IMF, central banks in spotlight for interest rate decisions

REUTERS/FILE

Federal Reserve Chair Janet Yellen, *right*, holds a news conference following the Federal Open Market Committee meeting in Washington.

REUTERS, *Frankfurt*

Flanked by interest rate decisions in Britain, Japan and Australia, the IMF's annual meeting in Lima takes centre stage in the calendar next week, with policymakers focussing on China's economic slide and its impact on the rest of the world.

Activity in China's vast factory sector shrank again in September fuelling fears that the economy there may be cooling more rapidly than thought just a few months ago, with a reverberating impact on emerging and developed economies.

Meanwhile, unexpectedly weak US jobs data out on Friday further clouded the global economic picture, and pointed to a much-anticipated rate hike from the Federal Reserve being delayed further.

Equity markets worldwide have been falling with Wall Street just recording its worst quarter since 2011, so IMF delegates, primarily central bank governors and finance ministers from around the globe, will seek reassurances from China that it can smooth, if not halt, its slide.

"Driven by fears of a sharp slowdown, they will likely delay the structural adjustments in the coming two years and use the 'old normal' approach to support the economy, that is, rely on credit expansion and public investment," Nordea economist Amy Yuan Zhuang said.

"Despite the financial market turmoil, we still see a soft landing as the most plausible scenario in the coming two years," she added.

The world's biggest economy, the United States is one of the least exposed to China and minutes of the Fed's September rate meeting, due on Thursday, will give a strong signal of whether a hike, the first in nearly a decade, could still come this year.

"The US stands out for its relatively low exposure to the foreign sector," Credit Suisse said. "Not only is direct domestic consumption and investment low, but even within investment, the amount done to support export capacity is likely much lower than the other economies, given the US's low export share."

Still, some analysts said the minutes could be less hawkish than recent commentary from top officials like Fed Chair Janet Yellen or New York Fed President William Dudley, who had said the United States was on track to raise rates this year.

Expectation for a less hawkish tone were enhanced by the weak employment data.

The Bank of England, not keen to be the first to hike, will stay put next Thursday and analysts still expect just one rate setter to vote for a rise, leaving the bank on course to make its first move well after the Fed.

In the wake of the US payrolls data, markets pushed back their bets on the timing of the BoE's first interest rate hike since 2007 by several months.

It was now priced in for around early 2017, said John Wraith, head of UK rates strategy at UBS.

"When you get a number like that (payrolls) which shocks people's expectations about the Fed, it really does have a direct spillover to the outlook for the UK," Wraith said.

"The fear is that the slowdown everywhere else, in China and emerging markets, is going to spill over into economies that up until now have been doing okay, like the US and the UK."

Japan appears to be on the brink of a recession and the Bank of Japan's tankan survey indicates worsening conditions. Still, the data are not expected to be enough to trigger more stimulus when the bank meets on Tuesday and Wednesday.

Instead, the BOJ may wait at least until its late October meeting, when economic forecasts are updated but more likely until early next year, when the impact of the Chinese slowdown is better gauged.

The Reserve Bank of Australia will also keep rates on hold on Tuesday and possibly for all of next year, satisfied that the currency's slide to its weakest level since mid-2009 has eased conditions enough to soften the impact of the bust following its once-in-a-century mining boom.

"The only scenario we could see the RBA thinking about another policy easing would be a sharp deterioration in the global growth outlook and an accompanying deterioration in the local economy and jobs market," Commonwealth Bank said in a note to clients.

"At this stage, the probability of this scenario developing appears small and probably would require an economic meltdown in China and other Asian economies," CBA added.

AFP

French Prime Minister Manuel Valls, *centre*, feeds carp with Japanese Prime Minister Shinzo Abe, *right*, at the pond of the guest house in Kyoto yesterday.

Japan's household spending rebounds but recession looms

AFP, *Tokyo*

Spending among Japanese households rebounded in August, data showed Friday, offering a glimmer of hope after a string of weak figures, but economists warned the world's number three economy was still headed for recession.

Consumers spent more on cars, household repairs, domestic travel and education costs, boosting monthly spending by 2.9 percent, well above market expectations for a 0.3 percent rise and following a modest decline in July.

The upbeat figures were a rare bright spot in an otherwise gloomy string of trade, factory output and business confidence data that point to a contraction in the third quarter, ahead of the release of July-September GDP figures due next month.

