

## INDIA'S CB HOLDS INTEREST RATES AT 6.75%

**MUMBAI:** India's central bank kept interest rates on hold yesterday, citing the importance of controlling inflation and noting a slowing growth momentum in Asia's third-largest economy.

The Reserve Bank of India (RBI) said the benchmark repo rate, the level at which it lends to commercial banks, would remain at 6.75 percent as analysts had expected.

Out of 40 economists surveyed by Bloomberg News, all but two had predicted that the bank would leave the key rate unchanged. "The Indian economy is currently being viewed as a beacon of stability because of the steady disinflation, a modest current account deficit and commitment to fiscal rectitude," RBI governor Raghuram Rajan said in a statement. "This needs to be maintained so that the foundations of stable and sustainable growth are strengthened," the RBI chief added, following the

bank's monetary policy review meeting in Mumbai.

India's consumer price inflation accelerated to 5.6 percent in December, the fifth month in a row it had gained pace, but remained within the central bank's target.

But Rajan, who has made controlling inflation a priority of his tenure, said the bank expected to achieve its target of keeping inflation below six percent in January, although the figures have not been released yet. The central bank governor said it had opted not to move on rates until it could digest economic reforms expected in the government's budget, due on February 29.

"Structural reforms in the forthcoming union budget that boost growth while controlling spending will create more space for monetary policy to support growth," he said.

Analyst Arun Singh told AFP it would

be "difficult" for the RBI to cut rates ahead of the budget. "Announcements in the union budget will certainly decide the roadmap for the reserve bank and how much easing it can talk about," the senior economist at Dun & Bradstreet said. RBI chief Rajan lopped 125 basis points off borrowing rates in 2015 in four separate cuts to take the repo rate to its lowest level in four years. The bank last cut rates on September 29 with a surprise 50-basis-point reduction. Prime Minister Narendra Modi has focused on economic growth since sweeping to power almost two years ago and India has now posted three straight quarters of growth above seven percent. But investors have raised concerns about the pace of promised economic reforms and the government last month cut its forecast for 2015-16 growth to 7-7.5 percent, down from 8.1-8.5 percent previously stated. — AFP



**MUMBAI:** Reserve Bank of India (RBI) governor Raghuram Rajan speaks during a news conference at the RBI headquarters in Mumbai yesterday. — AFP

## RUSSIA LEAVES DOOR OPEN TO OPEC DEAL AS OUTPUT HITS HIGH

### OPEC JAN PRODUCTION HIGHEST IN ITS RECENT HISTORY

**NIZHNEVARTOVSK/MOSCOW:** Two senior Russian officials talked up potential cooperation with OPEC to prop up prices, but data showed oil production in Russia hit a post-Soviet high in January, suggesting the world's top producer was locked in a fierce struggle for market share.

Russia has in the last week sent mixed signals about possible cooperation with OPEC to support prices. It first suggested it should start talking to OPEC before saying there was no decision to do so.

Yesterday, the pendulum swung the other way again. Top oil producer Rosneft, after its head Igor Sechin met Venezuelan oil minister Eulogio Del Pino, said the two men had discussed possible joint efforts to stabilize global oil markets.

Foreign Minister Sergei Lavrov also said Moscow was open to further cooperation in the oil market with OPEC and non-OPEC countries. Despite the rhetoric, preliminary data from the Energy Ministry on Tuesday showed Russia was actively ramping up production adding to a global glut.

Production hit another post-Soviet high last month of 10.88 million barrels per day (bpd), up from 10.80 million bpd in December, the data showed.

OPEC production also jumped to its highest in recent history in January as Iran increased sales after the lifting of sanctions and rivals Saudi Arabia and Iraq

also boosted supply, a Reuters survey showed last week. That suggests an intensifying battle for market share, a trend that runs counter to growing speculation about some kind of coordinated output cut.

"I very much doubt there will be any success in coordination there is no consensus inside OPEC itself," said Alexander Kornilov, a senior oil and gas analyst with Aton in Moscow.

According to Tuesday's data, Russia extracted 46 million tons of oil and gas condensate last month, up 0.7 percent from 45.69 million tons in December. The increase was fuelled by Gazprom Neft, Bashneft, Novatek and projects under production sharing agreements. Gas production was at 61.94 billion cubic metres (bcm) last month, or at 2 bcm a day.

