

China's services sector expands at slower pace

REUTERS, Beijing

China's services sector expanded at a slower pace in December following a strong rebound in the previous month, with business confidence falling to the second lowest on record despite a pick-up in new orders, a private survey showed on Monday.

The more downbeat reading suggests services companies remain cautious about the outlook for China's economy despite a flurry of stimulus measures, signs of improvement in the manufacturing sector and a long-awaited US-China trade deal.

The services sector accounts for more than half of the economy.

The Caixin/Markit services purchasing managers' index (PMI) slowed to 52.5 last month from 53.5 in November, but was still higher than an 8-month low hit in October.

The index has stayed above the 50-point margin that separates growth from contraction on a monthly basis since late 2005.

The cooling trend in the private survey echoed that in the official non-manufacturing PMI, published by the National Bureau of Statistics, which fell from November's eight-month high.

Beijing has been counting on a strong services sector to cushion a prolonged slowdown in manufacturing and investment and create jobs for workers laid-off in other areas. Economic growth has cooled to near 30-year lows amid sluggish demand at home and abroad.

"China's economy is likely to get off to a quick start in 2020, but it will still be constrained by limited demand for the rest of the year," Zhong Zhengsheng, director of macroeconomic analysis at CEBM Group, wrote in a note accompanying the Caixin PMI release.

Services companies surveyed expressed concerns over subdued economic conditions and a lack of staff, the Caixin survey showed. Their expectations regarding the one-year outlook for business activity fell to the second-lowest level since the series began in 2005.



People walk past a statue, placed there to promote a restaurant, at a shopping district in Beijing.

The pace of job creation was also more modest, with the employment sub-index hitting the lowest level since July. Meanwhile, input costs continued to rise, while firms had to lower their selling prices for the first time in over a year, squeezing companies' profit margins.

That was despite a faster rise in the volume of new work in December, suggesting some companies were cutting prices to promote sales amid fierce competition.

"It is difficult for the measure of business confidence, which remained at a relatively low level in December, to improve. That has become a major hurdle to stabilizing the economy," Zhong said.

While domestic demand picked up somewhat in December, new orders from overseas

weakened to the worst level in six months, deteriorating notably from November.

Caixin's composite manufacturing and services PMI, also released on Monday, slowed to 52.6 in December from 53.2 in November.

While the "Phase one" trade deal with the United States, which is expected to be signed on Jan. 15, will ease some of the pressure on exporters by reducing US tariffs, analysts at NatWest markets said a recovery in the manufacturing sector is unlikely be sustainable if further tariff escalation remains a threat.

"We expect the stronger recovery momentum in the services sector to partially offset the downside risks of the manufacturing sector outlook into 2020," they wrote in a note.

Crude and gold extend gains, stocks sink on fear of US-Iran war

AFP, Hong Kong

Oil prices surged, gold hit a more than six-year high and most equities tumbled Monday after the US assassination last week of a top Iranian general fanned fears of a major conflict in the Middle East.

Donald Trump warned of a "major retaliation" against Tehran after it threatened revenge for the killing Friday of commander Qasem Soleimani, which shocked world markets and sparked a sell-off in stocks and a spike in crude.

Iran announced on Sunday a further rollback of its commitments to its nuclear accord, while Iraq's parliament demanded the departure of US troops from the country as fallout from the attack spread.

The crisis has jolted investors, who had been in an upbeat mood as China and the US prepare to sign their mini trade deal next week, while data indicates a slight improvement in the global economy.

Both main crude contracts rallied in Asian trade, with Brent above \$70 for the first time since September when attacks on two Saudi Arabian facilities briefly halved output by the world's top producer.

White facing criticism for the action and calls to dial down the tension, the US president was in combative mood, saying the White House had dozens of sites lined up for strikes in case of retaliation by Iran -- adding that he did not need Congressional approval, even for a "disproportionate" hit.

"Geopolitical tensions look like remaining elevated in coming days, so lending support to oil prices and keeping risk asset markets on the defensive," said Ray Attrill at National Australia Bank.

