Asia's factories shaking off Covid gloom, China shines

Reuters, *Tokyo*

Asian factories continued to shake off the coronavirus gloom in August as more bright signs in China raised hopes of a firmer recovery in global demand, reducing pressure on policymakers to take bolder steps to avert a deeper recession.

Manufacturing activity in China expanded at the fastest clip in nearly a decade in August, as factories ramped up output to meet rebounding demand, a private survey showed. New export orders rose for the first time this year.

The upbeat findings contrasted with an official survey on Monday, which showed China's factory activity grew at a slightly slower pace in August.

But fears of a resurgence in infections in some economies may discourage firms from boosting capital expenditure and delay a sustained rebound for the Asian region, some analysts say.

"In most major economies, except for China, factories are still running well below pre-pandemic capacity levels," said Ryutaro Kono, chief Japan economist at BNP Paribas.

"The recent recovery is largely due to pent-up demand after lockdown measures were lifted, which will dwindle ahead."

China's Caixin/Markit Manufacturing Purchasing Managers' Index(PMI) rose to 53.1 in August from July's 52.8, marking the biggest rate of expansion since January 2011.

Japan and South Korea both saw factory output contract at the slowest pace in six months in August, reinforcing expectations the region's export powerhouses have past their worst from a collapse in demand after COVID-19 struck.

REUTERS/FILE

Workers are seen on a production line manufacturing masks at a factory in Shanghai, China.

The spill-over to other parts of Asia, however, remains patchy. While manufacturing activity rose in Taiwan and Indonesia, they slid in the Philippines, Vietnam and Malaysia.

India's factory output grew in August for the first time in five months as the easing of lockdown restrictions spurred demand. But analysts do not expect a quick turnaround in the economy, which contracted at its steepest pace on record last quarter.

The global economy is gradually emerging from the health-crisis-led downturn thanks in part to massive fiscal and monetary stimulus programmes.

But many analysts expect any recovery to be feeble as renewed waves of infections dent business activity and prevent many nations from fully re-opening their economies.

In Australia, the central bank on Tuesday unexpectedly expanded a programme to provide lenders with low-cost funding as the virus-hit economy braced for its worst contraction since the Great Depression.

Japan's final au Jibun Bank Manufacturing PMI rose to a seasonally adjusted 47.2 in August from 45.2 in July, marking the slowest contraction since February. The survey followed data on Monday showing factory output rose in July at the fastest pace on record, as automakers ramped up production after facing factory closures in past months.

South Korea's PMI also rose to 48.5 in August from 46.9 in July, the highest reading since February, though it remained below the 50-mark threshold that separates growth from contraction for an eighth straight month.

While South Korea's exports fell for a sixth straight month in August, the trade data - first to be reported among major exporting economies - signalled a gradual recovery in global demand.

"Exports will continue to recover during the second half and turn positive next year," said Chun Kyu-yeon, economist at Hana Financial Investment. "Global demand are clearly showing recovery along with economic resumptions," she added.

Some analysts warn against being too optimistic.

South Korea's latest PMI findings did not fully reflect a recent resurgence in domestic coronavirus inflections in mid- to late-August. Japanese firms cut capital expenditure by the most in a decade in the second quarter, data showed on Tuesday, a sign the pandemic was sapping corporate appetite to spend.

Japan is also in the midst of a leadership change after Prime Minister Shinzo Abe said last week he will step down, raising uncertainty about the policy outlook.

"There is ... a risk that the leadership transition could bring about a period of policy paralysis and uncertainty, should Japan experience a run of frequent changes in premierships, as occurred prior to 2012," Fitch Ratings said in a research note.

Gold rises to two-week high as dollar stumbles

Reuters

Gold prices rose on Tuesday to their highest level in nearly two weeks, as the dollar slipped to multi-year lows on bets that US interest rates would stay lower for a longer period after the Federal Reserve's new policy framework.

Spot gold was up 0.9 per cent at $1,986.81 per ounce by 0502 GMT, after hitting its highest since Aug. 19 at $1,989.19 earlier in the session.