While private spending accounts for about 60 percent of Japan's GDP, analysts have warned over a recession in the July-September quarter -- after a contraction in the previous three months.

The slowdown in Japan's economy has underlined the challenges facing Prime Minister Shinzo Abe's growth blitz, dubbed Abenomics, as speculation grows that the Bank of Japan (BoJ) would have to expand its massive asset-buying plan as early as this month.

"The renewed rise in... household spending in August suggests that private consumption rebounded last quarter," Marcel Thieliant from Capital Economics said in a commentary.

Sri Lanka promises 'no questions' if Swiss bank cash brought back

AFP, *Colombo*

Sri Lanka Friday asked citizens holding Swiss bank accounts to redeposit the cash in their home country and promised there would be "no questions asked" if they do.

Following a slump in official reserves, the Sri Lankan government is keen to get foreign cash, shoring up its reserves and stabilising the local currency.

Finance Minister Ravi Karunanayake said Sri Lankans could deposit their savings in local banks which offer rates several time more than those offered in international money markets.

"Sri Lankans could be holding about six to eight billion dollars in Swiss accounts," Karunanayake told reporters in Colombo. "We are telling them to bring that money and deposit in any banks here. There will be no questions asked."

The plea comes after a number of Swiss banks told Sri Lankan depositors to take out their money and close their accounts, as part of restructuring moves.

The Sri Lankan rupee has depreciated by over 6.0 percent against the dollar so far this year and official reserves fell to $6.88 billion by the end of July, from a peak of $9.18 billion in August 2014.

Volkswagen suspends Australian sales of some diesel vehicles

REUTERS, *Sydney*

Volkswagen AG said on Saturday it was suspending sales of some diesel vehicles in Australia that may have been fitted with devices designed to mask the level of emissions.

The announcement came after Volkswagen Australia met with the Australian government and consumer authorities on Friday to discuss the automakers' plans to deal with the issue.

Almost two weeks after confirming 11 million vehicles around the world had been fitted with so called "defeat devices", the German automaker and subsidiary Audi have not provided details of the models or where they have been sold.

India's plan to boost sugar export looks flawed

REUTERS, *London/Mumbai*

India's bid to compel producers to export millions of tonnes of surplus sugar will fail without significant subsidies or at least penalties for failing to comply, trade and industry sources said on Friday.

India has been pushing mills to sell sugar on the international market and use the proceeds to clear huge debts they owe farmers for sugarcane.

The world's number two producer, announced new rules last month making it compulsory for sugar producers to increase exports to at least 4 million tonnes in the present crushing season, to cut stockpiles.

Despite a rally in raw sugar futures to a 4-1/2-month peak this week, driven by a Brazilian gasoline price rise which was expected to boost demand for cane-based ethanol, raw sugar futures prices were still below the 13.5-14 cents per pound area seen as more likely to spur Indian exports.

"There is no export parity at the current level. The government has to provide subsidy to make exports viable. Without subsidy, mills can't bear additional losses," said Sanjeev Babar, managing director of Maharashtra State Co-operative Sugar Factories Federation.

The government gave a subsidy of 4,000 rupees a tonne for exports of raw sugar in 2014/15 year ended on Sept. 30 to help cut stockpiles after five years of surplus output.

"I contacted more than a dozen factories in Maharashtra to know whether they can supply raw sugar for exports in the next few months. No one is ready to produce raws for exports. They first want to know whether government is going to give them an export subsidy," said a Mumbai-based dealer with global trading firm.

REUTERS/FILE

Workers unload sacks containing sugar from a handcart at a wholesale market in India.

The government has not yet made clear whether it will extend subsidies in the 2015/16 year started on Oct.1.

Traders said the government plan also lacked teeth.

"The government has not drawn up penalties for non-compliance," a senior Western analyst said.

The recent rally in local prices has made exports less lucrative for mills, the dealer said.

Indian sugar futures have surged a quarter since falling to their lowest level in over six year in late July.

Tom McNeill, director of Australia-based analyst Green Pool, predicted more modest Indian net sugar exports of 1.8 million tonnes in 2015/16, adding that he was "always a bit sceptical regarding the grand plans in India."

In the last crushing season which began on Oct. 1, 2014, India exported 1.3 million tonnes.