China central bank cash injection signals leverage, asset bubble concerns

REUTERS, *Shanghai*

China's central bank injected cash into money markets through 14-day reverse repo agreements for the first time since February in a sign policymakers were worried rising leverage could stoke bubbles in the bond market.

Analysts say the switch to longer tenor, higher interest rate injections may signal the central bank is concerned that too much of short-term borrowing is flowing into the bond market. For most of 2016, the People's Bank of China (PBOC) has effectively targeted the lower interest seven-day rate, with cash injections nearly every day.

The PBOC on Wednesday injected 90 billion yuan ($13.55 billion) into money markets through seven-day reverse bond repurchase agreements (repos) and an additional 50 billion yuan through 14-day reverse repos on Wednesday, traders said.

"The PBOC appears to be signalling to banks to move away from a reliance on short-term liquidity and head towards more longer term liquidity," wrote Jonas Short, Head of NSBO Policy Research in Beijing in a Wednesday note.

The major worry for policymakers, some analysts say, is that rising repo leverage and the over-reliance of smaller banks on short-term liquidity threatened asset price bubbles in the debt market, and added to systemic banking sector risks.

"The market read this (the 14-day queries yesterday) as the signal that PBOC may want to curb leverage in bond market as funding cost from 14-day reverse repo is higher than from 7-day and overnight reverse repo, which may increase costs for leverage," wrote analysts from OCBC Bank in Singapore Wednesday.

"The recent rally in bonds fuelled by leverage on the back of stable short-end funding raise concerns about potential asset bubble risks in China's bond market."

Indeed, Chinese debt has sold off over the past week as doubts on further broad-based monetary easing have risen and investors took profits following a sharp rally in onshore bonds, which pushed the ten-year Chinese treasury to seven-year lows in mid August.

The market reaction was swift, with the volume weighted seven-day rate, considered the best general indicator of liquidity in China trading at 2.50 percent by mid afternoon Wednesday, up ten basis points (bps) from Tuesday's closing average rate.

Analysts suggested small banks could bear the brunt if short-term liquidity remains tight.

"Overall, small banks are likely to continue to struggle should short-term interbank rates continue rising as the double whammy of a high interbank borrowing rate coupled with tightening on issuing financial products suggests there may be potential for a liquidity squeeze for small banks on the horizon," said NSBO Policy Research's Short.

In fact after the news broke on Tuesday that the central bank was querying banks on demand for two-week reverse repurchase agreements (repos), the benchmark seven-day repo rate notched its highest close since January at 3.24 percent.

"Cash is extraordinarily tight today, you're seeing the seven-day hanging around 2.8 percent, you can't get 14-days and people are being pushed into the 21-day," said a trader at a Chinese bank.

With the central bank's move to 14-day reverse repos for the first time since February, some in the market took it as a signal that further cuts to bank required reserve ratios were unlikely.

Chinese treasury futures promptly sold off on the news, with the price of the ten-year future for December delivery falling 0.38 percent, the biggest move downward in over three months.

In bond market trading on Wednesday morning, Chinese five and ten year treasury futures were both down 0.1 percent. The yuan was down 0.2 percent against the dollar while the benchmark CSI300 equities index was down 0.1 percent.

AB BANK

M Wahidul Haque, chairman of AB Bank, speaks during a Chinese language course and banking foundation course for the management trainee officers of the bank, in Dhaka.

US steps up fight against EU tax crackdown on Apple

AFP, *Washington*

The US stepped up its fight against the European Commission's crackdown on tax avoidance by Apple and other multinational companies, accusing the commission of unilateralism and overstepping its mandate.

In a white paper, the US Treasury said the EC probe into alleged special tax treatment that certain EU countries gave Apple, Amazon, Starbucks and Fiat Chrysler "undermines the international tax system."

With potentially billions of dollars in tax levies at stake, the Treasury also reiterated its view that the investigations "disproportionately" target US companies and would prevent Washington from recovering taxes that it is eying from the companies' offshore earnings.

"These investigations have major implications for the United States. In particular, recoveries imposed by the Commission would have an outsized impact on US companies," said Treasury Deputy Assistant Secretary for International Tax Affairs Robert Stack in a statement.

"US taxpayers could wind up eventually footing the bill" if the commission forces the companies into tax settlements, he said.

The US acknowledged the problems around the issue of multinational firms obtaining state aid, in the form of secret and extremely lucrative tax breaks, from Ireland, Belgium and Luxembourg for setting up business in those countries.

But it said those deals were made under international treaties and accepted tax practices. The Treasury accused the EC in the white paper of taking a "new approach" to established European Union tax law in challenging EU member states' legal tax breaks offered to multinational firms.

In addition, the Treasury said the European Commission is effectively changing the tax rules now, but planning to apply them retroactively to the companies, which the US said was inconsistent with EU law and international practice.

"The Commission should not seek retroactive recoveries under its new approach," the white paper said.

Moreover, the white paper said the commission was acting as "a supra-national tax authority" that oversteps its powers in EU challenging member state tax policies.

PRIME BANK

AOM Rashed, head of marketing at Prime Bank, hands over the dummy key of a freezer van to Md Asaduzzaman Mia, commissioner of Dhaka Metropolitan Police, as part of the bank's corporate social responsibility on Wednesday.

Ctg chamber signs deal with southern Gujarat's trade body

STAFF CORRESPONDENT, *Chittagong*

The Chittagong Chamber of Commerce and Industry yesterday signed a deal with Southern Gujarat Chamber of Commerce and Industry (SGCCI) to boost bilateral trade between Bangladesh and India.

