US consumer sentiment ebbs; producer prices maintain steady rise

REUTERS, *Washington*

US consumer sentiment fell unexpectedly in early November as households worried about their finances, the resurgent COVID-19 pandemic and the depleted fiscal stimulus, dimming the economy's outlook as the curtain started to close on a challenging year.

The survey from the University of Michigan on Friday also showed Democrat Joe Biden's victory in the Nov. 3 presidential election was weighing on expectations among Republicans, with a slight gain among Democrats.

Daily new coronavirus cases have been exceeding 100,000, with hospitalizations and deaths surging, prompting some state and local governments to impose new restrictions on businesses. Restrictions and consumer avoidance of crowded places could trigger another wave of layoffs and further squeeze incomes following the loss of a government weekly unemployment subsidy.

"The drawdown in sentiment seems to reflect decreased perceptions of household finances, which may be a lagged effect of the dwindling fiscal stimulus," said Tim Quinlan, a senior economist at Wells Fargo Securities in Charlotte, North Carolina. "More consumers reported lower income than higher income for the first time since 2014."

The University of Michigan's consumer sentiment index dropped to 77 early this month from a final reading of 81.8 in October. Economists polled by Reuters had forecast the index little changed at 82. The survey's measure of current conditions was steady. Its gauge of expectations fell to 71.3 from 79.2.

A measure of expectations among Republicans declined to 76.4 from 96.4. It edged up to 69.3 from 68.6 among Democrats.

A weekly unemployment supplement, which was part of more than $3 trillion in government coronavirus relief, has lapsed for millions of unemployed and underemployed workers. A second rescue package is unlikely before President-elect Biden takes office in January.

Economists expect consumer sentiment will trend lower despite promising developments on experimental vaccines.

"With more and more states starting to impose new restrictions on activity, this highlights the growing downside risks posed by the pandemic for the next few months," said Andrew Hunter, a senior economist at Capital Economics.

Stocks on Wall Street rose on upbeat results from Walt Disney Co DIS.N and Cisco Systems Inc. The dollar dipped against a basket of currencies. US Treasury prices fell.

US consumer sentiment falls in early November

Exploding COVID-19 infections and labor market slack are seen keeping a lid on inflation, even as producer prices maintain their steady rise. In a separate report, the Labor Department said its producer price index for final demand climbed 0.3 per cent in October, driven by more expensive food and gasoline, after rising 0.4 per cent in September.

It was the sixth straight monthly increase in the PPI. A 0.5 per cent increase in the price of goods accounted for nearly 60 per cent of the gain in the PPI. Goods rose 0.4 per cent in September.

In the 12 months through October, the PPI advanced 0.5 per cent after rebounding 0.4 per cent in September.

Economists had forecast the PPI would rise 0.2 per cent in October and increase 0.4 per cent on a year-on-year basis.

Excluding the volatile food, energy and trade services components, producer prices gained 0.2 per cent in October. The so-called core PPI advanced 0.4 per cent in September. In the 12 months through October, the core PPI increased 0.8 per cent after rising 0.7 per cent in September.

Coming in the wake of data on Thursday showing consumer prices unchanged in October, the PPI report further allayed fears of deflation, a decline in the general price level that is harmful during a recession as consumers and businesses may delay purchases in anticipation of lower prices.

Economists expect the Federal Reserve will keep interest rates near zero at least through 2021. The US central Bank has a 2 per cent target, a flexible average. Its preferred inflation measure, the core PCE price index rose 1.5 per cent in September.

Wholesale food prices jumped 2.4 per cent in October, accounting for nearly three-fourths of the increase in the cost of goods. Food prices were boosted by a 26.8 per cent surge in the cost of fresh and dry vegetables.

Prices also rose for gasoline, meats, chicken eggs, and thermoplastic resins and materials. Prices fell for light motor trucks and passenger cars, resulting in core goods prices being unchanged after rising 0.4 per cent.

The cost of services rose 0.2 per cent after advancing 0.4 per cent in September. Nearly 40 per cent of the broad-based gain was due to a 1.1 per cent increase in transportation and warehousing services. Margins for final demand trade services, which measure changes in margins received by wholesalers and retailers, climbed 0.2 per cent.

Healthcare costs rose 0.3 per cent and portfolio fees increased 0.5 per cent. Airline tickets were up 1.2 per cent.

