Central bankers eye public spending to plug $1tn investment gap

REUTERS, *Jackson Hole, Wyoming*

While markets wait for Janet Yellen's latest message about the direction of monetary policy, the Federal Reserve chief and her colleagues already have one for politicians: the U.S. economy needs more public spending to shift into higher gear.

In the past few weeks, Yellen and three of the Fed's other four Washington-based governors have called in speeches and Congressional hearings for government infrastructure spending and other efforts to counter weak growth, sagging productivity improvements, and lagging business investment.

The fifth member has supported the idea in the past.

The Fed has no direct influence over fiscal policy and its officials traditionally refrain from discussing it in detail. Having its top officials - from Yellen to former investment banker and Bush administration official Jerome Powell - speak in one voice sends a strong signal to the next president and Congress about the limits they face in setting monetary policy and what is needed to improve the economy's prospects.

The Fed's annual conference in Jackson Hole, Wyoming, where Yellen speaks on Friday, is due to focus on how to improve central banks' "toolkit," but the unanimous message from the Fed's top policymakers is that those tools are not enough.

"Monetary policy is not well equipped to address long-term issues like the slowdown in productivity growth," Fed vice chair Stanley Fischer said on Sunday. He said it was up to the administration to invest more in infrastructure and education.

Behind Fischer's statement lies a troubling feature of the recovery - business investment has fallen below levels in prior years and companies seem to have stopped responding to low borrowing costs.

As a share of gross domestic product, U.S. annual business investment since 2008 has averaged nearly a full percentage point below the previous decade's average, government data shows. Reuters calculations indicate the investment shortfall has blown a hole in annual GDP that has grown to as much as one trillion dollars a year compared with what it would have been if the previous trend continued.

US Federal Reserve Chair Janet Yellen

Little suggests a rebound any time soon. Fixed business investment has fallen in three successive quarters as a share of GDP. Researchers and analysts blame the slide on everything from doubts about future economic growth to distortions caused by Fed policy itself in helping boost the value of financial assets.

Companies have run up share buybacks to record levels of around half a trillion dollars a year, and held onto record amounts of cash, despite cheap financing that should in theory spur long-term investment. Research by Fed board economists Steven A. Sharpe and Gustavo Suarez suggest a reason: executives are putting little stock in interest rates when making investment decisions, and are not adjusting expected rates of return to fit the emerging low-growth world.

Based on data collected from chief financial officers, their study found the internal rate of return needed to justify capital projects has "hovered near 15 percent for decades," and barely budged even as global interest rates have fallen. Such targets made sense during spells of strong growth, but may be inconsistent with the current low-growth, low-interest rate environment, and hold back corporate spending, the Fed economists argue.

That challenges the core monetary policy notion that low short-term rates spur investment by making long-term returns more attractive.

"I have started to wonder, and many wonder, as rates stay at zero, whether that may not be true anymore," former Fed Governor Jeremy Stein told Reuters.

The situation has perplexed analysts, with some suggesting executives may be out of synch with a low-growth world.

"I am not sure that people's notion of an adequate return on equity has come down as much as the riskless rate," said Thomas Mercein, global head of debt capital markets for Credit Suisse.

The Jackson Hole conference will likely take stock of several unconventional solutions proposed as a way of breaking out of the cycle of subdued demand, weak investment and low growth that has followed the 2007-2009 recession.

U.S. and global central bankers have brought into the mainstream such ideas as GDP targeting or "helicopter" cash injections to generate demand and inflation, and have been testing negative interest rates in Europe and Japan.

Fiscal policy is not on this year's agenda, which is dedicated to the details of monetary policy operations. But the idea that governments need to pick up the slack with infrastructure spending or other initiatives has been gaining traction among central bankers.

Well-targeted public investment, the argument goes, could in effect pay for itself through higher productivity and growth, and in doing so make any additional public debt comparatively less onerous.

Japan, which has been running sizeable fiscal deficits since 2009, has already announced another spending package to complement negative rates, while Britain's new finance minister has said he would look at whether new fiscal measures are needed in the wake of the country's vote to leave the European Union.

In the United States, the need for investing in the nation's aging infrastructure is a rare point where both presidential candidates seem to agree. Democrat Hillary Clinton is proposing a $275 billion package; Republican Donald Trump is calling for about twice that.

Not everyone agrees though, that more public spending is the best cure, or that an infrastructure program would pinpoint projects with a positive return.

"Economic policy should bolster private investment. Yet, it is striking that most academics and policymakers are pushing another big government spending stimulus package," said former Fed governor and Hoover Institution fellow Kevin Warsh.

However, there is broad agreement that, for now, private investment may remain in the doldrums - unless it is clear the economy is picking up.

Oil prices fall as hopes of production freeze fade

REUTERS, *London*

Oil prices slipped on Thursday as the market focused on oversupply and fading hopes of a production freeze.

