

From climate change to equality, Lagarde turns ECB more political

REUTERS, Frankfurt

Since taking the helm a year ago, Christine Lagarde has turned the European Central Bank's attention to social issues like climate change and inequality, broadening its horizons but also opening it to attacks that could test its independence.

Lagarde's efforts to use the bank's leverage to fight global warming, gender imbalance or income inequality may have been overshadowed by the coronavirus pandemic and the ensuing, deep recession.

But they could yet reshape the currency union's most powerful institution and help redefine the role of central banking in an era where the threat of runaway inflation has faded into obscurity.

The ECB as an institution is one of a kind. Its president is uniquely powerful in swaying policy and the broader economic debate, as Lagarde's predecessor Mario Draghi demonstrated in 2012 when he said the bank would do "whatever it takes" to save the euro here, catching markets and some colleagues unaware.

The bank's role is also open to interpretation because of a vaguely worded Treaty.

Unlike the Fed, which has a dual mandate of nurturing price stability and employment, the ECB must first keep prices stable, then support the "general economic policies" of the European Union.

In stark contrast to her predecessors - all men with degrees in economics and decades

of central banking experience - the former politician Lagarde has demonstrated a willingness to use this leeway to promote the euro zone's wider social good.

"In addition to the narrow angle from which we have historically looked at monetary policy over the course of previous decades, we need to enlarge the horizon and be courageous in tackling some of these issues, although they are not the traditional areas that monetary economists look at," Lagarde said last week.

For the ECB, this is a new mission.

Former chief Jean Claude Trichet would say that fighting inflation was the only needle in the ECB's compass, while Draghi often warned about the dangers of unelected bureaucrats going beyond a narrow definition of their mandate.

What it will mean in practice depends on the outcome of the overarching review the ECB is currently carrying out - its first in 17 years. But Lagarde has already hinted at giving up market neutrality in asset buying and giving climate risk greater consideration.

Her interpretation of the bank's mandate is already irking some, however, particularly in Germany, who claim that the ECB is turning political by meddling in social policy without the authority or the right tools to do so.

That criticism could morph into an existential threat if it alienates the ECB's biggest



European Central Bank President Christine Lagarde

shareholder, Germany, where parts of the establishment have time and again challenged the central bank, including through the highest courts.

Nevertheless, Lagarde says the ECB needs to move with the times. "There are issues that actually impact the work that we have to do that is defined by the Treaty, which were not sufficiently considered at the time," she said. "Climate change was not lingua franca in those days."

An ECB spokesman declined to comment for this article. For more Lagarde quotes on her interpretation of the bank's mandate, click on:

The changes come just as the Fed tweaks its own focus, making an explicit commitment to benefit low- and moderate-income families when setting policy.

Lagarde's supporters say that a narrow interpretation of the bank's mandate never shielded it from political criticism and that ignoring social issues would only reinforce the perception that the bank is out of touch.

Members of the European Parliament, which oversees the ECB, also regularly ask why the ECB is not doing more for jobs or the climate, given its immense economic firepower and nearly 7 trillion euro (6.4 trillion pounds) balance sheet. Some ECB policymakers have already started to follow Lagarde's lead.

French central bank chief Francois Villeroy de Galhau has argued that employment and income distribution need to be considered when setting policy, while his Finnish peer Olli Rehn said that he could even live with

a temporary inflation overshoot if social welfare considerations warranted it.

For some, embracing social issues is the only way to stave off the spectre of a political takeover down the line.

"If the central bank behaves like an ostrich, sticking its head in the sand, it's going to lose its independence by default," Latvian central bank governor Martins Kazaks told Reuters.

"If it wants to retain its independence and remain relevant to society, it needs to listen and demonstrate it wants to help."

But his German colleague, Jens Weidmann, was sceptical, saying the ECB had "no mandate to pursue other aims in (its) own right or to play an active role in other policy areas".