Those airline tickets, healthcare and portfolio management costs feed into the core PCE price index. With the relevant CPI and PPI components in hand, economists are predicting the core PCE price index rose 1.4 per cent in October.

"Inflation is hard to find at the producer level at the moment and with the second wave of coronavirus cases hitting new records nearly every day, producer goods inflation is unlikely to emerge in coming months," said Chris Rupkey, chief economist at MUFG in New York.

REUTERS/FILE

A young girl shops in a toy store, during the outbreak of coronavirus disease in the Borough Park section of Brooklyn, New York.

Vietnamese rates gain on fresh Chinese, Philippine orders

REUTERS

Vietnamese rice export prices rose this week on fresh orders from the Philippines and China, while the onset of winter and sparse rainfall raised concerns over supply, which, when coupled with a stronger baht, propelled Thai rates higher.

Vietnam's 5 per cent broken rice prices rose to $495-$500 per tonne from $493-$497 last week.

"Buyers from the Philippines and China have returned to place new orders," a trader based in Ho Chi Minh City said. Domestic supplies are low and the ongoing autumn-winter harvest will end this month, the trader added.

Government data showed Vietnam's rice exports in October fell 5.8 per cent from September to 362,930 tonnes. For the first 10 months of this year, total shipments fell 2.8 per cent from a year earlier to 5.35 million tonnes.

Thailand's benchmark 5 per cent broken rice prices jumped to $470-$485 from $455-$458 a week earlier.

The baht scaled a 10 month-peak on Wednesday, translating into higher export prices in US dollars.

Thailand officially entered the winter season in late October, with rainfall becoming more sparse, prompting worries that the volume of new crops being harvested at present would be lower, traders said.

Prices of top exporter India's 5 percent broken parboiled variety were unchanged at $366-$370 per tonne, the lowest since end-March. "New season supplies are rising in Andhra Pradesh, Chhattisgarh and West Bengal. Export demand is a bit weak now," said an exporter based at Kakinada in the southern state of Andhra Pradesh.

Meanwhile, a food ministry official in neighboring Bangladesh said the country could import a small amount of rice amid a potential production shortfall and a spike in domestic prices of the staple.

Japan may offer corporate tax breaks to firms that digitise

REUTERS, *Tokyo*

Japan is considering offering tax incentives to companies that adopt digitalisation, public broadcaster NHK reported on Saturday.

The coronavirus pandemic highlighted a need for firms to digitalize to improve their productivity, which prompted the government to consider steps to support their business reforms by digital technology, it said.

Prime Minister Yoshihide Suga has made "digital transformation" in the nation a key pledge, aiming to streamline business and government processes and spur lacklustre growth in the world's third-biggest economy.

The government and the ruling Liberal Democratic Party (LDP) plan to discuss details of corporate tax breaks to be included in next fiscal year's tax revision, targeting mainly mid-sized companies to promote their digital investment, NHK said.

India trims palm oil purchases as rising prices make soyoil attractive

REUTERS, *Mumbai*

Indian edible oil refiners are trimming imports of palm oil to make space for soyoil as a rally in the price of palm due to output worries reduced the spread between the two, industry officials told Reuters.

Lower overseas purchases by the world's biggest edible oil importer could cap palm prices, which hit an eight-year high on Friday, but will support U.S. soyoil futures trading near their highest level in four years.

"Indian buyers are reducing purchases of palm oil for November and December shipments, and replacing it with soyoil," said Govindbhai Patel, managing director of trading firm G.G. Patel & Nikhil Research Company.

Palm oil usually trades at a discount of $100 to $200 a tonne to soyoil, but a rally in Malaysian futures - currently trading just below their eight-year peak of 3,405 Malaysian ringgit per tonne - has reduced the spread to $80.

Crude palm oil is being offered at around $880 a tonne, including cost, insurance and freight (CIF), in India, compared with $960 for degummed soybean oil, traders said.

The narrowing gap has turned buyers to soy oil, which is often preferred as it is perceived to be superior in taste and quality to palm.

