Brexit vote shakes up London property market

REUTERS, London

The aftershocks of Britain's decision to leave the European Union have hit the property sector over the past week, with a foreign bank freezing loans for buyers and some investors pulling out of commercial deals.

Some foreigners, however, are already making the most of the drop in the pound post-Brexit to snap up what they see as residential bargains.

London property has long been a magnet for foreign investors, be it extravagant homes or iconic commercial real estate, and prices in the capital have sky-rocketed.

Key to overseas investors will be whether the fall in the value of sterling is attractive enough to offset the political vacuum, expected economic slowdown and questions over market access that have resulted from Britain's vote to leave the EU.

Singapore's United Overseas Bank temporarily halted mortgage loans for London properties. Other Asian banks also flagged potential investment risks.

For British investors, the uncertainty may be prohibitive, even though property is widely considered more profitable than other safe assets, given supply shortages.

"A number of deals I know have gone down or certainly been delayed," Paul Firth, head of real estate at law firm Irwin Mitchell LLP said. "Everyone is taking a pause at the moment just to wait until a new normal is established."

In one case, the purchase of a regional shopping centre by a U.S. private equity fund worth more than 30 million pounds was delayed after Brexit for at least a couple of months pending the market settling down.

REUTERS/FILE

Apartment buildings are backdropped by skyscrapers of banks in London.

Another deal his firm was working on involved a French vendor of high-end luxury goods who put on hold its new flagship London store after Britain's decision to leave the EU, he said.

He said a number of their "significant investment deals", worth above 30 million pounds each, had stalled. The deals involved mainly UK investors but also some foreigners. One deal the firm was working on worth more than 40 million pounds had gone through since Brexit. Britain's June 23 vote to leave the EU has already caused the government to collapse and deeply divided the country.

Bank of England Governor Mark Carney said on Thursday the economy would probably need more stimulus over the summer given that the outlook had deteriorated. He also said commercial real estate transactions had halved since last year's peak and that activity in residential real estate had slowed sharply.

British commercial real estate investment volumes reached 10.7 billion pounds in the first three months of 2016, a 28 percent fall versus the same period a year ago and its lowest quarter since the second quarter of 2013, according to June research from real estate services firm Cushman & Wakefield.

There were also signs that the fallout from Brexit was benefiting professional investors such as private funds at the expense of homebuyers, who may struggle along with the economy.

Before the referendum, officials said the economy could tip into recession and house prices could fall 10 to 18 percent if Britain voted to leave the European Union. Economists polled by Reuters before the vote said they expected house prices to be flat next year and then pick up again if Britain chose to leave.

David Galman, sales director at Galliard Homes, said professional investors had already contacted him offering to buy any units end-users may seek to sell in the Skyline residential development it launched in June just outside London.

Galliard Homes, London's second largest house-builder, had offered buyers get out clauses for the 89 off-plan units ranging from 200,000 to 250,000 pounds in their development in Slough, west of London. The buyers had the option to withdraw their offers if they were unhappy with the outcome of the EU vote.

Galman said just one client, "an owner occupier" had thus far invoked a Brexit clause but that flat had already been sold at the same price to a professional investor.

"I anticipate that we may get a small number of deals at Slough falling out of bed due to Brexit – all domestic end-users spooked by the Brexit drama," he said.

Another development that offered Brexit opt out options was Two Fifty One, a 41-storey luxury apartment tower going up in south London's gentrifying Elephant and Castle district. At a May launch of some floors in the development, buyers were offered a "money back Brexit guarantee pledge".

"A few purchasers have decided not to proceed given the uncertainty of the market," David Humbles, managing director of Oakmayne, the developer who runs the project said. "However, the majority are continuing with their purchase."

Tim Wright, director of residential development, at global commercial real estate firm JLL said including the Two Fifty One development, 2 out of around 20 developments in the portfolio that he runs in London had offered opt-out options for buyers on a limited number of units.

"We've lost about 25 percent of those types of deals," Wright said. "But there are still a lot of people who bought on those terms who are continuing to purchase."

Britain to hire foreign trade negotiators after Brexit

REUTERS

Britain will look to hire foreign trade negotiators to help it meet the challenge of striking new trade deals with countries in Europe and beyond after last month's shock decision to leave the European Union, Foreign Secretary Philip Hammond said.

