India ends diesel controls, raises gas prices

REUTERS, *New Delhi*

REUTERS/FILE

A worker fills diesel in a vehicle at a fuel station in Ahmedabad, India.

The Indian government on Saturday lifted diesel price controls and raised the cost of natural gas, giving market forces greater sway as it seeks to attract energy investment, boost competition and cut subsidy costs.

The decisions marked an acceleration in reform measures by Prime Minister Narendra Modi, who won a landslide general election victory in May and was buoyed by a strong showing in two state elections this week.

Lower prices of diesel and a smaller-than-expected rise in local gas rates will help Modi fulfill an election pledge to curb inflation and pull India's economy out of its longest slowdown since the 1980s.

"Henceforth, like petrol, pricing of diesel will be market determined," Finance Minister Arun Jaitley told a news conference after Modi chaired a cabinet meeting.

A litre of diesel will cost about 5.7 percent, or 3.37 rupees ($0.05), less for consumers from Sunday, while prices of locally produced gas will go up by a third from next month.

The first cut in diesel prices across the country in more than five years, triggered by falling global oil prices, will help further ease inflation that is already tracking lower.

Diesel makes up nearly half of India's fuel demand and its usage is set to rise as Modi wants to boost the employment-generating manufacturing sector to generate growth and jobs. A fall in global oil prices, down more than 20 percent from this year's June high, means that ending costly diesel subsidies will save the government money without hurting consumers.

India imports more than 70 percent of its oil needs and every $10 a barrel fall in prices lowers retail inflation by 0.2 of a percentage point and wholesale inflation by half a point, experts estimate.

Diesel deregulation will significantly reduce subsidy payouts by Oil and Natural Gas Corp, GAIL (India) Ltd and Oil India Ltd.

These companies sell crude and refined products to state refiners at discounted rates to partly compensate them for losses on fuels sales at regulated prices.

The move to market-based pricing will boost the role of private players like Reliance Industries and Essar Oil in India's retail arena.

Such companies do not receive federal support for selling diesel at discounted rates and currently sell via state refiners despite having their own sales infrastructure.

"It is a good move. This will create competition in the market and will benefit consumers, government ... and help upstream companies invest more funds for exploration," said L.K. Gupta, managing director of Essar Oil.

The government has reworked the gas pricing formula approved by the previous Congress-led government and restricted the rise in local gas prices to $5.61 per mmBtu from Nov. 1. The prices will be revised after every six months.

The previous government had suggested for raising domestic gas prices to $8.4 per mmBtu from the current $4.20 per mmBtu.

"This price will take into consideration the fact that there is sufficient incentive for drilling and investment and also it is not excessively burdensome as far as consumers are concerned," Jaitley said.

About 80 percent of the additional revenue due to revision in gas prices will go to state run companies ONGC and Oil India.

Reliance and its partners BP and Canada's Niko Resources will not get the benefits of the price rise for gas produced from its D1 and D3 gas fields in the east coast deepwater D6 block, where output has fallen drastically and is way below the promised volumes.

Reliance is currently locked in arbitrations with the government over its D6 block.

Reliance and its partners will deposit the differential between $5.61 and $4.20 in a separate fund until the arbitration is resolved, said Oil Minister Dhramendra Pradhan.

The $40b jet buying spree: IndiGo's big bet

REUTERS, *New Delhi/Paris*

Almost four years ago a handful of people gathered in Airbus sales chief John Leahy's spacious country house outside Toulouse and argued long into the evening over curry and cigars.

Last weekend they met up again at a Parisian hotel for more haggling, with breaks taken at a nearby cafe where the informality of old business friendships mingled with hard-nosed negotiations typical of the aircraft industry.

The sum total of money discussed over these meals? About $40 billion at catalogue prices, and the bill was for 430 jets, all sold to the same Indian airline -- IndiGo, the low-cost carrier which has grown to become the country's biggest airline in eight years of operating.

Represented according to insiders by co-founder Rakesh Gangwal and President Aditya Ghosh, IndiGo has now made aircraft industry history twice in four years -- each time by placing record orders for Airbus planes, including last Wednesday's announcement that it will buy 250 A320neo jets.

The largest order in India's aviation history is IndiGo's most aggressive bet yet that Indian air travel is on the cusp of a huge expansion, and that the model that made it the nation's only profitable carrier will keep working as competition intensifies."IndiGo is showing us the level of confidence it has in its own sustainability, in the long-term growth of aviation and in the future performance of the Indian economy," said Harsh Vardhan, chairman at Delhi-based Starair Consulting.

Airline industry executives are hoping India's weak economy will rebound under new Prime Minister Narendra Modi and that the government will press for cuts to jet fuel tax and build more airports, slashing costs and opening up new markets.

