

World watches and hopes US will avoid debt 'suicide'

REUTERS, Singapore

Policy-makers worldwide oscillated between hope and confidence on Monday that US lawmakers will break a debt impasse that threatens to trigger a default and up-end global financial markets.

Asia, which holds close to \$3 trillion in US government debt, has a powerful vested interest in Washington finding a workable compromise. Policy-makers and economists expected lawmakers would strike a last-minute deal to avert a crisis.

The political brinkmanship hit world stocks on Monday and pushed money into safe-haven gold and Swiss francs, ending a brief relief rally over Greece's second bailout package, although there was no sign of panic.

But with just eight days left before Aug. 2, when the Treasury Department has estimated it will run short of money to pay all of its bills, the worry level was rising.

"Those in direct charge of reserves operations must be more nervous than before, but nobody thinks Americans will choose suicide when they have known solutions," said a senior official at the Bank of Korea, who spoke on condition of anonymity.

Fresh from pulling together a new bailout of debt-ridden Greece, Berlin also expected Washington would raise its debt limit.

"We have... followed the debate in America with great interest and we continue to remain confident that a compromise can be reached," German government spokesman Christoph Steegmans told a news conference.



Photos of yuan (top) and U.S. dollar banknotes are displayed at a money exchange in Hong Kong.

REUTERS

Others were less sanguine, and much blunter.

"The irony of the situation at the moment ... is that the biggest threat to the world financial system comes from a few right-wing nutters in the American Congress rather than the euro zone," British government minister Vince Cable said on Sunday.

Asian sources said finding a solution was primarily a matter of mustering political will rather than securing rescue funding, which can be far more complicated, as Greece's crisis has shown.

"They will definitely reach a

compromise," said Xia Bin, an academic adviser to the People's Bank of China. "Don't worry too much about it."

China is the largest foreign owner of US government debt, with \$1.16 trillion as of May, so a vote of confidence from Beijing carries significant weight.

A senior Indian government official said the Obama administration and lawmakers must be well aware of the consequences for global markets of failing to reach a deal.

"If you look at the world markets, they are jittery though they have not nose-dived," the Indian official said.

Australian Treasurer Wayne Swan said a protracted debt ceiling debate added uncertainty to the global economy.

"With the global recovery and confidence still fragile, it's in everyone's interests that U.S. policymakers work towards a speedy resolution," Swan said in an email to Reuters.

Congress has set the US government's borrowing limit at \$14.3 trillion, but the Treasury has already tapped that amount and needs more to meet its obligations. Republicans want an agreement on spending cuts before they authorise more borrowing. Democrats want to

see a mix of lower spending and higher taxes.

Ratings agencies have warned that even if Congress raises the debt ceiling and averts a default, they may still strip the United States of its AAA credit rating, the highest possible, if lawmakers fail to agree on deeper long-term budget cuts.

A lower credit rating could raise borrowing costs not only for the US government but also for other countries, companies and consumers because US Treasuries are the benchmark by which many loans are measured.

U.S. Secretary of State Hillary Clinton, speaking in Hong Kong, said she believed Congress would secure a debt deal and "work with President Obama to take steps to improve our long-term fiscal outlook".

Ethan Harris, co-head of global economic research at Bank of America-Merrill Lynch, said he expected a temporary increase in the debt ceiling with the promise of up to \$4 trillion in deficit reductions to be finalised six months later.

"The base case scenario can be summarised as 'appease and delay' -- appease the rating agencies and the market with the beginnings of a large plan, but in actuality delay the crisis further into the future," Harris said.

Robert Tipp, chief investment strategist at Prudential Fixed Income in Newark, New Jersey, said the U.S. Treasury may have a bit of wiggle room on the Aug. 2 deadline because tax revenues had exceeded expectations. But that would buy days, not weeks.

Moody's warns Greek default almost certain

REUTERS, Athens

Moody's cut Greece's credit rating further into junk territory on Monday and said it was almost certain to slap a default tag on its debt as a result of a new EU rescue package.