"I don't think we can only recruit people who are British," Hammond told BBC television on Monday. "If we can find Australians, Americans who have got high-level skills in trade negotiation, let's recruit them as well."

He also said the government was taking steps to rehire former civil servants who have trade negotiating skills. Currently only a few of the 55 British officials in the European Commission's trade department actually work on trade deals.

Britain faces the task of renegotiating its relationship with the EU after voters decided on June 23 to leave the bloc. It also has to rework its trade ties with more than 50 other nations around the world which have agreements with the EU.

The European Commission negotiates trade deals on behalf of the EU member states meaning Britain has not had its own dedicated team of trade negotiators since it joined the bloc in 1973.

German new car sales rise in June

AFP, Frankfurt

New car registrations in Germany, a key indicator of demand in Europe's top economy, rose strongly in June, official data showed on Monday.

A total of 339,600 new cars were registered last month, up eight percent from the figure for the same month in 2015, according to data compiled by the car manufacturers' federation VDA.

Taking the six months to June as a whole, new registrations were up seven percent at 1.734 million cars over the same period a year earlier, VDA calculated.

"The German domestic car maker is showing a vitality that not many people expected," said VDA president Matthias Wissmann.

Already at the start of May, VDA had raised its annual forecast for new car registrations this year to an increase of three percent to 3.3 million.

Prior to that, it had been pencilling in an increase of one percent to 3.23 million.

The first-half performance "is a good starting position for a successful second half," Wissmann said.

"2016 will be another year of growth."

India may alter minimum import price list for steel sector

REUTERS

India may alter the list of steel items that attract a minimum import price if the country decides to continue with the protectionist measure beyond August, steel secretary Aruna Sundararajan said.

India imposed the minimum import price (MIP) on 173 steel products in February, helping cut inbound shipments last month to their lowest level in at least 14 months. The MIP expires in August.

The country is the world's third-largest steel producer, with a total installed capacity of 110 million tonnes. But the domestic industry says its margins have been squeezed due to cheap imports from China, Russia, Japan and South Korea.

India is currently carrying out an anti-dumping probe against imports of certain steel products from some countries.

Those items would be removed from the list on which anti-dumping duty is imposed while new products will be added, she said.

Kuwait to tap foreign debt markets to finance deficit

AFP, Kuwait City

Kuwait said Sunday it plans to tap the international debt market through bond issues to finance its budget deficit after recording a first shortfall in 16 years.

The oil-rich Gulf state plans to "borrow up to three billion dinars ($10 billion) in US-denominated bonds from international markets, in both conventional and (Islamic) sukuk issuance," Finance Minister Anas al-Saleh told parliament.

The ministry will borrow another two billion Kuwaiti dinars ($6.6 billion) in both conventional and Islamic instruments from the domestic market, Saleh said.

It will be the country's first foreign debt in around two decades.

The borrowings will take place during the 2016/2017 fiscal year, which began April 1 and end next March 31, the minister said, without giving specific dates.

Saleh said the finance ministry has already borrowed $2.5 billion from the domestic market.

Saleh, who is also acting oil minister, said Kuwait recorded its first budget deficit of 5.5 billion dinars ($18.3 billion) in the 2015/2016 fiscal year.

Kuwait posted healthy budget surpluses for 16 consecutive fiscal years until oil prices began to slide two years ago. Oil income made up around 95 percent of public revenues.

During the surplus years, Kuwait piled up around $600 billion in its sovereign wealth fund managed by Kuwait Investment Authority in holdings mostly in the United States, Europe and Asia.

Parliament later on Sunday overwhelmingly passed the budget for 2016/2017 projecting a huge deficit due to the slump in oil prices.

Revenues were projected at 10.2 billion dinars ($33.9 billion), while spending was estimated at 18.9 billion dinars ($62.8 billion), leaving a shortfall of 8.7 billion dinars ($28.9 billion).

Oil income, calculated at a price of $35 a barrel, was projected at $29.2 billion, down by more than 60 percent of 2014/2015 crude returns before prices saw the sharp downfall.

During the debate in parliament, MPs called on the government to do more to diversify the sources of income to reduce dependence on oil.

"For the past 60 years, we have remained under the mercy of oil... The government must search for alternatives," independent MP Adel al-Khorafi said.

The finance minister warned that due to the slide in oil revenues, "we now face serious challenges that put the stability and sustainability of our public finances at risk".