Global crude oil benchmark Brent LCOc1 was down 15 cents at $48.90 a barrel by 0830 GMT, having closed down 1.8 percent on Wednesday. U.S. light crude oil CLc1 was unchanged at $46.77 a barrel, after dropping 2.8 percent on Wednesday.

Oil prices rose more than 20 percent in the first three weeks of August on talk of a potential deal by oil exporters to freeze production levels to try to support prices.

Members of the Organization of the Petroleum Exporting Countries will meet on the sidelines of the International Energy Forum, which groups producers and consumers, in Algeria on Sept. 26-28.

But hopes of a deal have been dampened by record OPEC output and few analysts see the prospect of voluntary restrictions.

"Speculators pushed the price up on expectations of an output freeze, which is unlikely to happen," said Carsten Fritsch, senior oil analyst at Commerzbank in Frankfurt. "I see downside risks if those expectations are being scaled back."

U.S. investment bank Jefferies agreed, telling clients on Thursday that even if a freeze was agreed, "the effects on the physical market would appear to be minimal".

"We do not expect a production freeze - let alone a production cut – from the OPEC meeting," it said in a report.

With output near record levels from many of the top producers, and demand shaky, there seems little prospect of an end to the glut which has pulled down crude prices from over $100 a barrel in 2014 to their current sub-$50 levels.

High storage levels are also weighing on the market.

In the United States, commercial crude oil stocks rose by 2.5 million barrels to 523.6 million barrels C-STK-T-EIA, 16 percent higher than a year ago.

In refined products, stocks around the world are also brimming as demand slows while refinery output remains high.

"Ample inventories were due to weaker demand in Asia, but more generally were driven by excess supply generated by refiners maximizing runs, notably to produce gasoline in the U.S.," BNP Paribas said.

China's implied oil demand fell 0.3 percent from a year earlier to 10.58 million barrels per day (bpd) in July, according to Reuters calculations using official.

Taiwan to inspect Mega Financial branches in New York, Panama

REUTERS, *Taipei*

Taiwan's financial regulator said on Thursday it will send inspectors to Mega Financial Holding Co Ltd's banking branches in New York and Panama in the government's latest probe into the state-run bank.

Taiwan's Financial Supervisory Commission (FSC) also said it expects to complete its local investigation within two weeks.

The comments come after New York's state financial regulator fined Mega's New York banking unit $180 million for violating anti-money laundering regulations, including lax attention to risk exposure in Panama.

"We'll need consent from U.S. regulators to inspect the branches," FSC Chairman Ding Kung-Wha said at a news briefing. "If all goes smoothly, our people will leave for the United States next Monday."

The inspection is to discover what led to the fine and what the unit is working on to improve related issues, Ding said, declining to elaborate.

The FSC's Banking Bureau received a visit from the U.S. Federal Reserve in October to discuss topics such as financial technology, also known as fintech, said Banking Bureau Director General Austin Chan at the same press conference. "We did not talk about Mega," Chan said.

MEGHNA BANK

Meghna Bank Chairman HN Ashequr Rahman opens the Chehelgazi branch of the bank on the premises of Hazi Mohammad Danesh Science and Technology University in Dinajpur on Wednesday. Meghna Bank Managing Director Mohammed Nurul Amin and Vice Chancellor of the university Professor Md Ruhul Amin were also present.

Japanese seek bargains as economy limps, Abenomics loses shine

REUTERS, *Tokyo*

Three years of so-called "Abenomics", Japanese Prime Minister Shinzo Abe's bold stimulus program, has failed to dislodge a deflationary mindset among businesses and consumers.

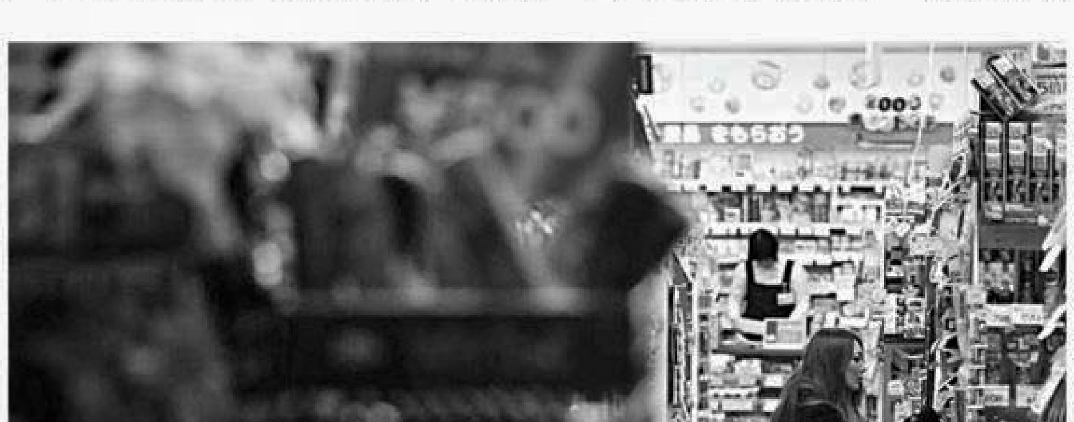
As the world's third-largest economy falters again - with a stronger yen gnawing at overseas profits and domestic consumption sapping companies' confidence to invest or sufficiently raise wages - firms that increased their prices in the hope of a sustained recovery are rethinking their strategy.