Safe-haven assets popular in times of turmoil were also on the rise, with gold at highs not seen since mid-2013, while the Japanese yen was at a three-month high against the dollar.

"The nasty wake-up calls that no one wanted to start the year has roused the global stock market as investors had assumed smooth sailing after the phase one trade deal was announced," said AxiTrader's Stephen Innes. "Now they're scrambling to seek out safe harbours."

Equity markets tracked losses on Wall Street, where the three main indexes fell from record highs, while all seven bourses in the Gulf Cooperation Council (GCC) states finished sharply down, with some fearing Iranian revenge attacks on US assets or troops.

Some of the GCC members, including Kuwait, Qatar and Bahrain, are home to major US military bases, while there are also hundreds of troops in Saudi Arabia.

The losses on equity markets extended into Asia, with Tokyo down almost two percent as dealers returned for the first time since the new year break. Hong Kong lost 0.8 percent.

Singapore fell 0.7 percent, Seoul shed one percent, Taipei and Mumbai each lost more than one percent and Manila dived 0.9 percent, with Jakarta down 0.7 percent.

Shanghai ended flat as investors cheered a pledge by authorities at the weekend to support China's troubled banking sector and small businesses in the face of a growing debt mountain.

While markets were broadly lower, energy firms rallied on the back of higher crude prices. Inpex jumped more than four percent in Tokyo while in Hong Kong, PetroChina added four percent and CNOOC surged 3.6 percent.

In early trade London fell 0.4 percent, Frankfurt sank 1.1 percent and Paris lost 0.7 percent.

Friday's attack sent shockwaves through global markets, which had been enjoying a healthy run of gains in the wake of the China-US trade deal, which eased tensions between the economic powers.

Euro zone business activity close to stagnation

REUTERS, London

Euro zone business activity remained close to stagnation at the end of last year, a survey showed on Monday, as an upturn in services activity only partially offset a continued decline in the bloc's manufacturing industry.

IHS Markit's final euro zone composite Purchasing Managers' Index (PMI), seen as a good indicator of economic health, nudged up to 50.9 in December from November's 50.6.

That beat a preliminary estimate which suggested no change from the previous month but remained close to the 50 mark separating growth from contraction.

"Another month of subdued business activity in December rounded off the euro zone's worst quarter since 2013. The PMI data suggest the euro area will struggle to have grown by more than 0.1 percent in the closing three months of 2019," said Chris Williamson, chief business economist at IHS Markit.

That is worse than the 0.2 percent growth predicted in a December Reuters poll.

Fed focuses on repo market exit strategy after avoiding year-end crunch

REUTERS, New York

Wall Street's worst fears of a year-end funding squeeze never materialized thanks in large part to the quarter-trillion dollars the Federal Reserve stuffed into the market to ensure nothing became gummed up.

The question now, though, is what it will take for the U.S. central bank to withdraw from its daily liquidity operations in the \$2.2 trillion market for repurchase agreements, or repos - after it became a dominant player in a short three months. "The repo operations are a band-aid, but the wound isn't healed fully," said Gennadiy Goldberg, an interest rate strategist at TD Securities.

The New York Fed began injecting billions of dollars of liquidity into the repo market in mid-September, when a confluence of events sent the cost of overnight loans as high as 10%, more than four times the Fed's rate at the time. A month later, the Fed moved to expand its balance sheet - and boost the level of reserves - by snapping up \$60 billion a month in U.S. Treasury bills.

The Fed will continue pumping tens of billions a day into the repo market through at least the end of January. Its ability to exit from the repo market after that time will depend on how long it takes the central bank to make the balance sheet large enough so there are adequate reserves in the banking system - and the repo operations are no longer needed.

"It seems implausible to me that the Fed will be able to stop their repo operations by the end of January," said Mark Cabana, head of U.S. rates strategy at Bank of America Merrill Lynch.

