Thailand's hopes to escape recession dimmed by output fall

REUTERS, Bangkok

Thailand's economy may not easily pull out of recession, data on factory output suggests, even as a retreat by foreign investors puts further pressure on its financial markets.

The fourth straight month of contraction in manufacturing output has raised fresh concerns that a slew of economic data this week will show more economic slippage, including a widening current account deficit as exports and foreign investments slow.

The central bank's data for July on Friday is expected to show consumption and investment remain subdued and the current account is in deficit again after a $3.8 billion gap in January-June.

Thailand's economy slipped into a mild recession in the second quarter and is grappling with faltering exports as investors position for the U.S. Federal Reserve to taper monetary stimulus, which has hit emerging Asia hard.

Pimonwan Mahujchariyawong, an economist at Kasikorn Research Center, said a weak baht should help boost exports and that the current account deficit should be around $3 billion this year.

The baht was slightly weaker at 32.25 per dollar, taking its losses so far this year to 5 percent. Thai stocks have slipped into bear market territory, falling 2.6 percent on Wednesday and tumbling over 20 percent from their May highs.

ING forecast in a report a current account deficit of $5 billion in 2013, which would be the highest since 2005, and "the widening current account deficit makes Thai financial assets vulnerable to taper talk-driven turbulence."

Industrial output in July dropped 4.54 percent from a year earlier, hit by weak electronics and autos. It was worse than the median forecast of a 2.3 percent fall in a Reuters poll, and against a 3.54 percent decline in June.

On a monthly basis, unadjusted output fell 3.32 percent in July after a 0.89 percent rise in June.

AFP

A woman walks past boards advertising currency exchange rates in downtown Bangkok. The Thai baht has fallen to a three-year low of 32 against the dollar.

"Output data has tracked weak export numbers lower. With no immediate signs of rebound on the external front, net exports are likely to drag on growth for 3Q," said Eugene Leow, an economist with DBS Bank in Singapore.

"Momentum in the domestic economy has waned and elevated household debt could drag on consumption. Sequential GDP growth in 3Q is likely to be anaemic," he added.

Thailand is a regional hub and export base for top global car makers and is the world's number two producer of computer hard disk drives.

However, Sarun Sunansathaporn, an economist at Tisco Securities, said: "We think output data may not tell the whole story as the service sector is still good. Exports in Q3 are likely to be better, so we expect Q3 GDP growth of 3.9 percent on the quarter and 4.6 percent on the year."

Southeast Asia's second-largest economy shrank on a quarterly basis in each of the first two quarters on weakening domestic demand and sluggish exports.

The weak economic outlook may mean the central bank will keep interest rates low and take supportive policy steps, economists said.

However, Thailand's central bank said on Wednesday it was not worried about capital outflows because of the country's high foreign reserves and that the baht was still moving in line with the currencies of trade partners. It reiterated it would act if the currency moved too fast. (Additional reporting by Boontiwa Wichakul and Satawasin Staporncharnchai; Editing by Jacqueline Wong)

Accor hotels cautious about outlook, shares fall

AFP, Paris

Hotel chain Accor switched back into profit in the first half of the year but was cautious about the outlook on Wednesday, and its shares fell 3.59 percent.

The group, the sixth-biggest hotel chain in the world and which has just shaken up its board with a new chief executive, reported a net profit of 34 million euros ($45.5 million) from a loss of 532 million euros at the same time last year.

That loss reflected in part the effects of an asset sale.

But in the first six months of the year, operating profit fell by 6.6 percent to 198 million euros from 212 million euros in the same period last year.

Sales by the group, the biggest operator of hotels in Europe, fell by 0.9 percent to 2.694 billion euros, but on the basis of a comparable asset base and constant exchange rates, they rose by 1.8 percent.

The price of shares in the company fell by 3.59 percent in initial trading to 27.76 euros. The overall French market as measured by the CAC 40 index was showing a gain of 0.18 percent.

The group said that the fall in operating profit reflected mainly the cost of investment in line with a four-year plan costing 120 million euros.

Finance director Sophie Stabile said that activity was firm and that the group was holding to its targets for 2016.

The group said that for this year it expected an operating profit of 510-530 million euros from 526 million for 2012.

At brokers Aurel BGC, analyst Tangi Le Liboux commented that the group had been somewhat brief in its explanations for the outlook for operating profit for the year.

Turkish lira falls despite bank action, amid Syria tension

AFP, Ankara

The Turkish lira fell further against the dollar on Wednesday, despite assurances by the central bank and amid tension over Syria.

