Gulf braces for austerity as oil income slump bites

AFP, *Kuwait City*

FACED with heavy losses from low oil prices, Gulf states have embarked on belt-tightening measures to cut spending and boost non-crude revenues, but analysts warn much more needs to be done.

After more than a decade of abundant surpluses thanks to high oil prices, the six Gulf Cooperation Council (GCC) states are projected to post a combined record budgetary shortfall of $180 billion in 2015 and the drought is expected to continue for years.

Some countries have already cut subsidies, while others are considering measures to reduce their spending.

International Monetary Fund chief Christine Lagarde told GCC finance ministers in Qatar this month that "global energy prices could remain low for years" and urged them to adjust their budgets. Lagarde warned that the GCC, which has relied on energy income for 90 percent of their revenues, should reduce dependence on oil and gas.

In 2014, GCC states -- Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates -- posted a small surplus of $24 billion, down from $182 billion the previous year, according to IMF figures.

Each of Bahrain, Oman and Saudi Arabia ended 2014 in the red for the first time since the global financial crisis in 2009.

World oil prices have dropped by more than 50 percent since June 2014 and the IMF has projected that it will result in a $275 billion drop in GCC revenues this year.

AFP

Workers fill cars with fuel at a petrol station in Dubai on Tuesday.

But having amassed a wealth of around $2.7 trillion over the past decade, the IMF advised GCC states to take a gradual approach to implementing reforms and diversifying the economy.

Although the measures may not be easy to enforce in countries that have long offered generous welfare systems, analysts believe this time fiscal consolidation, diversification and reforms must be deeper, long-term and sustainable.

"The magnitude of the problem is much larger this time because subsidies and salaries have immensely increased in the past few years -- together they form 90 percent of current expenditure," said the head of economic research at Kuwait Financial Center (Markaz), MR Raghu.

"They cannot roll back on salaries because this is too sensitive," Raghu told AFP.

Spending in Gulf states, mostly on salaries and subsidies, almost doubled to $550 billion between 2008 and 2013, according to IMF statistics. The six nations have a population of 50 million, half of them foreigners, and pump around 18 million barrels per day.

The steep rise in expenditures greatly increased the breakeven price for oil, to $106 a barrel in the case of Saudi Arabia from under $70 a few years ago. It is higher for Bahrain and Oman.

IMF and the World Bank estimate that the direct cost of energy subsidies in the GCC was $60 billion last year. Steps taken by the GCC states to cut spending and raise non-oil income have been modest so far.

The UAE took the lead by liberalising fuel prices in June and raised electricity charges in Abu Dhabi. Both measures are expected to save billions of dollars.

Having the most diversified economy in the Gulf, the UAE said it has earmarked more than $80 billion for projects away from oil.

Kuwait began selling diesel and kerosene at market prices at the start of 2015. It has cut spending by 17 percent and is in the process of raising petrol prices and charges on electricity and water.

However, it has still awarded projects worth a record $30 billion so far this year, according to officials and experts.

Saudi Arabia, for its part, said it was considering delaying "unnecessary" projects and studying energy subsidies reforms.

Gas-rich Qatar said it is also considering some spending cuts and reducing subsidies. Oman and Bahrain, the poorest members of the GCC in terms of energy wealth, have announced similar plans.

"This is not enough. They have a long way to go," said Shanta Devarajan, World Bank chief economist for the Middle East and North Africa.

"This is just the beginning ... the measures must focus on reforms, unemployment and diversification. Much more steps are needed," Devarajan told AFP.

The IMF said reforms should include comprehensive energy efficiency and price alterations, expanding non-oil revenues, reviewing capital and current expenditures and reducing the government wage bill.

The IMF said Saudi Arabia, Oman and Bahrain will spend all their fiscal reserves in under five years if they fail to take additional austerity measures.

"GCC states must be serious this time ... The $100 a barrel days are gone and they have to live with a $40-$50 price," Raghu said.

China's biggest brokerage Citic in $166b error

BBC NEWS

CHINA'S biggest brokerage, Citic Securities, overstated its derivative business by $166 billion (£110 billion) from April to September, according to the country's securities association.

