no yuan devaluation: Xi

Chinese President Xi Jinping pledged Tuesday to not push the value of the yuan currency lower just to strengthen Chinese exports.

Speaking to a large audience of US businessmen and state officials with strong interests in Chinese commerce, Xi said the government was sticking to its plan to let the yuan, or renminbi (RMB), eventually adjust by market forces.

The modest August devaluation of the currency, which shook international markets, "achieved initial success in correcting the exchange rate deviation," he said.

"Given the economic and financial situation at home and abroad, there is no basis for continuous depreciation of the RMB." "We are against competitive depreciation or currency war. We will not lower the RMB exchange rate to boost exports."

Xi made the comments in a speech on the first day of a state visit to the United States. (AFP)

retailer Esprit lags forecasts as China, weak euro weigh

Clothing retailer Esprit Holdings Ltd lagged forecasts as it swung to a loss for the year ended June 2015, weighed down by a weak euro and a slowdown in Germany and China, but said the world's second-largest economy is a focus for growth this year.

Esprit said on Wednesday its retail sales area may shrink this year due to previously announced store closures or downsizing of unprofitable outlets but that the most challenging part of a company transition was over.

With Chief Executive Jose Manuel Martinez Gutierrez at the helm, the company has been in the midst of an ambitious revamp over the past year that included store closures, price adjustments, new return policies, and technology and distribution improvements.

"In Asia Pacific, our emphasis is on China as the key market for growth. Despite the current economic and competitive challenges in China, we are putting a plan in place to further develop our business in the country," Martinez said.

Europe-focused Esprit reported a net loss of HK$3.70 billion ($477.45 million) for the year ended June 30, compared with a profit of HK$210 million a year earlier. The result lagged a forecast for a net loss of HK$1.2 billion, according to Thomson Reuters StarMine SmartEstimates.

"All in all, it's a year of surgery with our financial performance under pressure, but also with a lot of internal changes and we're moving in the right direction," Martinez said.

The company recorded a net loss of HK$4.4 billion in 2013.

Turnover in the year ended June 2015 fell to HK$19.42 billion from HK$24.23 billion.

Esprit, which earns the bulk of its revenues in Europe, said its gross profit margin should stay stable or increase this year and it expects to increase spending, in part on retail store refurbishments.

RBI expected to cut rates by 25 basis points on Tuesday

Indian cbank cautious despite rate cuts pressure

MUMBAI, Sept 23, (RTRS): Though the Reserve Bank of India is expected to cut interest rates next week by a quarter percent to a four-year low, officials say concerns over prices make it likely to resist political pressure for significant easing in the coming months.

In growing contrast with the government, which is desperate to accelerate a sluggish recovery, an increasingly independent RBI under governor Raghuram Rajan remains focused on a long-term inflation target of 4 percent and ending decades of damaging price volatility.

"The inflation outlook is still uncertain, and that is why the governor wants to be cautious," said one official familiar with the RBI's thinking.

"It makes sense to wait and watch how sustainable the fall in inflation will be."

Headline inflation has dipped due to lower commodity prices, but the officials said the RBI was concerned that any spike in food prices due to weak monsoon rains or in crude oil would push up prices and expectations of future rises — at least until India can resolve significant supply and transport bottlenecks.

Worries about the impact from rate hikes expected in the United States later this year add to the caution, the officials said, given the potential for destabilising outflows by foreign investors and volatility in the rupee.

For Rajan, who said last week he intended to control inflation "not just today, but well into the future", it is also about learning the lessons of a boom-and-bust past.

Rajan's predecessor, Duvvuri Subbarao, cut interest rates in response to the global financial crisis to 4.75 percent by April 2009, from 9 percent in July 2008.

That cut fuelled double-digit inflation and eventually forced the RBI into reverse, raising rates back to 8.50 percent by October 2011. Rajan, who took over two years later, was still fighting inflation at near double digits when he joined in 2013.

"I think Governor Rajan is deliberately falling behind the curve," said A. Prasanna, an economist at ICICI Securities Primary Dealership.

"Rajan wants inflation to be low and stable for a sustainable period," he added. "You can be a proactive central bank only after anchoring inflation expectations."

Avoiding over-reactions is key for the RBI, the officials said, despite the growing clamour for more rate cuts from business and government after consumer price inflation hit a record low of 3.66 percent in August.

Rajan last week noted that without a favourable base effect, consumer prices would have risen at an annualised pace of around "mid five" percent.

India's inflation has long been difficult to predict, given it is heavily influenced by volatile food and crude prices. To combat that, Rajan formally adopted inflation targeting earlier this year, in the biggest monetary policy overhaul in decades.