The lira fell to 2.06 to the dollar in initial trading, then rallied slightly to 2.0527, from 2.0382 at Tuesday's close.

The Istanbul stock market fell by 1.52 percent, having already dropped by 4.73 percent at Tuesday's close, 1.24 percent on Monday and by 6.0 percent last week.

Assurances from the head of the central bank Erdem Basci that the lira could rally to 1.92 to the dollar, or even stronger, at the end of this year did not convince the markets.

After Basci's comments, the dollar surged over 2.03 percent. However, the yield on 10-year government borrowing bonds went down and ended the day at 9.82 percent.

The yield on 10-year government bonds surged to 10.58 percent last week on the secondary market.

The prospect of war in neighbouring Syria is also weighing on sentiment.

Foreign Minister Ahmet Davutoglu said in remarks published on Monday that Turkey would join an international coalition against Syria even if the UN Security Council failed to reach a consensus.

On Tuesday, Basci ruled out any increases in interest rates but signalled that the bank would take bold action to defend the lira by using its official reserves.

It has said that the bank has a war chest of about $40 billion, and it is estimated that previously that bank has spent at least $8.0 billion in attempts to support the lira.

He said that the pressure on lira was temporary, giving clear signs that the bank would defend the currency aggressively, according to analysts.

Turkey is being battered by an exodus of capital from emerging economies in Asia, Latin America, Russia and South Africa as investors pull out some funds after signals of a tightening of US monetary policy.

But analysts say its economy is fragile because its dependence on credit and worrying deficit on the balance of payments on current account.

Ballooning costs threaten Merkel's bold energy overhaul

REUTERS, Berlin/Frankfurt

Angela Merkel's "green revolution" risks becoming a victim of its own success.

Seduced by generous subsidies, Germans are embracing the ambitious project with such fervour - installing solar panels on church roofs and converting sewage into heat - that instead of benefiting from a rise in green energy, they are straining under the subsidies' cost and from surcharges.

Merkel's ambitious experiment to wean Europe's biggest economy off nuclear and fossil fuels is being closely watched around the world. Should it work, others will follow. But her priority if, as expected, she wins a third term on Sept. 22 will be finding a way to cap the rising cost of energy.

"Germany's dilemma is how to keep industry's energy prices low enough to remain competitive and meet ambitious (green) targets while also maintaining a balanced budget," said Will Pearson, head of global energy at the Eurasia Group in London. "Addressing these will pose a political challenge."

So attractive are the incentives, or feed-in tariffs, that the rapid expansion of renewable power has driven up the surcharges which fund them and are paid for by consumers. The charge rose by 47 percent this year alone.

Both households and industry are feeling the pain and exporters complain that the energy shift has driven up power prices so much that their competitiveness is being eroded.

Cost worries aside, polls show broad public support for the shift, announced by Merkel after Japan's Fukushima disaster in 2011. Responding to public fears, she accelerated Germany's nuclear exit and introduced targets for renewables to make up 35 percent of the power mix by 2020 and 80 percent by 2050.

Given that consensus, the struggling opposition finds it difficult in the election campaign to present energy policies that differ significantly from those of Merkel's conservatives.

No one advocates a dismantling of the project.

"The energy transformation is a bit like putting man on the moon - it offers Germany huge opportunities for future decades. I have nothing against the idea," said Peer Steinbrueck, the Social Democrat (SPD) candidate for chancellor. "But Mrs Merkel is messing up the implementation and we will change that."

The SPD, which introduced the first incentives for green energy more than a decade ago when it ruled with the Greens, wants to help consumers by cutting energy taxes.

While politicians squabble over how to keep a lid on costs - put at 1 trillion euros ($1.34 trillion) in the long run by the environment minister - voters are taking matters into their own hands.

Take projects like GruenEnergie, a scheme launched two years ago by city utility Stadtwerke Guetersloh in western Germany under which the local cooperative bank and turbine maker Enercon each match citizens' investments in a nearby wind park.

After just three weeks, it had raised enough, mainly from locals offering between 1,000 and 25,000 euros, to fund a park which produces power for 2,400 households a year. The project has expanded to buy a solar park in eastern Germany.

Investors get dividends from the project linked to the

Angela Merkel

guaranteed prices paid for the power generated by the turbines

"Customers are motivated by an investment in green energy which is considered trendy," said the utility's head of energy services, Uwe Poeppelmann.

Such grass-roots activism is, say experts, one of the most striking results of Merkel's energy shift.