The Securities Association of China said the firm inaccurately inflated the amount of its equity swap transactions in a report submitted in October.

Citic said the error occurred due to a system upgrade and has been corrected.

Probes have resulted in executives confessing to insider trading at Citic.

In September, shares of China's largest state-owned brokerage slumped after it reported that three executives, including its president, were under police investigation.

The firm has been part of a crackdown by China's regulators on irregular stock trading since mainland markets plunged dramatically in mid-June.

The securities association, which is partly overseen by the China Securities Regulatory Commission, said it was investigating Citic's overstatement and would take further action if necessary.

It did add that the error did not affect the month-end net size of Citic's business.

The brokerage told the Reuters news agency that it had amended the figures at the start of November and the size of its swaps business was $6.2 billion.

An equity swap is a type of derivative that refers to a cash exchange between realized gains on specific stocks and fixed interest rates over a certain period of time in the future.

Shares of Citic Securities fell 0.7 percent in Shanghai.

Nine Fed banks called for discount rate hike: minutes

REUTERS, *Washington*

THE number of regional Federal Reserve banks pushing for a hike in what commercial banks are charged for emergency loans rose to nine in October, a sign the US central bank may be close to tightening monetary policy, minutes from its discount rate meeting showed on Tuesday. Eight Fed banks had voted to raise the discount rate at the prior meeting in September, a jump from five in July and August.

Ahead of the central bank's Oct. 27-28 policy meeting, directors of the Boston Fed joined their counterparts in St. Louis, Atlanta, San Francisco, Cleveland, Dallas, Philadelphia, Kansas City and Richmond in asking the Fed's board to increase the discount rate to 1 percent from 0.75 percent, according to the minutes.

The nine regional banks that requested a hike want to normalise the spread between the discount rate governing Fed lending to banks and the overnight federal funds rate, which is the central bank's primary economic lever.

US interest rate futures on Tuesday suggested that traders saw a 74 percent chance of the central bank raising its benchmark interest rate next month for the first time in almost a decade, according to CME Group's FedWatch.

The Fed board opted to hold the discount rate steady last month, a decision that was backed by two other regional Fed banks. The Minneapolis Fed again voted to cut the rate to 0.5 percent.

Minutes from the October meeting showed that some directors reported reduced labour slack, with recruiting difficulties and signs of wage pressures in some sectors and parts of the country.

Those that wanted to raise the discount rate saw it as "as appropriate in light of the improvements in labour market conditions this year and their expectations for inflation to rise gradually toward the Federal Reserve's 2 percent objective," the minutes said.

LafargeHolcim profits crumble on cost of building world's No1

AFP, *Zurich*

LAFARGEHOLCIM said Wednesday its profits collapsed as the cost of building the world's biggest cement company took its toll.

In its first earnings report since the merger of Lafarge and Holcim was closed in mid-year, it said EBITDA, a measure of operating profit, fell to 1.3 billion Swiss francs (1.2 billion euros, $1.3 billion) in the third quarter on a comparable basis, and to 3.6 billion Swiss francs in the nine months to September, a drop of 18.8 percent.

The nine-month results were "impacted by merger and restructuring costs, adverse foreign exchange, an economic slowdown in China and Brazil as well as softness in France and in Switzerland," the company said in a statement.

Its performance held up well in the United States, Asia, Oceania and Latin America, it said.

The company confirmed its synergy targets from the merger, and said it was targeting a dividend of 1.50 Swiss francs per share in 2015, up from 1.30 last year.

Analysts said this pushed up the LafargeHolcim share price up by more than three percent in early Zurich trading, to 55.3 francs.

ECB warns Europe more vulnerable to emerging markets

AFP, *Berlin*

EUROPEAN financial markets are increasingly vulnerable to turmoil in large emerging economies, the European Central Bank warned in a report Wednesday.

It said the eurozone financial system had proved "resilient" through brief periods of volatility in recent months, linked to Greece and China.