But his caution is frustrating Delhi and corporate India, which say the 7.25 percent rate at which the RBI lends to commercial banks is too high for a recovering economy. Taking into account consumer inflation, India's real interest rates were 3.59 percent in August, the second highest month on record after the 3.79 percent in November 2014, according to Thomson Reuters calculations.

At the wholesale price inflation level, real interest rates are even higher, hitting a record 12.2 percent in August.

High effective interest rates drag on GDP growth, which is seen at the lower end of a government target of 8.1 percent to 8.5 percent for the current financial year.

The Indian government's chief economic adviser, Arvind Subramanian, told Reuters on Wednesday the economy would hit that target, even if a tougher global environment will weigh.

Extra public spending, he said, would not be needed.

"Monetary policy will ease in line with ... inflation," he added. "We have had three cuts, the year is not over, so that still holds."

India ready to invest over $15b in Iran, seeks cheaper gas

NEW DELHI, Sept 23, (RTRS): India is ready to invest more than $15.2 billion to build projects in Iran including taking up full-scale development of Chabahar Port if Tehran offers better terms including cheaper gas, Shipping Minister Nitin Gadkari said on Wednesday.

India is one of the handful countries that continued trade links with Iran, isolated by Western countries against its disputed nuclear programme. New Delhi is Tehran's second biggest oil client after Beijing.

"We are ready to make a huge investment in Iran and this is mainly linked to gas pricing offered by Iran ... Gas price is a crucial issue," Gadkari told a news conference.

Days before the historic nuclear deal between Tehran and the West in July, President Hassan Rouhani offered India a greater role in infrastructure projects including overall development of Chabahar port.

India hopes to take a decision on Iran's latest offer by early October after obtaining reports from other ministries including petroleum, chemical and fertiliser, and steel by Monday, Shipping Secretary Rajive Kumar said.

The port of Chabahar in southeast Iran is central to India's efforts to circumvent arch-rival Pakistan and open up a route to landlocked Afghanistan where it has developed close security ties and economic interests.

The port can also serve as a gateway to the resource-rich countries of Central Asia.

In May, Gadkari and his Iranian counterpart, Abbas Ahmad Akhoundi, signed an $85 million deal for India to lease two existing berths at the port and use them as multi-purpose cargo terminals.

With the easing of sanctions New Delhi is hoping for a greater and stronger role in Iran's development by taking up projects including building urea and petrochemical projects using gas produced in the OPEC-member nation.

India is seeking gas at $1.50 per million British thermal units (mmBtu) compared to $2.95 offered by Iran for building a urea plant there, Gadkari said.

He said building a plant in Iran and importing urea from there to India will help save a part of the 800 billion rupees ($12.13 billion) in subsidies and halve the prices for farmers.

"If the gas price is reasonable then all departments in India can together take up projects in the special economic zone there and investment will be more than 1 trillion rupees," he said.

6.5-7 pct growth seen in 2015

China economy: Weak but poised to expand

BEIJING, Sept 23, (AP): President Xi Jinping is visiting the United States as leader of a China whose image of economic success has taken a beating.

Stock market turmoil and a surprise currency devaluation fueled fears of a Chinese slump with global repercussions. But even a weaker China still is on track to turn in some of the world's strongest growth this year. And some industries including retailing are expanding at double-digit rates.

China's 5-year-old slowdown is self-imposed as the ruling Communist Party tries to steer the world's second-largest economy to more self-sustaining growth based on domestic consumption. Steel and construction suffered as the party put the brakes on an investment boom, but as job creators they already have been supplanted by e-commerce, tourism and other service industries.

"Those touting China's sudden fragility are either exaggerating current problems or have entirely missed the slowdown of the past several years," said China Beige Book, a US research firm, in a report this week. It said China's image might be "more thoroughly divorced from facts on the ground" than at any time since it began conducting surveys of the country's economy five years ago.

Xi started his US visit Tuesday with a stop in Seattle to meet business leaders and visit Boeing Co. and Microsoft Corp. On Thursday, he goes to Washington to meet President Barack Obama.

This year, Beijing is expected to report growth of 6.5 percent to 7 percent. That is down from last year's 7.3 percent but more than double the 3.1 percent forecast for the US by the International Monetary Fund. Only India is expected to grow faster at 7.5 percent.

The slowdown came as no surprise: Economists warned nearly a decade ago the model based on trade and investment that delivered three decades of growth had run out of steam. Communist leaders told the public to prepare for wrenching change.

A falling growth rate also is a symptom of China's success. Its economy passed Japan's in size in 2009 and since then has added another 1 1/2 Japans to its output. That means China needs to generate twice as much additional economic activity to keep growing at the same percentage rate.