"The growth was expected from Novatek, Bashneft and Gazprom Neft and I believe this trend will continue in the near future. Lukoil was the only one who actively cut drilling, while the picture was the opposite for others," said Kornilov.

On Monday, Russian Energy Minister Alexander Novak met Venezuela's Del Pino, who is visiting OPEC and non-OPEC countries to try to drum up support for joint action to prop up low crude prices.

Both discussed the possibility of holding joint consultations between OPEC and non-OPEC countries in the near future, the Russian Energy Ministry said.

#### SOURCE OF GROWTH

Novatek, co-owned by its CEO Leonid Mikhelson, President Vladimir Putin's ally Gennady Timchenko and France's Total, started to pump oil at the Yarudeyskoye field last month at its full capacity of 3.5 million tons a year.

Gazprom Neft, the oil arm of state gas producer Gazprom, plans to start two new major oil projects, Novoport and Messoyakha later this year. That should help cover declines at other Russian brown-fields countrywide. Meanwhile, at the Samotlor field in Western Siberia, still one of the world's largest and which produced over 3 million bpd alone at its peak in the 1980s, drilling is under way to maintain production, a senior official told Reuters.

One of Rosneft's largest fields, Samotlor, produced 21 million tons of oil last year.

"The key task for 2016 is to stabilize production. All the programs have already been approved," Valentin Mamayev, chief executive of Samotlorneftegaz, told Reuters.

He added that Samotlor plans to drill 227 new wells this year, twice as many as in 2014. "If we produce 20 million tons a year, this (Samotlor) could last for the next 50 years minimum," Mamayev said. — Reuters

## MORE CB INTEREST RATE CUTS COMING BEFORE ANY HIKE

**FRANKFURT:** Global interest rates are likely to go even lower before they rise as financial market volatility and the spectre of deflation raise fresh doubts about central banks' ability to fulfil their mandates, policy-makers and economists said.

With markets in turmoil and talk of further Chinese currency devaluation intensifying, expectations for US rate hikes this year have all but evaporated and central banks from Europe to Canada and Australia are preparing the ground for more easing. Faltering emerging market growth is exacerbating concerns, raising the risk that policy easing in too many places at once will cancel itself out and force national banks into a vicious cycle of competitive currency devaluation.

"The biggest risk for the world economy at this point is an aggressive policy of devaluation in China," said the head of a major central bank in Europe, who asked not to be named.

"With uncertainty and volatility already high, it would have a big consequence for all economies." The People's Bank of China has been fighting to keep the yuan stable since Jan. 6, when its second sharp depreciation in six months sparked fears of more devaluation as growth in the world's second biggest economy, already at a 25-year low, slows. Chinese stocks have lost over a fifth of their value since the start of the year, while a renewed slide in oil prices, a major indicator of economic activity, took Brent crude to its lowest since 2003. The CBOE Volatility Index, the US equity market's "fear gauge" has risen sharply.

The European Central Bank responded by raising the prospect of another rate cut in March while the Bank of England has rowed back from suggestions it could start hiking rates soon.

Last week, the Bank of Japan unexpectedly lowered its key rate into negative territory, abandoning its policy of holding rates at zero to avoid potential damage to the financial system. "The BOJ provides the strongest signal to date that the previously assumed zero lower bound on rates is no longer valid," Deutsche Bank strategist George Saravelos said.

"Markets should now be pricing that global rates across global fixed income can sustainably and substantially trade below zero in the current and future easing cycles." Money markets now see the ECB's deposit rate sinking to -0.5 percent this year from -0.3 percent while the BOJ said its policies provided room for more easing if needed.

The Reserve Bank of Australia, the Bank

of Canada and Sweden's Riksbank have also highlighted risks, keeping the possibility of policy easing on the agenda.

#### FED

The US Federal Reserve has been the big exception, lifting interest rates in December for the first time since 2006, but has already acknowledged headwinds that may delay further hikes.