However, the ECB stressed that the "occasional bouts of financial market volatility suggest that vulnerabilities stemming from emerging markets are increasing".

Of particular concern was the outlook for China, given its growing role in the world economy, the ECB said in its Financial Stability Report, published twice a year.

"Turmoil in Chinese and other emerging market economies' equity markets in August led to a strong and broad spillover around the world, including to the euro area," it said.

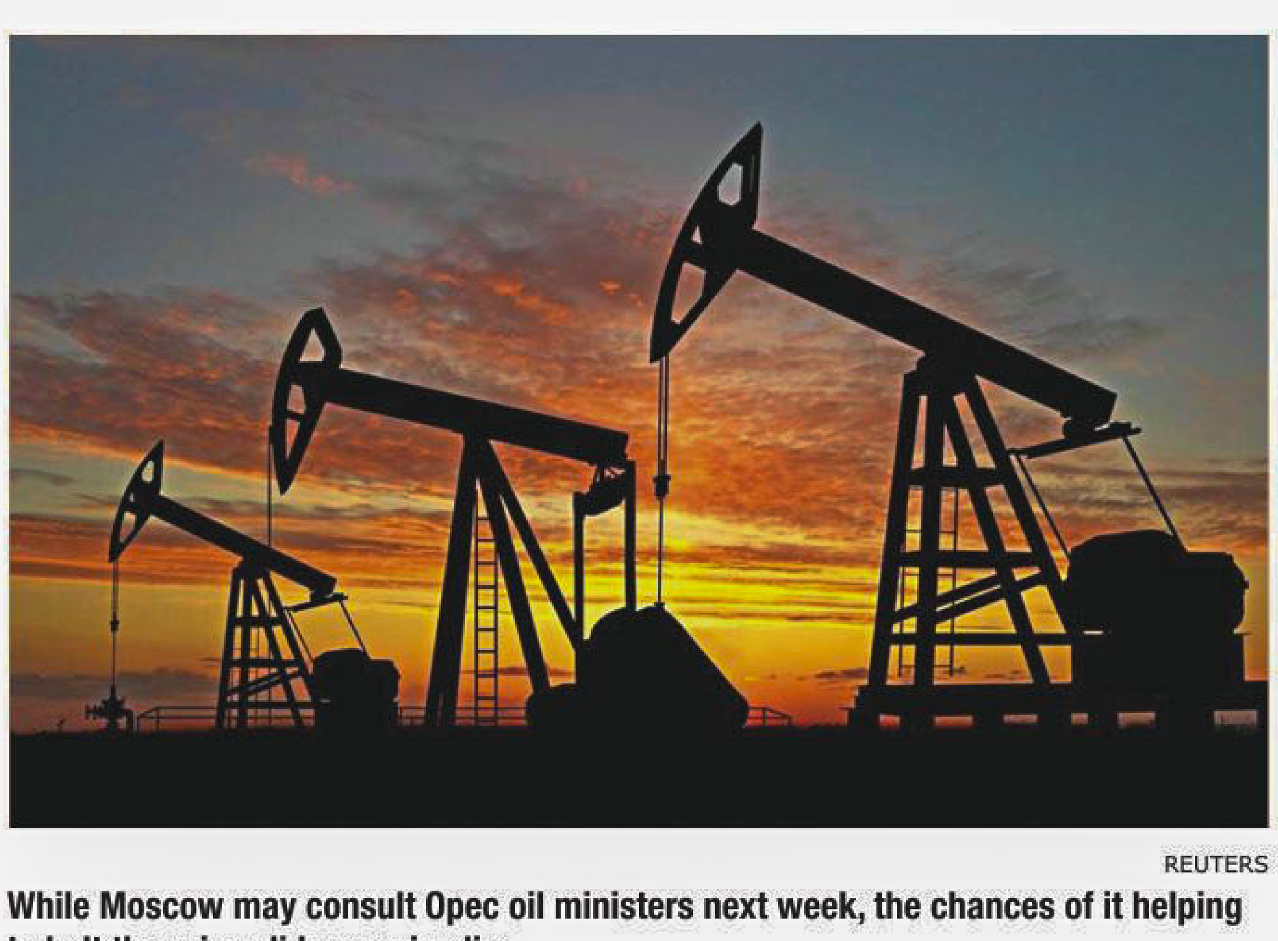
"This strong global co-movement of equity prices does not appear to have been solely driven by macroeconomic fundamentals," it said, suggesting markets tend to overreact to developments in China.