Some forecasters suggest Beijing overstates growth and the true rate might be as low as 5 percent. Even at that level, China will add almost one Indonesia to its economy this year.

Weakness in shipbuilding, construction and heavy industry are signs of progress in Beijing's campaign to transform a nation of farmers and factory workers into a consumer-driven economy and creator of technology.

E-commerce, restaurants and other services for China's own consumers accounted for 41.7 percent of employment in the latest quarter, well ahead of manufacturing's 34.7 percent, according to government data.

Retail sales grew by 10.4 percent in August. E-commerce grew at twice that rate, generating new jobs in logistics and delivery services.

Business at Tiantian Express, a delivery company in the eastern city of Qingdao, has tripled over the past year, according to its operations manager, Sun Qiang. He said its workforce doubled in size to 150.

"There is still big room for growth," said Sun.

Faith in China's ability to surge ahead while the rest of the world struggled was shaken by the collapse of a stock price bubble. Yet the economic meltdown many feared never materialized.

That was due to the fact that, unlike stock markets in the United States or Europe, China's has few links to what communist leaders call "the real economy." The biggest publicly traded companies are state-owned, so traders make decisions based on official policy and availability of credit.

Only about 7 percent of Chinese households own stocks, which is a fraction of levels in the United States, Europe or Japan, so losses had little impact on consumer spending.

China factory activity slides to lowest level in 6-1/2 years

Domestic and export orders fall; factories shed more jobs

BEIJING, Sept 23, (RTRS): Activity in China's factory sector unexpectedly shrank to a 6-1/2 year low in September, a private survey showed, raising fears of a sharper slowdown in the world's second-largest economy that could spell more turmoil for financial markets.

Global investors and policymakers are on edge over China after the US central bank last week held off from raising interest rates, saying it was unsure if international problems, and China's slowdown in particular, will hurt the US recovery.

The preliminary Caixin/Markit China Manufacturing Purchasing Managers' Index (PMI) fell to 47.0 in September, the worst since March 2009 and below market expectations of 47.5 and August's final 47.3. Levels below 50 signify a contraction.

China's factory activity has now shrunk for seven months in a row, and the latest survey showed conditions in September deteriorated from August by almost every measure, with companies cutting output, prices and jobs at a faster pace as orders fell.

In this file photo, workers assemble shoes in a shoe factory in Yongjia county in eastern China's Zhejiang province. The Caixin preliminary survey of factory purchasing managers released on Sept 23 showed that Chinese manufacturing activity fell to its lowest level in over 6 years, in the latest sign of the deepening slowdown in the world's second biggest economy. (AP)

"The weaker-than-expected PMI suggested domestic and external demand remained sluggish. It's almost certain China's economic growth will slide below 7 percent in the second half of this year," economists at Minsheng Securities said.

"To achieve the growth target, we expect the authorities to keep its loosening monetary policy stance with more measures on the fiscal front in coming months". Economists had expected the latest PMI to remain anaemic but edge up slightly, as a slew of stimulus measures since last year slowly take effect and as many factories which had closed in August and early September began to reopen.

Most Asian stock markets extended early losses after the report while US stock futures fell 1 percent. The Australian dollar also eased on fears the demand in the country's biggest trading partner would fall.

It's no secret that China's economy has been gradually slowing from a breakneck double-digit pace in past decades, as Beijing tries to transform its growth model from a reliance on heavy manufacturing and exports to one with a more vibrant services sector and stronger domestic demand.

But persistently weak factory activity and cooling investment could spark fears that the downdraft is now too intense for services alone to offset, putting the economy at risk of a more profound cyclical and structural slowdown that could jeopardise the fragile global recovery.

Output

Factory output sank to its lowest since the global financial crisis, and soft orders suggested more weakness ahead.

New orders, a proxy for both domestic and overseas demand, fell to a near four-year low while export orders shrank at the fastest clip since mid-2013, highlighting weak global demand.

The China president of US crane and mining equipment maker Terex Co told Reuters on Monday that he expects half of the country's machinery makers to close amid a four-year market downturn, though he remained optimistic for the longer-term.

"Everyone thinks it's a market that is declining, but it's still growing. It's declining growth," Ken Lousberg said.

The dismal PMI reading raises the chance that third-quarter economic growth could dip below 7 percent for the first time since the global crisis. Some market watchers believe current growth is already weaker than official data suggest.

"The PMI's new leg down is consistent with a further deceleration in Chinese growth through year-end 2015," said economist Bill Adams at PNC Financial Services. "PNC forecasts roughly 6.5 percent growth in the third and fourth quarters of 2015 (in year-ago terms) and 6.2 percent in all of 2016."