Many consumers, with little extra to go around, are opting for cheaper products - welcome news for the discount retailers who flourished during two decades of economic stagnation.

Housewife Yuko Narita, 48, says she is tightening the family purse strings and scouting around for sales on daily goods and clothing. "There's a sense the economy is stalling and companies' earnings are bad this year, so I'm holding off from spending on big items," she said.

Nobuko Jin, a 75-year-old part-time worker who receives some pension, says she is cutting back and just buying necessities. "I get the feeling prices are creeping up. I wonder where the benefits of Abenomics are going. I'm trying to spend less," she said.

Discount store operator Don Quijote Holdings, which sells



REUTERS

A woman looks at items at a pharmacy in Tokyo.

everything from cosmetics and clothing to toilet paper, has seen business revive as the economy loses momentum. It expects operating profit to rise more than 4 percent in the year to next June. "Household spending won't be strong. That's when consumption centers on discount stores, so it's a tailwind for us," said Mitsuo Takahashi, the firm's chief financial officer.

Restaurant chain operator Skylark Group has cut prices on some items and is offering more cheap lunch menus to lure family diners. And Fast Retailing Co, owner of the Uniqlo casual wear brand, reversed course this year after two years of price hikes hurt its clothing sales. Its latest quarterly operating profit rose 18.6 percent.

"We'll continue with our (new) strategy and bring down prices this autumn and winter," said Ken Okazaki, the company's chief finance officer.

At discount furniture and home accessories retailer Nitori Holdings, chairman Akio Nitori said his company won't raise prices. "Once you lose consumers to your competitors with price hikes, it's hard to lure them back," he said.

Japan's growth stalled in April-June, exports fell last month at the fastest pace since the global financial crisis, and the mood among businesses has deteriorated to pre-Abenomics levels.

This all makes it tougher for policymakers, already struggling to fend off external risks, to shift Japan's deflationary mindset.

The gloom is broadening beyond exporters hit directly by the renewed strength of the yen, which drove down the U.S. dollar to around 100 yen - some 25 percent below levels a year ago.

"We're seeing renewed fears of deflation as the environment surrounding consumption is worsening," said Akihiro Ito, senior executive officer at beverage maker Kirin Holdings.

Isetan Mitsukoshi, Japan's biggest department store chain by sales, has seen demand for high-end goods, which surged in the early days of Abenomics, slow this year. "Some expensive goods still sell well so it's not like we're back to the old days," said CEO Hiroshi Ohnishi. "But the deflationary mindset appears to be returning."

Abe's administration insists the economy has emerged strongly from stagnation thanks to its mix of fiscal, monetary stimulus steps and structural reforms.

Indeed, the economy grew 2 percent in fiscal 2013 as hopes for Abenomics bolstered Tokyo stocks .N225 and pulled the yen off record highs. But it has barely recovered from the hit to consumption from a sales tax hike in April 2014, contracting 0.9 percent in fiscal 2014 and growing just 0.8 percent in the year to end-March.

Danes pile up record amount of cash in banks

REUTERS

Danes had placed a record 893 billion Danish crowns ($135.3 billion) in cash in banks at end of July, bolstering Denmark's financial security but causing problems for growth, analysts said.

Danish banks have provided 510 billion crowns worth of loans to individuals, leaving a deposit surplus of 383 billion crowns, the highest ever according to Denmark's central bank.

"It is good news that the Danes can withstand a downturn but on the other hand it shows how difficult it is to lift the growth," analyst Mikkel Hoegh from BRFkredit wrote in a note.

The level of deposits was up 2 percent from a year ago, and 24.5 percent higher than before the financial crisis in 2008. At same time retail sales fell 2 percent in July from a year earlier, data from Denmark's statistics office showed.

"The numbers showed clearly how vulnerable the economic upswing is," analyst Soren V. Kristensen from Sydbank said.

Analysts said memories of the financial crisis, which was followed by the bursting of Denmark's property bubble, were encouraging Danes to keep adding to their savings.

"The large savings must be viewed in the light of how the financial crisis affected consumption behavior. We have become more cautious," said chief economist Steen Bocian from lobby group Confederation of Danish Enterprise wrote.

The Danish economy has only seen modest growth since the 2008-2009 financial crisis and a Reuters poll earlier in August showed a forecast of 1.0 percent growth in 2016.

UCB

MA Sabur, chairman of United Commercial Bank, and Nasir U Mahmood, president of Uttara Club, exchange documents of a deal, at the corporate office of the bank on Wednesday. The bank will sponsor the lounge of the club: UCB Family Lounge. Muhammed Ali, managing director of the bank, was also present.