Some 1.3 million solar photovoltaic units are on stream, mostly owned by single households, and about 23,000 wind plants have been bought, mainly by groups of farmers who club together.

However successful she has been at fostering a new culture, Merkel would face tough decisions in a third term: namely how to reform a subsidy system which is a victim of its own success.

Households take a direct hit on their electricity bills and do not expect this year's jump in the surcharge to be the end of it - creating a source of anxiety for voters.

"Surveys show people are concerned that the costs of the energy transformation will drive down living standards," said Emnid pollster Klaus-Peter Schoeppner.

Export-oriented German industry, already disappointed that shale gas is being shunned due to environmental fears, is angry about high energy costs, although exemptions help many firms in the cement, steel, paper and glass sectors.

Although wholesale power prices have plunged by about a fifth this year due to renewable supplies, end users have to pay the second highest prices in Europe thanks to fees and charges.

"Energy-intensive industry, which employs over 900,000 people, will have to leave Germany in the medium term if it does not get sustainably competitive energy prices," said the head of the BDI industry association last month.

Egypt to launch economic stimulus plan

REUTERS, Cairo

Egypt's interim cabinet will approve a plan on Wednesday to stimulate the economy over the next nine months, al-Ahram newspaper quoted Planning Minister Ashraf al-Arabi as saying.

The government has said it plans to avoid raising taxes or cutting spending to reduce the country's mushrooming budget deficit, and instead will use aid pledged by Gulf Arab states to spur growth.

The stimulus plan involves providing additional investments of at least 10 billion Egyptian pounds ($1.4 billion), al-Arabi said.

The cabinet expects to remain in power only until elections early next year.

It plans a series of initiatives to stimulate the economy, the minister said, including paying arrears the government owes to contractors, extending natural gas to more residences and giving support for tourism.

It will also work with the banks on the fate of 4,000 factories that have become insolvent and shut down.

Part of the new investment would be directed in particular towards Egypt's impoverished south.

The army-backed interim government, keen to improve conditions for a deeply polarised population battered by more than two years of political and economic turmoil, is under intense pressure to avoid unpopular austerity measures.

Egypt's deficit has jumped since the beginning of 2013 to nearly half of all government spending.

After Islamist President Mohamed Mursi was deposed by the army last month, Saudi Arabia, Kuwait and the United Arab Emirates promised Egypt a total of $12 billion in loans, grants and fuel shipments. Of that, $5 billion has already arrived.

Australia economy counts on post-election confidence

REUTERS, Sydney

With Australia's election just days away business leaders want one thing for certain -- certainty.

Just give us political certainty, they cry, and we'll be happy to abandon caution and spend like drunken sailors.

Australian business and consumers have been on a three-year roller-coaster ride of minority government with changes of leadership, epic legislative struggles and policy reversals culminating in what has amounted to a seven-month-long election campaign.

The return of some political stability is a tempting thought since a long bonanza in mining investment is rolling over and the rest of industry needs to pick up the slack if Australia is not to face some tough times ahead.

Typically elections have only a fleeting impact on business, largely because the major parties' economic polices are pretty centrist, with all committed to budget surpluses over time and to an independent central bank.

But this time the mood has become so self-reinforcingly sombre that a decisive outcome could provide real relief.

"This election could be different," said Paul Bloxham, HSBC's chief economist for Australia.

"It's clear that uncertainty over tax and regulations has been a hindrance to investment. Just the thought of some certainty should lift business confidence and give a timely boost to the economy."

Figures from Deloitte Access Economics showed there were A$452 billion ($405 billion) of investment projects underway or committed at the end of March, but there was another A$477 billion-worth up in the air.

Such is the desire for stability that opposition leader Tony Abbott felt he could win votes by promising his government would be one of "no surprises".

Needless to say business favours the conservative Liberal-National Coalition led by Abbott, which according to the opinion polls, is likely to win a clear majority on Sept. 7.

The ruling left-of-centre Labor Party won kudos for its management of the global financial crisis, but has since been criticised, fairly or not, for making policy on the run.

The implementation of a carbon tax and a new mining resources tax went badly, while constant changes to regulation had business leaders tearing their hair out.

REUTERS

Members of the National Union of Mineworkers (NUM) take part in a strike in the central business district area of Johannesburg. South Africa's petrol station and car dealership workers on Tuesday announced a strike for higher wages next week, signalling more labour disruption to a struggling economy. Africa's largest economy is facing a wave of wage increase demands and strikes by increasingly militant workers, renewing a challenge to President Jacob Zuma after violent mines strikes last year dented growth and led to sovereign credit downgrades.