US gold futures rose 0.8 per cent to $1,995.20.

"With the greenback expected to remain weak, we expect gold to grind higher and revisit the $2,000 an ounce level initially," said Jeffrey Halley, a senior market analyst at OANDA.

The dollar dropped to a more than two-year low against its rivals, making gold cheaper for holders of other currencies.

The Fed's new monetary policy strategy, which could result in inflation moving slightly higher and interest rates staying lower for longer, has triggered a sell-off in the dollar, driving inflows into safe-haven bullion.

The US central bank's new approach to monetary policy means a low unemployment rate on its own doesn't warrant higher interest rates, Fed Vice Chair Richard Clarida said on Monday.

"Expectations of lower for longer when it comes to US interest rates and continued weakness in the USD index are setting a favourable environment for precious metals, especially gold," ING analyst Warren Patterson said in a note.

Low interest rates reduce the opportunity cost of holding non-yielding bullion, which is also used as a hedge against inflation and currency depreciation.

The United States said on Monday it was establishing a new bilateral economic dialogue with Taiwan, a decision that could worsen relation between Washington and Beijing as China claims Taiwan as its own territory.

Elsewhere, silver jumped 1.7 per cent to $28.69 per ounce, its highest since Aug. 11.

Platinum rose 1.6 per cent to $944.40 and palladium climbed 1.6 per cent to $2,279.61.

Apple preparing 75m 5G iPhones for later this year

Reuters

Apple Inc has asked suppliers to make at least 75 million 5G iPhones for later this year, along with new Apple Watch models, a new iPad Air and a smaller HomePod, Bloomberg News reported on Tuesday.

The company expects shipments of these next-generation iPhones to reach as high as 80 million units in 2020, the report said, citing people familiar with the matter.

Apple is aiming to launch four new iPhone models next month with 5G wireless speeds, a different design and a wider choice of screen sizes, Bloomberg reported, adding lower-end phones are expected to be shipped sooner than the Pro devices.

Apple is also preparing a new iPad Air with an edge-to-edge iPad Pro-like screen, two new Apple Watch versions and its first over-ear headphones outside the Beats brand, according to the report here

The company has also been developing a new Apple TV box with a faster processor for improved gaming and an upgraded remote control, although it might not ship until next year, Bloomberg reported.

Apple did not immediately respond to a Reuters request for comment.

Costs of 4 projects revised upwards by 73pc

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The government is emphasising carrying out proper feasibility studies before taking up a project and putting in place an adequate workforce to minimise the requirement for a project revision, he said.

One of the projects that got extension is the countrywide pond and canal dredging.

The cost went up to Tk 1,757 crore from Tk 1,334 crore and the implementation has been pushed back by a year to June 2024.

Under the project, 2,000-kilometres canals would be dredged and 2,111 acres of ponds or lakes be excavated to expand the storage capacity of holding water.

The project has been extended because of the inclusion of determining the amount of land to be dredged or excavated through digital surveys and the required logistics to carry out data processing; changes in the alignment of canals; verifying feasibility at field levels after disputes with landlords; and adding adequate workforce and consultant for hydraulic or structural designs.

The modern food storage construction project has been revised for the second time.

The cost rose to Tk 3,568 crore. Of which, Tk 3,499.94 crore would come from the World Bank as loans.

The implementation period has been extended by three years and four months to October 2023.

Under the project, eight steel silos would be constructed to increase the country's food grain storage capacity by 535,500 tonnes.

There had been delays in various phases of implementation of the project. The government also had to secure no-objection certificates from the WB on procurement issues and there were complexities over following conditions, according to a document of the planning ministry.

Because of the delay, the cost to construct the silos has gone up by 89.84 per cent. As the project overran, the operating expenditure and the cost for consultants also went up, the document said.

The Dhaka-Narayanganj-Demra Sewerage System Improvement Project (2nd phase) has been revised, increasing the cost to Tk 1,299.91 crore, up 132 per cent from Tk 558.19 crore set aside initially.