"It is difficult to judge the likely implications of this volatility," Vice Chairman Stanley Fischer said on Monday. "If these developments lead to a persistent tightening of financial conditions, they could signal a slowing in the global economy that could affect growth and inflation in the United States."

San Francisco Fed President John Williams meanwhile said the next rate rise may need to be delayed somewhat. Traders now see only one increase if any this year, probably in November, not the three or four discussed in December. Odds have shifted quickly, so any more market volatility could erase rate hike expectations for 2016.

#### LIMITS

The problem for central banks is that their tools in a zero-rate environment are relatively untested, only moderately effective and, because they do not coordinate policy, prone to cancelling each other out. Returns from quantitative easing diminish with each round while deeply negative rates raise financial stability risks as banking profitability falters and asset bubbles form.

Currency depreciation, a key policy transmission channel for most central banks, also has limits as too many countries trying to devalue leads to a currency war. "The economic bang for the depreciating buck, or yen or euro is relatively small," Citi economists Steve Englander and Josh O'Byrne said in a note to clients.

"A consequence is that if the exchange rate is the tool of monetary policy, it doesn't work nearly as well as advertised, you have to go much further than you think, for much longer than you think and you are probably in much deeper trouble than you are willing to admit."

Neither does policy easing solve the underlying problem of high debt, which is holding back growth and inflation. One source with knowledge of the ECB's thinking acknowledged that its room for manoeuvre is limited: "We have a lot of tools still but all are problematic one way or another so they are not the most effective." — Reuters

## GERMAN UNEMPLOYMENT HITS NEW LOW, DESPITE REFUGEE INFLUX

**FRANKFURT:** German unemployment fell to a new historic low in January, despite a massive influx of refugees, as the recovery in Europe's biggest economy remains on track, data showed yesterday.

The unemployment rate—which measures the jobless total against the working population as a whole—eased to 6.2 percent in January from 6.3 percent in December. In numerical terms, the number of people registered as unemployed in Germany declined by a seasonally-adjusted 20,000 to 2.732 million, the Federal Labour Office said in a statement. That was more than expected, as analysts had been pencilling in a decline of around 6,500.

With the new drop, unemployment now stands at the lowest level since West and East Germany reunited in 1990 after the fall of the Berlin Wall the previous year. By contrast, in raw, or unadjusted, terms, the jobless total increased by 239,000 to 2.92 million and the unemployment rate jumped to 6.7 percent in January from 6.1 percent in December, the office noted.

But that increase was solely due to seasonal factors, it explained. Unemployment tends to rise during

the cold winter months and after the Christmas holidays. "The German economy expanded by 1.7 percent all in all in 2015. That was primarily due to dynamic domestic consumption," the labor office said.

"The trend is set to continue in 2016. The labor market is developing positively," it added.

#### 'Excellent shape'

Analysts were cheered by the data, especially as some observers had predicted that the arrival of nearly 1.1 million asylum seekers in Germany in 2015 would push the jobless numbers higher. "The numbers show what excellent shape the German labour market is in," said BayernLB economist Johannes Mayr. "The slowdown in the decline in unemployment we had been expecting has not materialised," the expert said.

"Neither the minimum wage, nor the upward pressure on the numbers via increased migration have materialised," Mayr said. IHS Global Insight analyst Timo Klein agreed.

"Overall, labour market conditions remain healthi-

er in Germany than in most other countries in Europe," he said. Separate statistics for the entire euro area showed unemployment at its lowest level in more than four years in December, the highest jobless rates seen in Greece and Spain (24.5 percent and 20.8 percent respectively). And in France, the area's second-biggest economy, unemployment stood at 10.2 percent.

Klein suggested that the influx of refugees would take until the middle of the year before starting to be reflected in the German unemployment numbers in view of "the administrative lags involved as authorities are currently being overwhelmed by the numbers."

This year, German economic growth is expected to exceed the current rate of potential growth of just below 1.5 percent, the analyst said.

