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Business Briefs

Debt

Fuses Lit on Brazil, Mexico Debt Bombs

The two countries face phenomenal financing needs in 2004, as external capital is drying up and getting expensive. Brazil must not only still cover $33 billion in bonds which fall due between mid-June and the end of 2004, but a projected budget deficit of $22 billion. And in 2005, another $52 billion in bonds come due. Yields on Brazil's benchmark C-bond have already risen to over 12% on the market. Brazil's country-risk rating on June 14 again crossed the threshold where Brazil has to offer a minimum of 7% over U.S. Treasury bill rates, if it has any hope of selling new debt. Mexico, according to *La Jornada* on June 14, has an unprecedented $47.9 billion in public and private debts coming due over the next 12 months. Citing the Banco Nacional de Mexico, the Treasury, and Banco Santander, *La Jornada* put Mexico's total public and private domestic and foreign debt now at $277.6 billion. And that doesn't include foreign investment in the stock market, which also represents a foreign obligation (the Central Bank must cough up dollars if the foreign capital flees).

Neither country can any longer rely on large flows of Foreign Direct Investment—i.e., money coming in to buy up privatized state companies—which helped pay their debts in the 1990s. According to figures just released by the UN Commission on Trade and Development (UNCTAD), foreign direct investment in Ibero-America and the Caribbean—Brazil and Mexico have been the largest recipients—fell to $48.7 billion in 2003, from its 1999 high of $108.5 billion.

Derivatives

Turnover Up 31% in A Single Quarter

The Bank for International Settlements reported on June 14 that derivatives turnover during the first quarter of 2004 rose to $272 trillion, another dramatic rise of 31% compared to the last quarter of 2003. These data just take into account the exchange-traded derivatives business, not the private Over-the-Counter contracts. Should derivatives activity continue to rise at the present pace, the exchange-traded derivatives turnover will vastly surpass $1 quadrillion this year.

Most of the first-quarter 2004 growth in the derivatives market came from an explosion of trading during March, in particular the second half of March. In the center of this speculative frenzy were so-called "fixed income" derivatives; that is, bets on prices of government bonds and money market paper.

The BIS summarized: "A notable feature of activity in fixed-income products in the first quarter was the unprecedented volume of transactions in March. Global turnover in such products climbed to $98 trillion in that month, an increase of 40% compared to February 2004 and 49% relative to the monthly average for 2003. . . . The most pronounced increase took place in Europe, with quarterly turnover soaring by 53% to $122 trillion, compared with a rise of 20% in North America, to $112 trillion, and growth of 8% in the Asia-Pacific region, to $11 trillion. The volume on European exchanges exceeded that of . . . North American exchanges for the first time."

Inflation

Price Spikes Everywhere In U.S. Construction

The June 14 *Washington Post* carried a survey, focussing on the Washington, D.C./Maryland/Northern Virginia area, of the last 6-12 months' inflation in construction producer goods prices, which has been stunning:

—steel up 21% in a year;
—wire mesh up 53% in six months;
—metal studs up 150% in six months;
—drywall up 25% in six months;
—lumber up 20% in six months;
—plywood up 167% in a year;
—cement up 10% in a year;
—not to mention gasoline costs for construction, up 20% in a year.

Clark Construction Group senior vice president John O'Keefe was quoted saying that materials prices began spiking in September-October 2003, and haven't stopped since. Other executives reported that their companies are losing money on jobs they bid last year, because prices went so much higher while the jobs were being done. Contractors said many bids are being "adjusted," and some contracts cancelled.

China

Already Severe Energy Crunch Will Get Worse

A report on industry by the State Information Center and the National Bureau of Statistics warned that the energy and electricity crisis could worsen until 2020, Xinhua reported on June 14. One big strain is being caused by outsourcing: Many foreign investors are relocating processing and manufacturing factories to China, many of which are high energy consumers. The overall crisis is due to the inability of China's low-efficiency energy system to supply its growing power-intensive industries and increasing urbanization.

State Energy Bureau official Xu Dingming told Xinhua that China's output of primary energy was up 11% over a year ago, but shortages of coal, power, and oil in many areas meant that the energy supply was lower than demand. Last year, the directors of many coal-fired power plants warned that they were running out of coal, and 22 provinces had to impose brownouts.

The urbanization factor is that per-capita energy consumption by urban residents in China is 250% more than in the countryside. China's comprehensive energy efficiency is 33%, which is 10% lower than that of developed countries, while energy consumption per-unit output value is twice that of developed countries, reflecting the waste of enormous amounts of coal. Advanced-sector efficiency in China's coal-fired power plants could save the equivalent of 120 million tons of standard coal a year, and more efficient building construction would save 335 million tons of standard coal a year—20% of China's annual energy use—through savings on heating.

China's already over-burdened rail transport system is also being hit. Almost 12% more coal—400 million tons—was transported by rail from January to May this year.

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