"Developments in China and other large emerging market economies have become important drivers of global confidence," the Frankfurt-based bank warned.

It said a "rapidly growing" eurozone investment fund industry had been gradually broadening its exposure to emerging markets, also including Brazil and Russia.

Opec to stay the course despite fears of $20 oil

REUTERS, *London/Dubai*



REUTERS

While Moscow may consult Opec oil ministers next week, the chances of it helping to halt the price slide remain slim.

OPEC is determined to keep pumping oil vigorously despite the resulting financial strain even on the policy's chief architect, Saudi Arabia, alarming weaker members who fear prices may slump further towards $20.

Any policy U-turn would be possible only if large producers outside the exporters' group, notably Russia, were to join coordinated output cuts. While Moscow may consult Opec oil ministers before their six-monthly meeting next week, the chances of it helping to halt the price slide remain slim.

"Unless non-Opec say they are willing to help, I think there will be no change," said a delegate from a major Opec producer. "Opec will not cut alone."

When the exporters' group last met in Vienna in June, Saudi oil minister Ali al-Naimi and those from other wealthy Gulf states could barely hide their jubilation.

Opec's historic decision in November 2014 - to pump more oil and defend its market share against surging rival suppliers - was working, they proclaimed as crude traded near $65 per barrel. Six months later, it has hit $45, down from as much as $115 in the middle of last year.

Now some member states are talking about a return to twenty-dollar-oil, last seen at the turn of the millennium. They point to Iranian confidence that international sanctions on its economy will be lifted by the end of the year.

"Iran is announcing its production is going to increase as soon as they lift the sanctions and we need to do something. We (Opec) cannot allow going into a war of prices. We need to stabilise the market," Venezuelan oil minister Eulogio del Pino said on Sunday.

Asked how low prices could go next year if Opec failed to change course, he said: "Mid-20s."

Goldman Sachs said this year it saw a possibility of crude going even below $20 because of the huge global oversupply, a strong dollar and a slowing Chinese economy.

Most analysts doubt the Iranian sanctions will be lifted before next spring under its nuclear deal with world powers, but sooner or later its output will rise.

Already the collapse in prices has partly achieved OPEC's goals. It has boosted global demand and curbed growth in supplies of US shale oil, which is relatively expensive to produce. Non-Opec supply is also expected to fall for the first time in almost a decade next year as struggling producers cut back on capital spending.

But the world is still producing much more oil than it needs. Russian output has unexpectedly set new records and global stocks are ballooning.

Even the finances of Saudi Arabia, which led Opec's policy shift, are under more strain. Standard & Poor's rating agency forecasts its budget deficit will rocket to 16 percent of GDP in 2015 from 1.5 percent in 2014.

Riyadh describes this year's deficit as manageable. However, Bank of America Merrill Lynch said on Monday it believed the pressure was so high that the Saudi government would be forced either to devalue its dollar-pegged currency or cut oil output.

Such a cut would mean executing an about-face that many rivals would interpret as a strategy failure. Keeping the taps open while hoping for a longer-term payoff still appears to be the choice of Riyadh and its wealthy Gulf allies - Qatar, the United Arab Emirates and Kuwait.

Russia may attend informal consultations with Opec before the Vienna meeting on Dec. 4 but there is little likelihood Moscow will change its stance and work with Opec on cutting output, sources said.

Opec kept policy unchanged at the June meeting apparently with no major dissent. But this time, the opposition from Opec hawks and poorer members, such as Venezuela, is more visible and the criticism is getting stronger.

"I don't think anything will happen because the Saudis do not want to reduce production. They are shooting themselves in the foot. And they are shooting everyone else," said a second Opec delegate, who asked not to be named.