Higher disposable incomes, an expanding middle class and rapid urbanization have made India one of the world's fastest-growing domestic aviation markets, where passenger numbers are expected to grow by more than 75 percent in the next six years to exceed 217 million.

According to Airbus executive vice-president and the president of its India operations Kiran Rao, optimism about growth in Indian aircraft demand is rising.

But few airlines have translated that optimism into new orders on the scale of IndiGo's since most are losing money.

"People are too focused on India's negatives. IndiGo is aware of the challenges and it is adept at steering itself around them. That is how it became India's largest carrier," said one source familiar with the airline's thinking.

"There is, however, a great deal of optimism about the future within the airline and that comes right from the top."

Ghosh told Reuters last week India was a "highly underpenetrated market" and that a lot of the new planes would be for growth rather than replacing older aircraft.

Despite more Indians flying, fierce competition and high costs have left airlines including SpiceJet, Jet Airways and state-run Air India losing cash fast. The sector will lose up to $1.4 billion more this financial year, according to consultancy CAPA.

Privately held, IndiGo does not disclose its full accounts but is the only major Indian carrier which says it is profitable. It reported a sixfold rise in net profit to 7.87 billion rupees ($128 million) in the 2012-13 financial year, and has since expanded its market share to about 32 percent.

Founded in 2006 by travel entrepreneur Rahul Bhatia and Gangwal, a former chief executive of U.S. Airways and an old hand in executing game-changing aircraft orders, IndiGo has relied almost entirely on the sale and leaseback model to fuel its growth.

IndiGo buys a single line of planes in bulk at discounts, and then sells them to leasing companies around the time they are delivered, leasing the planes back and retiring the aircraft within six years to avoid depreciation and maintenance costs.

This keeps capital costs low and its balance sheet light, and is a strategy some analysts say hands it up-front cash to meet operating costs and tips it into profitability as rivals succumb to losses.

"IndiGo is also a good customer and in a good cashflow position, which means that there is little chance of default. In India IndiGo is probably the best customer for lessors," said one person familiar with the leasing negotiations.

BANK ASIA

A Rouf Chowdhury, chairman of Bank Asia, poses at a workshop on corporate governance, at Radisson Hotel in Dhaka on Saturday. Md Mehmood Husain, managing director of the bank, and Mohammad Rehan Rashid, senior country officer of IFC in Dhaka, were also present.

Moody's downgrades Russia's credit rating to Baa2

AFP, *Paris*

Ratings agency Moody's Friday downgraded Russia's credit rating to Baa2 from Baa1 citing poor growth prospects, the Ukraine crisis and sanctions as well as capital flight.

"The first driver for the downgrade ...relates to the longer term damage the already weak Russian economy is likely to incur as a result of the ongoing crisis in Ukraine and, relatedly, the additional sanctions imposed against Russia," the agency said in a statement, adding that it was maintaining Russia's outlook at "negative".

"Even prior to the crisis in Ukraine, the potential growth rate of the Russian economy was falling, constrained, according to the IMF, by economic rigidities such as infrastructure bottlenecks and shortfalls in labor skills and education." it said.

"The tightening of sanctions against Russia has already begun to aggravate the slowdown in economic growth and to undermine consumer and investor confidencein the country," it said.

"Domestic demand slumped in the second quarter, including a notable decline in inventories and investment," Moody's said, adding that it expected this trend to continue as long as the Ukraine unrest and ensuing sanctions persisted.

Russia's economy has been hit hard by the fallout from the Ukraine crisis, that has seen the EU and US impose the harshest sanctions on Moscow since the end of the Cold War.

The sanctions have cut a raft of major Russian firms off from key international debt markets -- a tough prospect for the estimated $55 billion of loan repayments coming due by the end of the year.

Capital flight from the country has rocketed and is set to reach some $100 billion this year, according to the International Monetary Fund, while inflation has risen to over 8 percent.

UNICOM

Numayer Mahbub, chief executive officer of Unicom, poses with the International Star for Quality Award in the gold category awarded to Unicom, at a programme in Geneva recently. Jose E Prieto, chief executive of BID, was also present.

China growth seen at five-year low in Q3

AFP, *Shanghai*

China's economic growth in the third quarter fell to its slowest since the depths of the global financial crisis more than five years ago, an AFP survey projects.

The country's gross domestic product (GDP) is predicted to have risen 7.2 percent year-on-year in the July-September period, an AFP poll of 17 economists showed.

The median forecast for the world's second-largest economy, a key driver of global growth, would be the worst since the first quarter of 2009, when growth stagnated at 6.6 percent.