Only this spring, Germany's top court ruled that the bank was exceeding its powers with oversized government bond purchases - an unprecedented conflict that has since been defused.

The ECB has already fought several legal battles over its powers in Germany, where hostility in conservative circles, the media and even among the broader public is not far below the surface.

Clemens Fuest, head of the influential Ifo Institute, has called out Lagarde, arguing that her climate change plans were undemocratic, while Friedrich Heinemann, a leading researcher at the ZEW, says the ECB has no mandate for many of these social considerations.

ByteDance in early talks to list Chinese short video app Douyin in Hong Kong

REUTERS, Beijing

TikTok-owner ByteDance is in discussions internally and with investment banks to list its Chinese short video app Douyin in Hong Kong, according to two people familiar with the situation.

ByteDance has discussed internally about the potential scenario and its representatives have met several investment banks in recent weeks to talk about such a possibility for Douyin, one of the people said, adding that the talks are very preliminary.

TikTok is not available in China and Douyin is TikTok's Chinese counterpart.

Investment banks have been doing research and analysis about a standalone IPO for Douyin, according to the second person.

A ByteDance spokeswoman declined to comment on behalf of the company and Douyin. The people declined to be named as the information isn't public.

Reuters reported in July that ByteDance studied the possibility to list its China business, including Douyin, in Hong Kong or Shanghai's STAR Board, against a backdrop of rising Sino-US tensions over its hit non-China video app TikTok.

ByteDance has been under pressure in the United States to sell the popular app's US arm. The White House contends that TikTok poses national security concerns as personal data collected on 100 million Americans who use the app could be obtained by China's government. People briefed on the matter do not expect any final agreement on TikTok before the election, Reuters has reported.

US District Judge Carl Nichols in Washington issued a preliminary injunction on Sept. 27 that barred the US Commerce Department from ordering app stores to remove the Chinese-owned short video-sharing app for download by new users.

Douyin, where users watch and upload short videos, is hugely popular in China. Douyin said it amassed 600 million daily active users as of August.

ByteDance's other Chinese operations include news aggregator Jinni Toutiao, work collaboration tool Feishu and video-streaming app Xigua.

Future Retail says examining order against Reliance deal

REUTERS, Bengaluru

Future Retail said on Monday it was examining an order by an arbitration panel to put on hold its \$3.38 billion asset sale to Reliance Industries, and would take steps in enforcement proceedings to close the deal without delay.

Shares in Future Retail were down 3.2 per cent by 0630 GMT, while Reliance's stock fell 2.4 per cent, weighing on the broader Mumbai market.

Amazon.com Inc received an emergency order from a Singapore arbitration panel to halt the two Indian companies from proceeding with the deal until an arbitration tribunal is formed, a source with direct knowledge of the matter told Reuters.

Amazon, which has alleged the deal breached existing agreements, last year bought a 49 per cent stake in Future Coupons Ltd, which owns a 7.3 per cent stake in Future Retail.

The investment came with contractual rights that include a right of first refusal and a non-compete-like pact, media had reported, and Amazon later started arbitration proceedings.

In a statement to Indian stock exchanges on Monday, Future Retail said it was not party to the agreement under which Amazon had invoked arbitration proceedings.

All relevant agreements were governed by Indian law and the matter "raises several



REUTERS/FILE

A customer pushes a trolley past a digital store of Reliance Industries Ltd in Mumbai.

fundamental jurisdictional issues," Future said. Billionaire Mukesh Ambani's Reliance in August decided to buy retail, wholesale and some other businesses of Future Group in a deal valued at \$3.38 billion, including debt.

Reliance Retail intends to complete the deal with Future Group without any delay, it said in a statement on Sunday. "The rights and obligations (under the deal) are fully enforceable under Indian Law," Reliance Retail added.

Two sources familiar with the matter said the temporary injunction was not automatically enforceable in India and that the order would have to be ratified by an Indian court.

