

Obama seeks "Plan B" as debt plans stall

REUTERS, Washington

A Republican plan to cut the US deficit faced delay and stiff opposition on Wednesday, raising the risk of default and a ratings downgrade as the clock ticks toward a deadline less than a week away.

Deeply divided Republican and Democratic leaders are scrambling to find common ground before August 2, when the government is expected to hit its \$14.3 trillion borrowing limit that could trigger a default and roil world markets.

Even if that fate is avoided, a budget plan that flinches from hefty cuts in the deficit could result in a downgrade of America's top-notch credit rating, raising borrowing costs and dealing a severe blow to the country's weak economic recovery.

After weeks of acrimonious debate, the contours of a possible deal have emerged but Republicans and Democrats are digging their heels in on some key demands and blaming each other for putting politics ahead of the national interest.

Lawmakers need to carve out a budget plan to clear the way for Congress to raise the borrowing limit.

The chances of a quick resolution receded after a vote on a deficit plan by the top Republican in Congress was pushed back to Thursday from Wednesday.

Republican Speaker John Boehner rushed to rework his bill after an analysis found it would cut spending by \$350 billion less than the \$1.2 trillion over 10 years he



US President Barack Obama speaks in a rare prime-time address to the nation on Monday.

had claimed.

President Barack Obama has threatened to veto the Boehner plan and top Senate Democrat Harry Reid described it as "dead on arrival."

The plan has also failed to win the backing of conservative Tea Party Republicans, who have steadfastly refused to back tax rises and want much heavier cuts to social programs that are traditionally protected by Obama's Democrats.

The White House said on Tuesday it was working with Congress to craft an unspecified "Plan B," providing a glimmer of hope that an 11th-hour deal could be reached as lawmakers feel

the pressure from increasingly anxious financial markets.

The gridlock dragged global stocks down on Wednesday, particularly in Europe. Worried investors shifted funds into traditional safe havens gold and the Swiss franc, which both rose to record highs in dollar terms.

The cost of insuring against a US debt default in the next year increased to a record high.

Still, there have been no signs of panic in markets because most investors expect a deal will be struck by the deadline.

"The market is expecting both sides to take it to the

edge, to push it as long as possible given the politics and given the cost to any side which backs down and loses one of its core interests too early on," said Stephen Green, head of research for Greater China at Standard Chartered Bank.

However, the bank's Chinese clients take a more pessimistic view on America's longer-term fiscal health, Green said.

"Many of them look at the politics in the US and see that it's so dysfunctional that they're losing hope that the US can actually get its fiscal house in order," he told Reuters.

Failure to reach a deal would have major implica-

tions. A Japan central bank policymaker warned a US default or a ratings downgrade would be felt well beyond the United States.

"As the world's biggest economy, the US would have an immeasurable impact on global financial markets and Japan would not escape the damage," said Hidetoshi Kamezaki, a board member of the Bank of Japan.

France's budget minister, Valerie Pécresse, urged Washington to come to an agreement.

"The global economy needs an American agreement," the minister said.

"WRAPPED UP IN A BOW" Americans also are overwhelmingly concerned about the crisis, a Reuters/Ipsos poll showed. A majority of 56 percent support a mixture of tax increases and spending cuts that Obama has advocated and Republicans have dismissed.

Despite their differences - sharpened by the looming presidential and congressional elections in November 2012 -- there is common ground between Boehner's bill and a rival plan by Reid that calls for a \$2.7 trillion deficit reduction over the next decade.

Reid said he could not understand why Republicans did not support the plan he presented since it does not raise taxes and the spending cuts in the proposal have been endorsed by them.

"It's everything Republicans have demanded wrapped up in a bow and delivered to their door," he said.

Obama has said he cannot accept Boehner's two-step deficit plan because it extends the Treasury's borrowing authority only until early next year, risking a rerun of the debt impasse during the election campaign.

Obama, who will run for a second term, has backed Reid's one-step plan, which has a hike to the \$14.3 trillion debt limit that would carry through the elections.

Neither plan goes far enough with deficit cuts to guarantee the US sovereign credit rating will not be downgraded, an action that would dent the global safe-haven status of the dollar and Treasury bonds.

All three big credit-rating agencies have warned the United States needs to come up with a credible deficit plan to keep its top AAA rating in the long term.

Executives from Standard and Poor's and Moody's Investors Service are due to appear before a congressional panel on Wednesday, where they will face scrutiny over their views on the debt ceiling debate.

Obama and Treasury Secretary Timothy Geithner have stressed the government will run out of room to borrow funds on August 2, next Tuesday.

But Treasury officials have never said when the government will exhaust its funds to pay the nation's bills and the consensus among Wall Street analysts is that the cash will not run out until about two weeks later than that.

Moody's cuts Nokia rating by 2 notches

REUTERS, Helsinki

U.S. ratings agency Moody's cut its credit rating on bonds of struggling Finnish phone maker Nokia Oyj by two notches on Wednesday and said the outlook on the rating was still negative.

A spokesman for Nokia said the rating cut would have no material impact on the company's current financing costs.

Fitch and S&P cut Nokia's credit ratings last month.

Last week Nokia reported a steep net loss for the June quarter and surrendered its lead in the global smartphone market -- which it created in 1996 with its first Communicator model -- to rival Apple.

In recent years Nokia has failed to match the appeal of Apple and phones using Google software. It is now pinning its turnaround hopes on a new suite of devices using Microsoft software, which are due to start reaching consumers in late-2011.

"Visibility for Nokia's future operating metrics such as mobile phones sold or average selling prices is currently very low due to the transition in its product offering," Moody's said in a statement.

However, it said Nokia has maintained a strong liquidity position and capital structure, which should support the transition process by covering possible cash burn.