"Taking the ramifications of refugee developments into account, we now expect unemployment in annual average terms to decline from 6.7 percent in 2014 and 6.4 percent in 2015 to 6.2 percent in 2016 before rebounding modestly to around 6.5 percent in 2017-18," Klein concluded. — AFP



**BUTLER, PA:** A row of new Ford Fusions are for sale on the lot at Butler County Ford in Butler. Major US automakers reported sales figures for January yesterday. — AP

## US AUTO SALES EXPECTED TO FALL AFTER SNOWSTORM

**DETROIT:** US auto sales were expected to fall in January because of the East Coast snowstorm, but analysts say demand remains strong and buyers will likely head back into dealerships this month. J D Power and Associates forecast a 4.5 percent sales drop from a year ago to just under 1.1 million cars and trucks. John Humphrey, J.D. Power's senior vice president of automotive, estimated that the storm - which buried New York and Washington D.C. under more than 2 feet of snow the weekend of Jan. 22 - cost automakers around 15,000 vehicle sales. Sales last January hit their highest point in nine years, kicking off a year of record sales. US buyers bought 17.5 million cars and trucks in 2015. Analysts expect sales to continue to grow this year, though at a slower pace. LMC Automotive, a consulting firm, predicts sales will hit a record of 17.8 million this year. Low gas prices, low interest rates and an improv-

ing economy are all continuing to fuel sales. General Motors' US sales were flat in January at 203,745. Sales were up for its GMC and Buick brands but fell for Chevrolet and Cadillac. Ford's sales fell 3 percent to 173,723 vehicles. Ford's SUV sales were up but it saw double-digit declines in car sales.

Fiat Chrysler's sales jumped 7 percent to just over 155,000 cars and trucks. Fiat Chrysler wasn't led by its usual big sellers. The Jeep Grand Cherokee and the Ram Pickup all posted modest increases, but sales got the biggest boost from some unlikely vehicles - including an 83 percent increase for the heavily discounted Dodge Caravan minivan. Fiat Chrysler is introducing a new minivan this spring, so buyers looking for discounts may be snapping up the older minivans. Nissan's sales rose 1.6 percent to 105,734. Sales of its new Maxima sedan more than doubled from last January. — AP

## EUROZONE UNEMPLOYMENT FALLS TO 4-YEAR LOW: EUROSTAT

**BRUSSELS:** Eurozone unemployment fell to its lowest level in more than four years in December, official data showed yesterday, beating forecasts from analysts worried about the global economic outlook.

The Eurostat statistics agency said unemployment in the 19-nation eurozone dropped to 10.4 percent in December from 10.5 percent in November, its lowest rate since September 2011.

Analysts had expected the December figure to be unchanged at 10.5 percent, taking into account the sharp slowdown in China and the huge turmoil in global financial markets.

They said the report was encouraging but still not enough to suggest the economy was back on track and the European Central Bank will have to continue its massive stimulus program. By headcount, there were some 16.75 million jobless in the eurozone in December, down 49,000 from November and 1.5 million less compared with December 2014. Greece and Spain continued to have the highest jobless rates, at 24.5 percent and 20.8 percent, while economic powerhouse Germany was on 4.5 percent, compared with 10.2 percent in France where the economy continues to struggle.

A calculation method used by the German authorities resulted in an unemployment rate for Germany in December of 6.3 percent, data showed yesterday.

Eurozone unemployment hit a record 12.2 percent in September 2013 as the damaging eurozone debt crisis peaked out. The improvement since then has been painfully slow despite the ECB's stimulus, with the economy still well short of the 7.5 percent jobless rate seen before the 2007-08 financial crash.

In the full 28-member European Union, the

unemployment rate was unchanged at 9.0 percent in December. Capital Economics analyst Jennifer McKeown said the report suggested continued subdued improvement but with the caveat that a slowing global economy could reverse that trend.

"We still think that the ECB has a lot more work to do," McKeown said in a note. Howard Archer at IHS Global Insight said he expected

continued modest progress, with unemployment falling to below 10 percent by the end of the year on current trends.

Archer noted however that eurozone business confidence dipped in January "amid heightened global economic uncertainties and financial market volatility" and that could make companies more cautious about taking on new workers. — AFP



**SALON-DE-PROVENCE:** French farmers and rice farmers block the access of a distribution center yesterday in Salon-de-Provence, after the Departmental Federation of Farmers Unions (FDSEA) called for a demonstration against the falling prices of their agricultural products. — AFP