New Delhi*

Diesel demand will surge in India this summer as subsidies make it cheaper than fuel oil for burning in power plants and factories, potentially tightening distillate supplies in Asia if New Delhi does not act soon to raise local tariffs.

The government caps prices of diesel, the most common fuel for transport and its large farm sector, to protect the poor and control inflation. Fuel oil is sold at international rates, which are close to their highest since 2008.

The distortion in the relationship between fuel oil and diesel may result in the nation's diesel imports rising by as much as 30 percent on the year, traders and analysts said, at a time when supplies in Asia are expected to be thin as China clamps down on exports to meet a surge in summer demand.

"In some states a litre of fuel oil is costlier than diesel. Industrial users have already started switching to diesel, which is cheaper and cleaner," said R.K. Singh, chairman of Bharat Petroleum Corp, the nation's third-biggest refiner.

The Paris-based International Energy Agency sees India's diesel demand rising 6.3 percent this year to 1.3 million barrels per day (bpd), while fuel oil demand is seen falling 5.4 percent to 368,000 bpd. But with fuel oil prices rising above diesel, those trends could be exacerbated.

Fuel substitution has already propelled a sharp acceleration in diesel demand growth in May to around 15-18 percent from a year earlier, Singh and other industry sources estimated. That was up from growth in diesel sales of just 1.7 percent in April.

To meet the switch, Indian imports would need to rise despite the startup of two new refineries -- the 120,000 bpd Bina refinery in central India and 180,000 bpd Bathinda plant in the north -- this fiscal year.

REUTERS

An employee fills a vehicle with diesel at a fuel station in New Delhi.

"The way demand is going up diesel imports could bounce back to the 2.5 to 2.6 million tonnes... from about 2 million tonnes in 2010/11," an Asian oil trader said.

That would equate to imports of around 53,000 bpd this year, up from around 41,000 bpd. The difference would be about 12,000 bpd over the year. The rise would be concentrated in summer, so the difference would be much higher during those months.

The retail price of diesel in India translates to $84 a barrel in Singapore markets, where benchmark 0.25 percent diesel now costs about $125 a barrel and 180 centistoke fuel oil is about $98 a barrel.

The government has put off a decision to raise diesel and cooking fuel prices, a political hot potato as it juggles double-digit inflation, a soaring deficit and a voter base which has already voiced outrage over gasoline price increases.

It wants to save on subsidy payments and boost revenues at state-run oil companies, despite the impact on already high inflation, which the central bank has failed to cool with nine rate rises since March 2010.

"Diesel is a versatile fuel. It is like a 'go to' fuel for power, small industries and automotive sectors," said Praveen Kumar, senior consultant at FACTS Global Energy in Singapore.

FACTS estimates India's diesel demand could rise by 4.5 percent in 2011, a little slower than the IEA estimate, on top of high growth of about 7 percent seen in 2010, Kumar said. He also estimated that imports would need to rise by as much as 30 percent in 2011.

2008 AGAIN?

In 2008, fuel oil and naphtha prices were way above diesel, leading to a 16.9 percent rise in demand during May that year, triggering heavy imports, said S. Thangapandian, head of marketing at Essar Oil.

"If we don't discourage use of diesel by keeping it close to market-related prices, it will replace the cheaper fuels like light diesel oil and furnace oil," Thangapandian said. "A situation like 2008 could emerge when diesel demand was in double digits and we had to import heavily."

India is a net exporter of refined fuels. This is a result of the split between private and state refiners.