Like its Gulf peers, Kuwait has taken some austerity measures that include liberalising prices of diesel and kerosene and plans to hike petrol prices.

Two months ago, parliament approved a law to raise heavily subsidised power and water fees but exempted citizens. Implementation is scheduled after one year.

The wage bill in the new budget is estimated at over half of total spending while subsidies account for 15 percent, said the head of parliament's budgets committee, MP Adnan Abdulsamad.

China's yuan hits new 5-1/2 year low as central bank stays on the sidelines

REUTERS

China's yuan touched a new 5-1/2 year low against the dollar for the second consecutive session on Monday on concerns that the central bank would tolerate a further weakening of the currency, as the bank appeared to have stood aside, traders said.

REUTERS/FILE

Chinese 100 yuan banknotes are seen in a counting machine while a clerk counts them at a branch of a commercial bank in Beijing.

The yuan hit 6.6642 soon after the open due to a heavy bout of dollar buying in the market. That level was the weakest since December 2010.

Despite the yuan's continued slide, there were no signs of state banks' intervention on behalf of the central bank, with some traders saying "this is a tacit approval from the central bank to let the yuan slide further."

"The market remains calm as usual," said a trader from a Chinese commercial bank in Shanghai. "We all know that the yuan will weaken further. And the central bank got things under control."

Reuters reported on Thursday that the People's Bank of China (PBOC) would tolerate a fall in the yuan to as low as 6.8 per dollar in 2016, policy sources said. That would equate to a depreciation of 4.5 percent for the year, the same as last year's record decline of 4.5 percent.

The PBOC set the midpoint rate at 6.6472 per dollar prior to the market open, 0.04 percent firmer than the previous fix 6.6496.

Spot yuan opened at 6.6550 per dollar and was changing hands at 6.6623 at midday, easing 0.07 percent from the previous close.

The latest China Foreign Exchange Trade System (CFETS) data showed that the index for the yuan's value based on the market's trade-weighted basket stood at 94.88 last week, the lowest on record.

The index was first published by CFETS in December 2015, setting the yuan's value at 100 at the end of 2014.

China is expected to report later this week June foreign exchange reserve data, which traders will be scouring for any suggestions of a resurgence in speculative capital outflows following the yuan's recent declines.

Forex reserves fell by $27.9 billion in May to $3.19 trillion, their lowest since December 2011, likely due to the effects of a stronger dollar and sporadic official intervention.

The US Federal Reserve will keep a close eye on China's currency moves and its impact on the global economy and markets, Cleveland Fed President Loretta Mester said on Friday.

The offshore yuan was trading at 6.6745 per dollar, representing a discount of 0.2 percent to the onshore yuan. The offshore market is leading in forecasting the yuan's depreciation so far this year.

A worker cuts a metal pipe inside a steel furniture production factory in Ahmedabad. India imposed the minimum import price on 173 steel products in February.

REUTERS/FILE

Sri Lanka's new central bank chief to 'uphold credibility'

AFP, Colombo

The new head of Sri Lanka's central bank Indrajit Coomaraswamy pledged Monday to uphold its credibility after allegations of insider dealing that forced his predecessor to leave. Sri Lanka's president bowed to pressure to replace Arjuna Mahendran after he was accused of leaking information to his son-in-law's firm, which allegedly made millions of dollars in profits from central bank bond auctions.

The scandal came with Sri Lanka's economy under stress -- last month the country began receiving a $1.5 billion bailout from the International Monetary Fund.

On Monday Coomaraswamy told staff the bank was "one of the great institutions in this country".

"I am acutely aware that a primary responsibility, arguably the primary responsibility of the governor, is to uphold this reputation and credibility," said the 66-year-old former director of economic affairs at the Commonwealth Secretariat, an intergovernmental agency of Commonwealth countries in London. "I can assure you that I will do my utmost to do so at all times."

Mahendran, a Singaporean national of Sri Lankan origin, has consistently maintained his innocence and had indicated he wanted to stay on after his term expired on June 30.

But a group of Sri Lankan academics and professionals had gone to court to demand action against him and the government decided not to keep him on. The new bank chief also promised to work independently following allegations that the office of the governor had become politicised in recent years.

"When I met the president he just told me one thing - 'Do your work in a straight way and do not fear anybody in discharging your duties'. My intention is to follow his direction," Coomaraswamy told his staff.

He said he wanted to ensure strong macro economic fundamentals to win the confidence of people both in and outside the country.