In a statement, Amazon said: "We are grateful for the order which grants all the reliefs that were sought. We remain committed to an expeditious conclusion of the arbitration process."

Chevron bets on Middle East gas riches and reconciliation

REUTERS, Houston/London

After years of focusing on US shale, Chevron Corp is staking its natural gas future on the Middle East, a volatile and divided region where energy majors have long tread warily.

CEO Michael Wirth's pivot away from home is underpinned by a bet that the Middle East is entering an era of reconciliation that will make it ideal for tapping natural gas, as demand for the cheaper and cleaner fuel is forecast to outstrip oil.

The new strategy is seeing the company pitch new gas deals in Egypt, Israel, Qatar, while cutting spending on American shale exploration.

The plan is anchored by Wirth's \$11.8 billion purchase this month of US-based Noble Energy, which holds a stake of about 40 per cent in the aptly-named Leviathan gas field in the Mediterranean Sea, off the coast of Israel.

"Five years ago the Eastern Med wasn't viewed as endowed from a resource standpoint as I think most people would say today. That's a fundamental shift," Wirth told Reuters in an interview. "There's not a lot of capital investment required in the near term," he said. "At a time when cash flow matters, that's a very appealing attribute."

The deal brings an alliance with Israel that has been smoothed by the narrowing of some historical rifts in the region, such as the establishment of formal ties between Israel and the United Arab Emirates in an agreement signed last month.

Wirth said Middle Eastern commercial and diplomatic relations "are becoming more codified and stronger, that's a trend that we think augurs well for the region."

Chevron also made a courtesy call about the Noble deal to officials in Saudi Arabia, a key partner in several Chevron oil projects and a nation with historically strained relations with Israel, according to a senior source at the

US company. The Saudi government media communications office did not respond to a request for comment, while Chevron said it did not discuss details of meetings.

Yet the regional political and security risks that have deterred some companies in recent years still exist. Syria and Yemen are riven by wars, with uncertain consequences for a wider region where archrivals Saudi Arabia and Iran are waging a proxy battle.



Chevron CEO Michael Wirth

Just this January, the US killing of Iranian general Qassem Soleimani in Iraq - and a reprisal by Tehran - illustrated the instability of the Middle East and threatened to engulf it in conflict. Despite such risks, Chevron - which at one point leap-frogged rival ExxonMobil this month to be the largest US oil company by market value - is plowing ahead with efforts across the region.

The Leviathan field and others nearby have the potential to become major factors in regional fuel supplies. Chevron could send gas to a Egyptian liquefied natural gas (LNG) plant that could ship the fuel to Europe or Asia, Wirth said.

European and Asian nations have been moving toward gas, solar and wind, and away from coal and nuclear power.

"The reality is you need gas in tandem with renewables," said Christopher Kalnin, CEO of Banpu Kalnin Ventures, which invests in US shale gas. Asia in particular will remain dependent on imported gas, he said, because it complements solar and wind. Global gas demand through 2025 is projected to rise 1.5 per cent per year on average, largely on growing purchases by customers in China and India.

In contrast, oil consumption may have already peaked at last year's 100 million barrel per day (bpd) level, forecasters say, and this year could sink to 91.7 million bpd, a seven-year low.

The Middle East produces a third of the world's oil and one sixth of its natural gas, and has long drawn the interest of foreign oil companies. Chevron produces fewer barrels of oil and gas in the region than other majors, according to Rystad Energy data, but it is the only major to have had a continuous presence in Saudi Arabia for 70 years and has maintained good relations with governments in the region.

"Chevron is extremely good at what I would call crown jewel government relations, big assets in challenging countries," said Robin West, a board member of Spanish oil major Repsol SA REP.MC and head of Boston Consulting Group's Center for Energy Impact. "They very quietly work away at things."

The Noble deal fits Wirth's effort to adapt to a low-cost energy world and expand in Qatar, Egypt and Iraq. It brought Chevron nearly 1 billion cubic feet of natural gas reserves, and ensures it remains among the world's top 10 gas suppliers.