India gold seen powering to another high



A woman checks a gold waist belt inside a jewellery shop on the occasion of the Akshaya Tritiya festival in Hyderabad.

REUTERS, Mumbai

India gold, which hit a record on Monday, are likely to extend gains for a second straight quarter to its peak as investors seek refuge from U.S. debt crisis and surging inflation, though physical demand cringing as a result could keep a lid on gains, a Reuters poll revealed.

Gold had recorded its earlier all-time high on April 30.

"Major factors in the coming quarters could see gold rising as high as \$1,650 (an ounce) by 2011 end. Euro zone debt fears and U.S. economy troubles are positive for gold," said Gnanasekar Thiagarajan, director with Mumbai-based Commtrendz Research.

The most-traded August gold on the Multi Commodity Exchange (MCX) struck a record high of 23,358 rupees per 10 grams on July 25, before easing to 23,179 rupees on Wednesday.

Gold may test 23,500 rupees by

the end of September quarter and could extend gains to 23,950 rupees in December quarter and 24,400 by the end of March quarter in 2012, the poll estimated.

"Decrease in purchasing power due to rising inflation may force more traders to convert assets into bullion," said Sugandha Sachdeva, in-charge of metals and energy research with Religare Commodities.

The U.S. House of Representatives decided to postpone a vote on a plan to raise the debt ceiling until Thursday at the earliest, narrowing the chances for a deal to avert a debt default, which has supported the yellow metal so far.

"Long-term view on precious metals continues to remain bullish taking into consideration the ongoing European debt crisis," said Reena Walia Nair, senior research analyst with Angel Broking.

"High oil prices and a slowdown in economic growth on the back of monetary tightening will also sup-

port demand for gold."

PHYSICAL BUYERS CAUTIOUS

Physical buyers, however, are likely to turn cautious of getting stuck with high-priced inventory ahead of the festival season next month, limiting gold gains.

India, world's No. 1 gold importer, bought 286 tonnes of gold overseas in the first quarter, up nearly 10 percent from a year ago, World Gold Council data show. The country imported 959 tonnes of gold in 2010, or an annual increase of 72 percent.

"We expect buyers to return from first week of August as compulsive buyers for marriage would reappear, but how high prices would make them react is a million dollar question," said Daman Prakash Rathod, former convener of Tamil Nadu Bullion Forum.

"As of now while western world is busy buying due to financial woes at their door, Indians have taken an extended holiday."

Boeing profit soars in second quarter

AFP, New York

Boeing reported Wednesday second-quarter profit rose 20 percent from a year ago and raised its forecast for 2011 earnings.

The US aerospace and defense giant posted net profit of \$941 million and said that commercial aircraft as well as a strong core performance across the company's businesses had produced a banner April-June period.

Revenues rose 6.0 percent from the 2010 second quarter, to \$16.5 billion, the Chicago-based company said in a statement.

Earnings per share of \$1.25 were 18 percent higher than a year ago and much better than the average analyst estimate of 96 cents.

"Strong operational performance drove double-digit margins at both of our major businesses and produced outstanding results in the quarter," Jim McNerney, Boeing chairman, president and chief executive, said in the statement.

McNerney said the company had made "major progress" toward certification and delivery of the new 787 Dreamliner and 747-8 this year and continued "disciplined" increases in commercial airplane production rates.

"Our outlook for the year has strengthened as our team continues its relentless focus on productivity improvement, cash management and program execution."

Earnings from operations leaped 17 percent to \$1.5 billion as the operating margin rose 0.9 points to 9.3 percent.

Greece appoints debt buyback advisers

AFP, Athens

Greece has appointed advisers to help it buy back billions of euros of maturing debt under a new rescue agreed with the European Union, the finance ministry said on Wednesday.

The ministry said that BNP Paribas, Deutsche Bank and HSBC had been named co-sponsors to apply a "voluntary" exchange of Greek bonds held by private sector investors under the terms of the EU bailout deal.

New York-based law firm Gottlieb Steen & Hamilton were also appointed to provide legal advice while asset managers Lazard were tapped to offer financial advice, the ministry said in a statement.

Representatives of the International Institute of Finance, a global banking association which negotiates debt restructuring, are to hold talks in Athens on Thursday on the issue, a ministry source said.

Last week, eurozone leaders agreed on a second rescue package for Athens worth 109 billion euros (\$158 billion), plus about 50 billion euros from the private sector up to 2014 alone.

"These are historic decisions, even if they still require strengthening and fur-

ther elaboration," Prime Minister George Papandreou told his Socialist lawmakers on Wednesday.

Greece hopes to reduce its crushing debt, currently at over 350 billion euros, by 26.1 billion euros by buying back or rolling over maturing debt, and from lower interest on an earlier 110-billion-euro bailout from the EU and the International Monetary Fund.

"Bond buyback on the secondary market is something we had claimed for some time, to be able to intervene on the appetites and speculation frequently existing on international markets," Papandreou said.

Deputy finance minister Filippos Sahinidis this week said the process could start in August.

European leaders hailed the bailout deal -- which is designed to also relieve pressure on other weak EU economies -- and markets initially rose in response.

But once an initial wave of relief passed, analysts pointed out obstacles to it being implemented.

The IIF has said that private sector investors "will contribute 54 billion euros from mid-2011 through mid-2004 and a total of 135 billion euros to the financing of Greece from mid-2011 to end 2020."



Imported fruit and vegetables are unloaded from a boat at a jetty on the island of Male, the capital of the Maldives, yesterday. Maldives adopted a multi-party system in 2008 ending decades of one-party rule, but has been battling social unrest with prices rising and local population complaining of a lack of jobs and an increase in petty crime.

AFP