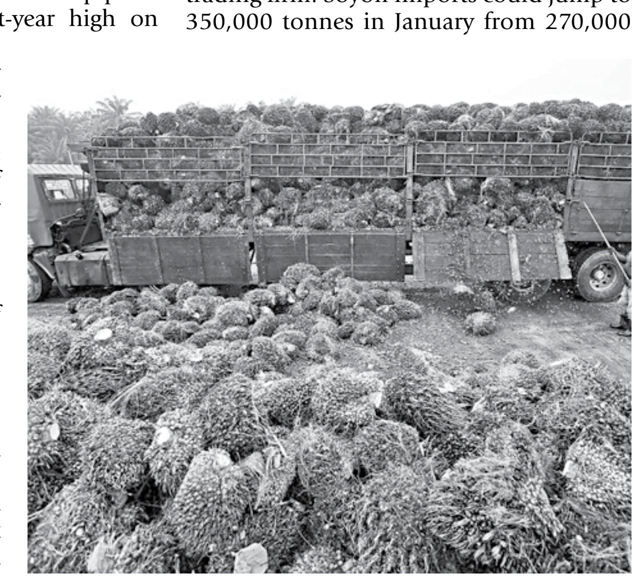
Refiners have been slashing palm oil imports for winter, said Sandeep Bajoria, chief executive of Sunvin Group, a vegetable oil broker.

In winter months, household palm oil consumption falls in India as the tropical oil solidifies at lower temperatures.

India's monthly palm oil imports could dip to 600,000 tonnes in January from around 750,000 tonnes in October if the current narrow price gap remains, said a Mumbai-based dealer with a global trading firm. Soyoil imports could jump to 350,000 tonnes in January from 270,000 tonnes in October, he said.

There was also a sharp rise in sunflower oil prices in the last two months, further heightening soyoil's appeal to refiners, the dealer said.

The South Asian country imports palm oil mainly from Indonesia and Malaysia, and other oils such as soy and sunflower oil from Argentina, Brazil, Ukraine and Russia.



REUTERS/FILE

A worker unloads palm oil fruits from a lorry inside a palm oil factory in Salak Tinggi, outside Kuala Lumpur, Malaysia.

Wall Street's stock investors cast wary eye on yield rally

REUTERS, *New York*

As Treasury yields rally to multi-month highs, some investors are gauging how a more sustained rise could impact equity markets.

Yields on the 10-year Treasury, which move inversely to bond prices, rose to a seven-month high of 0.97 per cent in the past week on hopes that breakthroughs in the search for a COVID-19 vaccine would eventually translate to a boost in economic growth.

That's still low, by historical standards: yields are a full point below their levels at the start of January and below their 5-year average of 2.05 per cent, according to Refinitiv data. The Federal Reserve has pledged to keep interest rates near historic lows for years to come in its bid to support growth, and past rallies in yields have faded in recent years.

Expectations that a vaccine against the coronavirus could fuel a broad economic revival, however, have also spurred bets that yields could continue edging higher. That could potentially weaken the case for holding shares that have become expensive during the S&P 500's 58 per cent rally from its lows of the year.

"If growth turns out better than anybody thought, the bad news is that the Fed might not have as much control over the extended curve," said Ralph Segall, chief investment officer at firm Segall, Bryant & Hamill. "That would probably cause stocks to pause."

Analysts at Goldman Sachs this week forecast Treasury yields will hit 1.3 per cent by the end of next year and 1.7 per cent by 2022. They also raised their forecast for the S&P to 4,100 by the middle of next year, a roughly 16 per cent gain from recent levels.

For now, analysts believe yields have some way to go before they become an obstacle to further stock gains.

The benchmark S&P 500 has climbed by an average of 1.37 per cent a month during rising rate environments when the yield 10-year Treasury remained at 3 per cent or below, according to Sam Stovall, chief investment strategist at research firm CFRA.

The S&P 500 gained an average of 0.53 per cent a month with yields above 3 per cent, he said.

How quickly yields rise also matters, said Stephanie Link, chief investment strategist at Hightower Advisors.

A gradual increase as the economy improves allows companies time to roll over or refinance debt, while a sharp jump higher is more likely to shock the market, she said.

Technology stocks, which have led the market higher this year, could be the first sector to feel the weight of higher rates, said Segall.

Rates moving above 1.5 per cent "would suggest that growth was better than anybody thought" and pull investors into more cyclical areas of the market while potentially dimming the allure of tech-related names, he said.