Minutes from the Fed's December policy meeting released on Friday showed its staffers expected repo operations to be "gradually" reduced after mid-January. However, staff members also said the central bank may need to

continue offering some repo operations until at least April, when tax payments could reduce the level of reserves.

Another challenge for Fed officials: Deciding just how big the central bank's balance sheet, which is currently about \$4 trillion, should be.

"There are people at the Fed who have a preference for the smallest possible balance sheet, and we just don't know how much their views have evolved," said Lou Crandall, chief economist at Wrightson ICAP, a research firm.

Fed policymakers have said they will continue purchasing Treasury bills into the second quarter of 2020 with the goal of bringing reserves back above the level seen in mid-September, when they fell below \$1.5 trillion.

Bringing reserves to \$1.7 trillion would provide a cushion of about \$200 billion to absorb shocks during periods of tight liquidity, said Joseph Abate, a short rate strategist for Barclays. Holding up to \$2 trillion in reserves could offer a bigger cushion and reduce the likelihood of volatility in short-term borrowing markets, depending on what the demand is for reserves, he said.

Some financial firms are urging the Fed to stay involved permanently through a standing repo facility, which would allow firms to trade Treasury holdings for cash. But Fed officials are still working out the details and plan to keep discussing the issue at future meetings, the minutes from Friday showed.



Federal Reserve Board building is seen in Washington.

Decisive UK election result cheers companies: PMIs

REUTERS, London

Optimism among companies in Britain's dominant services sector surged after Prime Minister Boris Johnson's landslide election victory last month, despite an economy which continues to stagnate, a business survey showed on Monday.

The business expectations component of the IHS Markit/CIPS UK Services Purchasing Managers' Index (PMI) hit its highest level since September 2018, while order books increased for the first time in four months.

The overall PMI in December improved to 50.0 from a preliminary "flash" reading for the month - based on responses before the election - of 49.0. It was also higher than November's 49.3.

Still, the index has not exceeded the 50 threshold denoting growth since August - the longest run below that mark since 2009 - and survey compiler IHS Markit said its readings were consistent with no growth in the economy in the fourth quarter.

Investors are watching for early signs of the impact of Johnson's emphatic victory in the Dec. 12 election when he defeated the opposition Labour Party under left-wing leader Jeremy Corbyn.

"The modest rebound in new work provides another signal that business conditions should begin to improve in the coming months, helped by a boost to business sentiment from greater Brexit clarity and a more predictable political landscape," said Tim Moore, economics associate director at IHS Markit. Johnson's success in winning a large parliamentary majority means Britain is on course to leave the European Union on Jan. 31 and start an 11-month, no-change transition period.

But some businesses are worried that Johnson's refusal to contemplate asking for an extension to the transition, even if Britain has not sealed a new trade deal with the EU before the end of the year, risks creating another Brexit "cliff edge."

The composite PMI, which combines the services and manufacturing output indexes, held at 49.3 in December, matching September's 38-month low, but better than the preliminary estimate of 48.5.

UK car sales hit six-year low in 2019: industry body

AFP, London

New UK car sales sank in 2019 to a six-year low on weak demand for high-polluting diesels and amid Brexit uncertainty, an industry body said Monday.

Sales slid 2.4 percent to 2.31 million new cars in 2019 from the previous year, the Society of Motor Manufacturers and Traders (SMMT) said in a statement.

That was the lowest total since 2013 and marked the third annual drop in a row, as consumers continued to switch diesel cars for more environmentally-friendly automobiles.

In contrast, demand for combined alternatively fuelled vehicles -- including purely electric and hybrid models -- surged by a fifth to a record market share of 7.4 percent.

Motorists however remain unclear about government moves to introduce so-called "clean air" zones in towns and cities, according to the SMMT.

"A third year of decline for the UK new car market is a significant concern for industry and the wider economy," warned SMMT head Mike Hawes.

"Political and economic uncertainty, and confusing messages on clean air zones have taken their toll on buyer confidence."