It was the second rating agency to warn of a default after euro zone leaders and banks agreed last week that the private sector would shoulder part of the burden of a rescue deal that offers Greece more cash and easier loan terms to keep it afloat and avoid further contagion.

"The announced EU program along with the Institute of International Finance's statement implies that the probability of a distressed exchange, and hence a default, on Greek government bonds is virtually 100 percent," Moody's said in a statement.

Bank lobby IIF, which led private sector negotiations, aims to attract 90 percent investor participation in the bond exchange plan which comes on top of the EU's new 109 billion euro bailout.

Moody's cut Greece's rating by three notches to Ca, just one notch above default, to reflect the expected loss implied by the proposed debt exchanges.

Greece now has the lowest rating of any country in the world covered by Moody's, which, like Fitch last week, said it would review Greece's rating after the debt swap is completed.

"Once the distressed exchange has been completed, Moody's will reassess Greece's rating to ensure that it reflects the risk associated with the country's new credit profile, including the potential for further debt restructurings," it said.

However, whereas Fitch pledged to quickly give Greece a higher, "low speculative grade" after its bonds had been exchanged, Moody's said it could not forecast when the rating would change or how.

"It all depends how quickly the debt exchange takes place," said Alastair Wilson, Moody's Managing Director for EMEA Credit Policy. "Once we have greater visibility over that, we will reassess the credit profile quite quickly. Whether the rating will change, that's a different question," he told Reuters.

Chinese city orders two fake Apple shops to close

REUTERS, Kunming

Chinese officials in Kunming have ordered two fake Apple shops to close, not because of piracy or copyright concerns, but because the stores in the southwestern city did not have an official business permit.

Five self-branded "Apple Stores" were found to be selling Apple products without authorisation from the California-based company but only two were told to shut, officials said.

An investigation into the stores was apparently sparked by a storm of media attention over an elaborate hoax Apple shop discovered by an American blogger. The order did not apply to that store, which is applying for a reseller licence with Apple, a local government spokesman said.

"Media should not misunderstand the situation and jump to conclusions. Some overseas media has made it appear the stores sold fake Apple products," said

Chang Puyun, spokesman of Kunming government's business bureau.

"China has taken great steps to enforce intellectual property rights and the stores weren't selling fake products."

Officials are investigating whether Apple had applied with the Chinese government to have its store design and layout protected by law, Chang added.

Inspections of around 300 shops in Kunming were carried out after a blog post by an American living in the city exposed a near-flawless fake Apple Store where even the staff were convinced they were working for the iPhone and iPad maker.

In addition to protecting trademarks, Chinese law prohibits companies from copying the "look and feel" of other companies' stores, but enforcement is often spotty.

The United States and other Western countries have often complained China is woefully behind in its effort to stamp out intellectual property theft.

Quake hits Canon profit

AFP, Tokyo

Japanese high-tech giant Canon said Monday first-half net profit fell on the impact of the March disasters as the yen strengthened, but raised its forecasts amid a faster-than-expected recovery.

The maker of PowerShot digital cameras and office equipment said it had made steady progress in restoring production after the earthquake and tsunami and its ability to limit the impact of the tragedy was "better than expected."

It also cited a continued demand recovery in overseas markets, with the laser printer market in particular boosted by emerging economies.

January-June net profit slipped 12.2 percent to 109.3 billion yen (\$1.4 billion) from a year earlier while operating profit slipped 19.7 percent to 160.9 billion yen. Sales slipped 2.9 percent to 1.68 trillion yen.

The April-June quarter alone saw net profit tumble 20.4 percent to 53.9 billion yen as post-quake production disruption took hold.

Despite the impact of the twin tragedy and the uncertainties associated with a strong yen, Canon upped its annual net profit forecast in anticipation of "a second-half boost in sales supported by the swift recovery of production".