The cost of the physical works has gone up thanks to the detailed design prepared through field survey. The cost for land acquisition also increased, the document said.

The implementation period has been extended by two years to June 2023. The project, among other purposes, is expected to lessen the sufferings caused by water-loggings to about 20 lakh people in the area.

The second phase of a project to expand fishery technologies to union level has been revised for the second time.

Now, the allocation rose by 56 per cent to Tk 378.38 crore, which was Tk 242.28 crore initially. The project implementation period was extended by two years to June 2022.

The project aims to increase fish production through the use of modern technologies.

Initially, the project was implemented in 3,000 unions under 355 upazilas. As the project has more than doubled fish production to 21,791 tonnes from 10,889 tonnes, the government plans to retain the growth in fish production.

Now, the government wants to expand the project to 4,300 unions under 464 upazilas.

The Ecnec gave its consent to a Tk 3,586-crore project to turn the Sylhet-Tamabil Highway into four lanes.

Of the budget, Tk 2,970.55 crore would come from the Asian Infrastructure Investment Bank in loans and the rest from the government's coffer. The tenure of the project is until June 2025.

The project was taken up to turn the Sylhet-Tamabil Highway into four lanes, including creating passages to allow slow-moving vehicles and establish a sub-regional link through the Dhaka-Sylhet-Tamabil corridor.

The project would make it easier to travel to and from the land port, economic zones and export processing zones.

The Ecnec also approved a project to improve and expand the Matlab-Meghna-Dhonagoda Embankment road. The project would establish an improved road network between Matlab Uttar upazila and Chandupur and Cumilla.

The Tk 121-crore project would be implemented between July 2020 and June 2022.

Prime Minister Sheikh Hasina presided over the virtual meeting of the Ecnec.

The prime minister, Finance Minister AHM Mustafa Kamal and Mannan joined the meeting from Ganobhaban through a video conference, while other Ecnec members were connected from the NEC Auditorium, according to UNB news agency.

India economic growth hit by record slump after virus lockdown

AFP, *Mumbai*

India's economic growth suffered a historic 23.9 percent decline between April and June, official figures showed Monday, as manufacturing and productivity were battered by a strict coronavirus lockdown.

The contraction was the biggest since New Delhi started publishing quarterly statistics in 1996, and the latest figures came as the country's coronavirus cases surged past the 3.6 million mark.

The steep dip in Asia's third-largest economy reflected the impact of a months-long nationwide shutdown that saw most industrial and manufacturing activity grind to a halt.The decline was worse than expected, with a survey of economists by Bloomberg earlier predicting a contraction of 18 percent.

On Monday the government warned that the figures could be revised further since the pandemic had also affected the ability to collect accurate data on economic activity. "The entire quarter was spent in lockdown and it was a complete washout for the Indian economy," Mumbai-based economist Ashutosh Datar told AFP.

He added that the clouds of gloom were unlikely to lift "for the next few quarters". "We started publishing quarterly growth figures only from 1996 and this is the worst quarterly performance on record ever since," he said.

Even before Prime Minister Narendra Modi announced a lockdown in late March, the economy was struggling to gain traction with sluggish growth, record unemployment, and a flurry of bad loans making banks reluctant to lend.

The sudden shutdown prompted a huge exodus by millions of migrant workers who fled cities for their villages due to a lack of food and money.Many have yet to return even as restrictions have eased, leaving factories struggling with labour shortages.

Modi had announced a $266 billion package -- 10 percent of the country's GDP -- to revive the battered economy, while India's central bank has slashed interest rates and transferred billions of rupees in annual dividends to the government. But the measures have yet to yield any positive economic impact or spur a pick-up in demand.

Meanwhile, coronavirus infections have hit new records across the country, with the lockdown failing to contain the spread of the disease which has travelled from crowded cities to remote villages where access to healthcare remains a huge issue.

REUTERS

Labourers push a trolley at the Howrah railway station during a day long state-imposed lockdown as a preventive measure against the surge in Covid-19 coronavirus cases, in Kolkata on August 31.