China economy fundamentally strong – Australian Treasurer

SYDNEY, Sept 23, (AFP): China's economy is fundamentally strong despite slowing growth, Australia's new Treasurer Scott Morrison said Wednesday, urging his country's opposition to support a new free trade pact with Beijing.

Disappointing manufacturing figures from China Wednesday renewed fears about the world's second largest economy and global growth, and sent commodity-linked currencies falling along with Asian stocks.

Growth in resource-rich Australia is closely tied to its largest trading partner China, which is also the world's largest commodities consumer. In June they sealed a landmark free-trade agreement (FTA) after a decade of talks.

"The position with China is one of fundamental strength at the end of the day," Morrison told reporters in Sydney.

Morrison, who met central bank governor Glenn Stevens earlier Wednesday three days after he replaced Joe Hockey in a major cabinet reshuffle, said the Chinese economy was strong and Australia well placed to benefit from the pact.

"They're growing at around about seven percent and that seven percent growth today is worth about 10 percent a decade ago, as the governor reminded me this morning," Morrison said in his first press conference in his new role.

"They're growing off a much higher base now. "Their economy is in a far stronger position and more diversified position than it was and it has become an economic powerhouse through which we have the only free-trade agreement, as I understand, in the entire G20 of nations. That pitches us well to succeed."

The Labor opposition party is challenging parts of the pact on fears it could lead to a loss of Australian jobs.

"What (Labor leader) Bill Shorten is doing in opposing the free-trade agreement with China is he is saying he wants Australia to hide in the corner, to hide in the corner away from the growth opportunities that are going to be there for our kids, for your kids and generations to come," Morrison said.

2015 likely to be a downbeat year

China slowdown hits auto market

SHANGHAI, Sept 23, (AFP): Chinese luxury auto dealer Sunfonda was in the fast lane to success as the country boomed but a slowdown in the world's number two economy has slammed the brakes on the firm's ambitions.

The worst economic performance in a quarter century and a prolonged government crackdown on corruption have hammered luxury car sales in the country, and Sunfonda last month announced a 75 percent slump in first-half net profits.

Sunfonda set up its first dealership for Germany's Audi in Xian 13 years ago, and accelerated as China overtook the US to become the world's biggest auto market in 2009.

Even in lagging inland provinces far from China's developed eastern coast, new fortunes built on a resources boom and property speculation fuelled demand for luxury cars.

Sunfonda now has 28 outlets in seven provinces, grouping brands such as Porsche, Mercedes and Maserati, and more than 2,000 employees.

But stumbling growth and a crackdown on graft launched by Chinese President Xi Jinping more than two years ago have hit the company.

Chinese share prices have plummeted since June, wiping out paper wealth and knocking consumer sentiment, crucial to high-end auto sales as an uncertain future makes people less likely to spend big.

"It is a reality that China is now seeing slower economic growth and a sluggish luxury car segment," Sunfonda said in a letter to a dealer industry group, which was seen by AFP.

China is crucial to foreign auto makers, which dominate the market, given weak sales in Europe and a still recovering United States.

Annual

There were 23 million vehicles sold last year, a 6.9 percent annual rise, but some forecasters are predicting a fall this year, forcing manufacturers in the country to slash prices and cut production.

Some dealers have even demanded compensation from automakers, in cash or subsidies, as unsold stocks mount.

"Inventories are increasing, sales slowing and (manufacturers) are starting to reconsider their production strategy — all signs of increasing competition and a much tougher environment," said Lian Hoon Lim, managing director of advisory firm AlixPartners. He added that 2015 was likely to be a "downbeat year".

In the latest blow for Sunfonda, Italian sports car builder Maserati has said it is terminating agreements for dealerships in Xian, Taiyuan and Yinchuan.

According to a Sunfonda executive the three have lost at least 24 million yuan ($3.8 million) combined.

The Chinese company is now seeking legal arbitration in Shanghai over the termination, claiming the original contracts were unfair.

"It was OK before as conflicts were hidden while everyone was making money," the Sunfonda representative told AFP, declining to be named due to the legal proceedings. "However, low profitability has now revealed the conflicts."

Maserati said in a statement it was not pulling out of the three cities, only changing its local Chinese partner to give its brand more focus.

But Maserati CEO Harald Wester told AFP in April that maintaining China sales at last year's 9,400 vehicles would be "a very difficult task".

Hong Kong-listed Sunfonda is responding to the downturn by adding dealerships for more budget-oriented brands such as Ford of the United States and Volvo, owned by China's Geely, as well as expanding its auto servicing and used car offerings.