Investors next week will have their eyes on earnings reports and forecasts from US retailers to gauge how consumer demand is faring in the worst public health crisis in decades. The number of Americans filing new claims for unemployment benefits fell to a seven-month low last week, while consumer prices remained unchanged.

At the same time, Treasury yields are far from eclipsing the average 2.07 per cent dividend yield of S&P 500 stocks.

Should yields grind higher, "a lot of investors would still see dividend payers as attractive because their yields are so much higher" than those offered by bonds while also offering capital gains, said Bill McMahon, chief investment officer for active strategies at Charles Schwab Investment Management. Plenty of investors believe rates are unlikely to rise much further.

An upward trend in rates will not likely be sustained until there are signs that the pandemic is being contained, either through falling infection rates or the widespread availability of vaccines, said Margie Patel, senior portfolio manager at Wells Fargo Asset Management.

Until case counts fall, 10-year Treasuries are likely to remain in a trading range below 1.1 per cent, she said.

REUTERS/FILE

A street sign for Wall Street is seen outside the New York Stock Exchange in Manhattan, New York City.

RCEP Agreement: Why it should concern Bangladesh?

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A number of initiatives are being taken in this regard. However, the significance of such FTAs in economic terms will hinge primarily on to what extent these have implications from the perspective of expanding and deepening trade and investment cooperation.

As the RCEP indicates, positive impacts of these RTAs will critically hinge in going beyond trade, into services, trade facilitation, elimination of NTBs, e-commerce and ability to deepen investment ties.

Bangladesh should give due consideration to the issue of deepening ties with the ASEAN and the RCEP, as a strategy in going forward. One promising development in this regard is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)-FTA, negotiation of which has recently been completed.

The framework agreement for the BIMSTEC-FTA was signed in 2004. Regrettably, it has taken 16 years and many rounds of discussions to complete the FTA negotiations. The BIMSTEC-FTA was also envisaged to include services. Regrettably, these negotiations will be initiated soon. Indeed, the BIMSTEC-FTA could potentially be a game-changer in opening a window for Bangladesh for clear links with the ASEAN and the RCEP.

It is Bangladesh which should take the lead in this regard since it has most to gain from deepening ties with this RTAs. The BIMSTEC offers Bangladesh a foothold into the formidable ASEAN market via the two ASEAN members, which are also the members of BIMSTEC: Thailand and Myanmar. Closer cooperation with the ASEAN, perhaps through a future BIMSTEC-ASEAN FTA will provide Bangladesh with an opportunity to have closer economic ties with the RCEP.

However, for this to happen, Bangladesh will have to take careful and adequate preparations in developing the needed negotiating capacities and building compliance assurance (in areas of certification, labour standards, harmonisation and standardisation of customs procedures) and design its domestic trade and investment strategies to be able to take advantage of closer economic linkages with these regional FTAs.

Policymakers should seriously think of establishing a dedicated negotiation cell, like the one in the Ministry of Commerce to deal with WTO issues, to develop and put in place the needed human resources to pursue these negotiations, a task which will assume increasing importance in the coming days given Bangladesh's preparedness towards sustainable LDC graduation.

The author is a distinguished fellow of the Centre for Policy Dialogue.

China finds coronavirus on packaging of Saudi shrimp

REUTERS, *Shanghai*

The western Chinese city of Lanzhou said on Saturday it had detected the new coronavirus on the packaging of a batch of shrimp imported from Saudi Arabia, as China ramps up testing of frozen foods.

The Lanzhou Municipal Health Commission said in a statement on its website that it had found one positive sample on Friday on the inner packaging of imported frozen shrimp from Saudi Arabia that had passed through customs in the coastal city of Tianjin.

The cold storage plant in Lanzhou where the case was discovered had been temporarily closed, all employees of the plant had been tested, all food involved was sealed and the whereabouts of all food sold had been determined, the statement said.

The commission said the shrimp had been purchased by Zhanjiang Guolian Aquatic Products Co Ltd, entered the country on Oct. 21 and reached Lanzhou on Nov. 8.

The positive sample in Lanzhou follows the detection of the virus on the packaging of a batch of Brazilian beef in Wuhan on Friday, and on Argentinian beef samples in Shandong and Jiangsu provinces this week.

The World Health Organization says the risk of catching COVID-19 from frozen food is low, but China has repeatedly sounded alarms after detecting the virus on imported food products, triggering disruptive import bans.