Hawes added: "A stalling market will hinder industry's ability to meet stringent new CO2 targets and, importantly, undermine wider environmental goals."

"We urgently need more supportive policies: investment in infrastructure; broader measures to encourage uptake of the latest, low and zero emission cars."

Amazon to showcase its transportation drive at world's largest tech show

REUTERS

From making cars talk using Alexa's voice to managing data from factories full of robots, Amazon.com Inc wants a big piece of the action in transportation, and next week at CES will unveil more about its strategy to achieve that goal than ever before.

The Seattle retail and cloud services powerhouse plans to use the annual technology show in Las Vegas to unveil its plan to be a major player in self-driving vehicle technology, connected cars, electric vehicles and management of the torrents of data generated by automakers and drivers, company executives told Reuters.

Amazon Web Services, which provides large-scale cloud computing and data management services, is central to Amazon's strategy.

"We really are extending ourselves more and more out in the ecosystem from manufacturing to connected car," Jon Allen, head of professional services in Amazon Web Services' automotive practice, said in a telephone interview. "The takeaway message on this is if you go to CES this year we really are taking it as a 'One Amazon' view."

Until now, Amazon has shown its transportation strategy to investors - and rivals - one piece at a time. Amazon has invested in self-driving software startup Aurora. It also has

signed deals with automakers to deliver packages to vehicle trunks, help develop electric vehicle charging networks and use AWS to network their factories.

The Seattle company will share the CES stage with partners such as virtual reality firm ZeroLight, electric vehicle startup Rivian, Canada's BlackBerry Ltd and video game software development company Unity Technologies.

"It's our attempt to weave everything together in a single experience for our customers," Dean Phillips, AWS' automotive technical leader, told Reuters. "Customers don't distinguish AWS from Alexa from Amazon.com. It's Amazon."

At CES, ZeroLight and General Motors Co's Cadillac will demonstrate how they are partnering to develop an online vehicle configuration experience that will allow high-fidelity images of vehicles that consumers build online to be taken with them on visits to dealers, Phillips said.

The process can open the door to dealers better meeting customer needs by knowing what users focused on when building their dream car. It already boosted profit per vehicle at Volkswagen's Audi brand by an estimated 1,200 euros (\$1,340), he said.

Rivian, in which Amazon has twice invested, will demonstrate Alexa in the R1T electric

pickup truck it will begin building this fall, as well as the companion R1S SUV that will follow, Phillips said. Rivian will begin building 100,000 electric delivery vans for Amazon starting in 2021. Alexa will be integrated into all of those vehicles, Amazon said. BlackBerry and Karma Automotive, using AWS back-end services, will demonstrate how to better predict an electric car's battery health, allowing automakers to train drivers on how to drive in ways that will extend the battery's lifetime, he said.

Unity will show how its gaming simulations are used by automakers to create virtual worlds to allow self-driving vehicle developers to speed the training of the software used in those cars, Phillips said.

Some industry officials fear the loss of profits to technology companies, but Amazon has worked to woo the sector by showing greater flexibility to company needs. For instance, when Alexa is launched in GM cars in the US market next year, it will be push-button activated and not use the wake word, "Alexa," Amazon officials said.

A new in-car feature, using the voice command "Alexa, pay for gas," will enable users to buy fuel at 11,500 Exxon and Mobil gas stations, Amazon said. A new version of Fire TV will be available this year on in-vehicle entertainment systems from Fiat Chrysler Automobiles NV, Amazon said.

Govt starts working on bank commission

FROM PAGE B1

The actual size of bad loans is, however, more than double the officially recognised figure, according to a recent report of International Monetary Fund.

The finance minister recently gave defaulters a chance to have their loans rescheduled by making a 2 percent down payment.

The central bank recently decided to cap the interest rate on industrial loans in a move that would be a boon for manufacturers as their cost of funds would go down to single digit at the expense of banks' profitability.

But experts and economists say the bad loan situation would not improve without good governance in the banking sector.