The government will release the official GDP figure on Tuesday.

The setback would be likely to prompt more stimulus intervention from Beijing, respondents said, which has set a 7.5 percent target for expansion this year -- the pace of growth in the second quarter.

China's economy has been pummelled by a deflating property bubble as well as a government crackdown on corruption and weak demand from Europe.

"Given much weaker growth... Beijing will have to push ahead with more aggressive policies in order to hit the 7.5 percent GDP growth target in 2014," said a Beijing-based economist for Standard Chartered Bank, Shen Lan.

But the consensus is that China will miss that target, though Premier Li Keqiang has allowed himself an escape clause by qualifying the goal as "around" 7.5 percent.

The analysts polled by AFP expect the economy to grow 7.3 percent this year, unchanged from the previous forecast three months ago but slower than actual growth of 7.7 percent in 2013.

HK protests, China slowdown takes sparkle off luxury market

AFP, *Paris*

REUTERS

Riot police clash with pro-democracy protesters at Mongkok shopping district in Hong Kong.

Protests in Hong Kong, an economic slowdown and anti-corruption drive in China and a coup in Thailand: Asia is no longer a market of constant growth for luxury goods firms.

LVMH, world number-one in the sector and owner of brands like Louis Vuitton, Givenchy and Dior, saw its sales drop by three percent in Asia, excluding Japan, in the third-quarter of 2014, a far cry from the halcyon days of 2010-2012.

In every other market, LVMH's sales increased, according to figures published last week. Even activity in sluggish Europe has done better over the past nine months, the group said.

The crisis in Hong Kong "will have an impact" on the quarterly results, group finance director Jean-Jacques Guiony said. "We have already noted some negative impact on activity in duty free shops in the third-quarter."

Arnaud Cadart, an analyst at CM-CIC securities, said there was a "rare coming-together of economic, monetary and geopolitical factors that have had a negative impact on the Asian market".

Slowing economic growth in China, along with a clampdown on lavish spending by government officials, is crippling luxury goods firms that are used to viewing the growing pool of wealthy and brand-conscious consumers in the world's number two economy as a cash cow.

Consultants Bain & Company have forecast that the luxury goods market in China will contract for the first time ever this year.

This will have a clear impact on companies like Switzerland's Richemont, Britain's Burberry and Mulberry and Italy's Prada, and many luxury brands are reining in their previously rapid expansion.

Bain said the slowdown in China, combined with other factors, would put the brakes on the global luxury-goods sector, which the consultancy now sees growing at two percent in 2014 -- what it called "the new normal".

Cadart noted that the Chinese market has carried the sector for several years and "couldn't keep up such a pace in the long-term".

While rich Chinese clients are still seen as the big spenders, these days the big spending tends to be on holiday rather than at home.

Still, that's not to say all luxury firms are putting the skids on the breakneck pace of expansion in China.

Hermes cut the ribbon on a glittering new store in Shanghai in September, and the shoe still also fits for Jimmy Choo, whose initial public offering (IPO) launched in London this week was aimed at raising cash to tap into demand in China and Japan.

Luxury goods firms have also complained that a drive to stamp out lavish and ostentatious spending has dried up sales of cognac and expensive wines as well as items such as watches, traditionally given as presents.

LVMH said revenues in its wines and spirits division dipped 7 percent in the first nine months of 2014 from a year earlier.

French spirit-maker Remy Cointreau this week said sales in the first half of the year had slumped 15.5 percent, dragged lower by weaker demand for its flagship Remy Martin cognac in China.

Luxury goods sectors in other countries in the region have also taken a hit from Chinese tourists staying away for a variety of reasons, including a military-backed coup in Thailand in May.

Singapore has seen luxury goods clients cut by a fifth, according to Bain.

But the biggest dent in the sector is likely to come from the ongoing protests in Hong Kong, a global centre for luxury watches and the high-end goods market in general.

Normally, the industry can count on around 10 to 12 percent of its turnover coming from Hong Kong, and as much as 20 percent for watchmakers such as Richemont and Swatch.

In addition to LVMH's warning about the effect of the protests on profits, watchmakers are already feeling the pain.

Retail sales have declined by up to half in the past few weeks, as protesters clog up Hong Kong's streets and clash with police in the biggest democracy rallies since the former British colony was handed back to the Chinese in 1997.

The drop in sales in Asia is also having an impact in companies' home markets. Tag Heuer watches, part of the LVMH group, has decided to make 46 people in Switzerland redundant and Cartier will put people on shorter working hours from November.

The only bright spot? Japan, where the market in luxury goods is actually growing, even though Japanese clients have lost some purchasing power due to a weaker yen.