"The size of the opportunity was way beyond the capacity of a company like Noble," said a former Chevron executive who declined to be identified because of ongoing relationships.

Coca-Cola's European partner makes \$6.6b play for Australia bottler

REUTERS, Sydney/Bengaluru

Coca-Cola Co's European bottler has made a \$59.28 billion (\$6.6 billion) buyout approach to Australian peer Coca-Cola Amatil Ltd, a cut-price proposal that the target firm is backing due to uncertainty sparked by the coronavirus crisis.

The takeover by Coca-Cola European Partners PLC (CCEP) would be the biggest involving Australia this year, but prices the target company below its market valuation in February - before the COVID-19 pandemic began to rock global markets and plunged the world into recession.

The support from the Australians indicates expectations of an economic recovery that could take years, a bleaker view than that of some local economists who have pointed to improving economic indicators. Coca-Cola Amatil's profit has been hit by shutdowns of restaurants and pubs since March.

The deal would unite two companies that bottle and distribute Coca-Cola drinks, providing scale, operating efficiencies and a larger geographic spread.

"Ultimately, when franchises become available, aligned Coke bottlers need to act," said Jefferies

analysts in a note, adding CCEP would be able to strengthen Amatil's operational capabilities. "Longer term, the deal offers a platform for further consolidation in Asia."

Amatil's shares closed up 16.3 per cent at A\$12.50, below the proposed offer price of A\$12.75, indicating investors are factoring in the possibility a deal might not come to fruition.

CCEP shares rose 8.5 per cent in morning trade in London. The deal

could lift CCEP's earnings by 18 per cent after three years, Jefferies said.

"We are really confident about the recovery that the business is making (but) clearly there's uncertainty over the next couple of years with the economic situation, and just the risk of further health outbreaks that could disrupt the business," said Coca-Cola Amatil Chief Executive Alison Watkins on an investor call on Monday, when asked about the price.



REUTERS/FILE

Multi can packs of Coca-Cola and Diet Coke are seen for sale in a motorway services shop, Reading, Britain.

BOJ to hold fire, signal readiness to extend Covid-response package

REUTERS, Tokyo

The Bank of Japan is set to keep monetary policy steady on Thursday and signal its readiness to extend the duration of a crisis-response package that has become a primary tool to deal with the deepening economic impact of the coronavirus crisis.

While the BOJ is seen slightly cutting its growth and price forecasts, many board members see no immediate need to expand stimulus on the view the world's third-largest economy is headed for a modest recovery, sources have told Reuters.

The central bank is expected to maintain its yield curve control (YCC) targets at -0.1 per cent for short-term interest rates and 0 per cent for long-term yields at a two-day rate review ending on Thursday.

"The BOJ probably feels it's premature to debate in depth ways to directly prop up economic and price growth," as it continues to focus on easing funding strains caused by the COVID-19 crisis, said Hiroshi Ugai, chief economist at JPMorgan Securities.

Much as YCC remains the BOJ's key policy framework, cutting the yield targets has become a less likely option due to the intense strain on bank margins from years of ultra-low rates.

That has increased the importance of a package of steps the central bank introduced from March through May, which includes aggressive purchases of corporate debt and a new lending facility to funnel money to smaller firms via financial institutions.

BOJ officials have said the package will serve as the first line of defense to counter the persistent pressure from Covid-19, suggesting that other tools such as rate cuts will be saved for more

extreme shocks such as an unwelcome yen spike. "For the time being, the BOJ can respond to risks using the package of measures," said a source familiar with its thinking, a view echoed by two other sources.

At his post-meeting briefing, BOJ Governor Haruhiko Kuroda is expected to reiterate the bank's readiness to extend the March 2021 deadline for the package of measures if necessary.



REUTERS/FILE

A man wearing a protective mask walks past the headquarters of Bank of Japan amid the coronavirus disease outbreak in Tokyo.