It now forecasts net profit to rise 5.4 percent this year to 260 billion yen compared with 246.6 billion yen a year ago. Operating profit is set to fall 1.9 percent to 380 billion yen.

In April the company warned that its outlook was "extremely uncertain" after the March 11 quake and tsunami damaged

Bruised mobile firms rally on tariff hike prospects

REUTERS, New Delhi/Mumbai

India's top cellular carrier Bharti Airtel's move to increase call prices in some regions could mark a turning point for the world's fastest growing market battered by a vicious price war over the last two years.

Expectations of improved profitability sparked a sector-wide rally and shares in leading companies jumped between 5 and 16 percent on Monday, making them the day's top performers.

Bharti's rivals such as Vodafone Essar and Idea Cellular are also expected to increase some call prices, analysts say, although smaller players might steer clear of price rises to hold onto market share in the cut-rate sector.

With more than 850 million subscribers, India's mobile phone sector has been the world's fastest-growing, but operators have traditionally sacrificed profits to chase growth, resulting in wafer-thin margins for companies operating in the 15-player market.

"Tariff war is finally over and it's positive news for all the players in the sector because these low levels of tariffs are not sustainable at all," said Taina Erjauuri, a Helsinki-based portfolio manager with FIM India, which owns Bharti stock.

Call charges have slumped to as low as 10 paisa (less than 1/4th of a US cent) for a minute of local calls after smaller companies triggered a price war in late 2009.

Call rates have steadied since, but Bharti's move to raise prices last week is the first by an incumbent in at least two years and follows smaller rival Tata Teleservices' increase in some call prices last month.

"While there have been other sporadic attempts from weaker players, we see the tariff increase by the market leader Bharti as a fundamental change in the sector and it addresses our concerns on material pricing lift for the industry," Religare



REUTERS

A man talks on a mobile phone in front of a Bharti Airtel advertisement in Jammu.

analysts wrote in a note.

The brokerage upgraded its rating on Bharti and Idea to "buy" from "hold" and raised its outlook for the Indian telecoms sector to "overweight" from "neutral".

Bharti shares rose as much as 6.7 percent on the Bombay Stock Exchange to their highest level since October 2009. The stock is up nearly 20 percent this year in a falling market, making it the top performer in the index.

With about 170 million mobile customers in India, Bharti accounts for nearly a fifth of the market.

"While the near-term impact on financials would be limited, we believe the hikes mark an earlier-than-expected revival in wireless tariffs and are a long-term positive for earnings," Yogesh Kirve, analyst at brokerage Anand Rathi wrote in a note.

Shares in No.2 mobile carrier Reliance Communications jumped more than 16 percent, while fourth-ranked Idea surged as much as 10.5 percent on hopes for tariff increases.

Regulatory uncertainty over licences has also engulfed the Indian mobile sector as a probe into a massive scandal in the grant of telecoms licences and radio air-

waves in 2007-08 is on, but it mostly involves the smaller firms.

Bharti, which has reported a decline in quarterly net profit for five consecutive quarters to March, said in a statement on Friday it had "little choice but to make some price corrections", citing factors including declining margins and high costs of radio airwaves it bought in an auction last year.

The company did not give details of the price increase, but sources with knowledge of the matter said Bharti had increased prepaid call prices by about a fifth in six of India's 22 telecoms zones.

Companies including Bharti spent a total \$24 billion, far more than expected, in a state auction last year to buy radio airwaves for third-generation (3G) and broadband services, with most of it funded by debt.

"The operators will have to pass on some costs to customers because their balance sheets are quite stretched now due to the significant investments they have to make for 3G rollout," said Erjauuri of FIM India.

In the past few months, companies in India have rolled out 3G networks and are betting on the growth of high-margin data services, but voice calls are expected to remain their mainstay over the next few years.



British Finance Minister George Osborne (L) greets Indian Finance Minister Pranab Mukherjee outside 11 Downing Street in central London yesterday. The two politicians took part in 'UK-India Economic and Financial Dialogue meetings' Monday.

AFP