Prime Bank speeds up digital push to spur growth

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Its capital adequacy ratio was 18.31 per cent in the first half, the highest in Bangladesh. "This gives assurance to customers that Prime Bank has adequate capital support," Ahmed said.

Ahmed touched upon challenges confronting the banking sector.

The banking sector had been under challenges before the pandemic and the challenges exacerbated because of the pestilence.

Businesses came to a standstill in April and May. The interest earnings in April and May have shifted to a blocked account.

The banking sector has been given a great responsibility of disbursing a majority of the Tk 103,117 crore stimulus packages unveiled by the government at their credit risks.

The repayment of instalment has been delayed because of regulatory forbearance and banks can't change the status of borrowers until September.

The 9 per cent interest rate cap is another major challenge as it gobbled up 25 to 30 per cent revenue straight away, Ahmed said.

"The biggest challenge facing the banking sector is how to maintain operational efficiency and manage the operational cost," Ahmed said.

Some banks have tried to manage costs by cutting salaries or trimming workforce. Prime Bank does not want to take the path. Rather, it analysed various components of the costs.

Because of work from home and digitalisation, the bank would reduce 50,000 to 60,000 square feet of office space by the next six months as it is currently re-sizing 25 branches, he said.

About 40 to 45 per cent of SMEs have reported been closed. So, lending to SMEs is another major challenge. Similarly, banks would have to lend to large businesses cautiously.

"It is very difficult to lend SMEs at 9 per cent while maintaining the acquisition and maintenance cost," he said.

The bank is revisiting operational processes to see how much of them could be digitalised.

"We are doing all these to offset the shrinkage in profits as much as possible."

Ahmed, who has an MBA from the Maastricht School of Business in the Netherlands, said the country can't be complacent as it is staring at some major challenges.

The fall in remittance may deal a major blow as migrant workers are losing jobs and they are already coming back and they may come back in droves if the global economy squeezes.

"We have to think about how we can rehabilitate the workers and fill the gap in remittance income."

The government would have to pay close attention to expenditures and carry out the expenses maintaining as much governance as possible, he said.

"If we can do that, I don't think that the recovery would be a major challenge."

Of the stimulus packages targets set for the bank, it has disbursed 70 per cent of the Tk 940 crore loans to large industries and 100 per cent of the wages support. In the case of SMEs, it has reached 15 per cent target of the lending goal of Tk 250 crore by 2021.

"Hopefully, we will reach the target by April 2021. We want to reach out as many people as possible."

The bank has given payment holidays to many clients, pushing back the repayment period.

"We have not done this in a wholesale manner. We gave them tailor-made solutions depending on their requirements," Ahmed said.

The interest rate cap is a major challenge for the retail and SME loan segments. The policy-makers should re-consider it, he said.

"The lending cap is not only putting pressure on the banking sector; there is a rippling effect on other sectors, including the stock market."

He thanked the central bank for paying heed to the demand of the banking sector on introducing a credit guarantee scheme for loans going to the SMEs. "It would benefit us to a large extent. It will accelerate the credit flow."

Prime Bank has made a major stride in non-performing loans (NPL) management. It is hovering around 4.5 per cent now against the industry's average of 10 to 12 per cent. It had planned to bring it below 4 per cent before the pandemic hit.

According to Ahmed, once the moratorium on loan classification is withdrawn, the banking sector would see a higher NPL.

"Nobody can say that it would not affect them. The impact would depend on how good a bank can do risk management and put aside funds in advance as provisioning."

Recently, lending has picked up marginally in the banking sector. However, momentum is slow in the retail segment. There are requests for loans in the corporate and SME segments, he said.

The corporate and commercial banking accounted for 73 per cent of the loans of Prime Bank, while the SME and retail banking making up the rest.

According to the 48-year-old, crises often offer scopes to address long-overdue changes to any industries and the banking sector is not an exception.

"The first learning from the pandemic is there is no alternative to going digital. Second, the pandemic has taught us to stay very close to your client."

"Connectivity with clients and relationship with clients is the most important thing. The work style has to be changed."