A delegation of SGCCI led by its President BS Agrawal had a discussion with the leaders of Chittagong chamber, at World Trade Centre in the port city.

The deal would accelerate bilateral trade, business and investment, said Mahbubul Alam, president of Chittagong chamber.

Industrial units could be established in Bangladesh by joint investment from the businessmen of Bangladesh and India, said Agrawal.

Salahuddin Kasem Khan, managing director of AK Khan and Company, and Rakesh Raman, first secretary, Assistant High Commission of India in Chittagong, were also present.

Huge losses at Australian retail giant Woolworths

AFP, *Sydney*

Australian supermarket giant Woolworths on Thursday reported a large annual net loss of Aus$1.23 billion (US$940 million), its first since listing more than two decades ago, following a failed push into hardware and a slump in food sales.

Woolworths, Australia's largest retailer and one of the two dominant supermarket chains in the country, recorded the sharp plunge for the year to June 26 -- the first loss since 1993, compared to a net profit of Aus$2.15 billion in the prior period.

The company said Wednesday it was exiting the disastrous Masters home improvement business seven years after entering the hardware market, selling it for Aus$1.5 billion.

"Unequivocally it's been a challenging year for the group -- in this case the numbers speak for themselves," The Australian Financial Review quoted Woolworths chief executive Brad Banducci as saying.

"But you need to look through the numbers to see where we are -- we are making progress but there's still a lot to do."

Australian food and petrol sales sank 40.8 percent to Aus$1.76 billion for the period, while its discount department store chain Big W lost Aus$14.9 million after last year's profit of Aus$111.7 million.

The weak results also demonstrated the fierce competition that the company, which is unrelated to South African department store Woolworths Holdings, has faced from rival Coles and German retailer Aldi.

"It's the combination of a number of years of neglect -- Woolworths is a really stellar example of corporate mismanagement," IG Markets' analyst Angus Nicholson told AFP.

"They were clearly losing out on a lot of sales over the years as consumers increasingly realised that they were getting much better price opportunities over at Coles... and it took a while for Woolworths to really start turning around and focusing back on price."

Investor optimism that Woolworths has seen the worst with these results were reflected in the company's share price, which was trading 5.0 percent higher to Aus$25.43 in Sydney on Thursday.

The embattled retailer, which shed its chairman and chief executive and announced thousands of job cuts last year, announced a final dividend of 33 Aus cents a share, compared to 72 cents last year.

US durable goods orders rebound in July

AFP, *Washington*

US manufacturing showed strength in July as durable goods orders rebounded from two straight falls, the Commerce Department reported Thursday.

Total new orders for manufactured goods with long lifetimes added 4.4 percent to $228.9 billion.

New orders for defense equipment were up 35.7 percent, machinery 1.6 percent, and computers and electronic products 3.6 percent. The automobile sector was flat.

While the main reason for the turnaround was a rebound in civilian aircraft orders -- a large but volatile part of the total each month -- orders for durable goods excluding the dominant transportation sector were also higher by 1.5 percent.

That demonstrated that capital spending by companies is turning around after a sharp downturn dating back to last year, as the energy industry sharply cut back due to the plunge in oil prices, said Ian Shepherdson of Pantheon Macroeconomics.

"The key number in this report is the 1.6 percent increase in orders for non-defense, non-aircraft capital equipment, the biggest gain since January; we expected a 1.0 percent gain," he said in a client note.

For the year to date, durable goods orders were down 0.9 percent from last year, reflecting both the oil industry crunch and the impact on exports of the strong dollar.

Nigerian banks suspended from forex market, seek truce

AFP, *Lagos*

Nine Nigerian lenders were banned this week from foreign exchange trading for failing to remit some oil money into a government account are holding talks with the Central Bank to seek a truce, operators said Thursday.

The Central Bank of Nigeria (CBN) on Tuesday suspended nine banks for withholding 2.12 billion dollars belonging to the Nigerian National Petroleum Corporation (NNPC) and the Nigeria Liquified Natural Gas (NLNG) contrary to a government regulation.

"We have been meeting with CBN officials to find a way out of the impasse because, if the crisis persists, it may have very dire consequences on the financial system," a top executive at one of the affected banks told AFP.

He said the ban might trigger "a run on the banks" as concerned customers withdraw their deposits.

"Customers may think the suspension is a signal of distress and may rush to take out their money," he said.

Nigeria's oil-dependent economy is in recession because of low oil prices and resulting foreign currency shortages, hammering government revenue and pushing inflation to an 11-year-high of 16.5 percent in June.

The administration of President Mohammadu Buhari, who took office in May last year, ordered all government revenues to be paid into Treasury Single Account (TSA) in the CBN to prevent fraud, and in his fight against corruption.

Companies made deals that could run afoul of US whistleblower rules

REUTERS, *Washington*

Wells Fargo, Advanced Micro Devices and Fifth Third Bank have in recent years agreed to settlement deals that seek to muzzle former employees in ways that some lawyers said could violate U.S. whistleblower protection laws.

Five lawyers, including three who represent whistleblowers, said that the settlements appear aimed at blocking workers from airing their concerns and contain similarities to those used by other companies that ran afoul of government rules.

The deals by Wells Fargo, AMD, and Fifth Third Bank were among a dozen such corporate settlements reached between 2012 and 2015 that were reviewed by Reuters.

The companies each struck deals with departing workers that limit the employees' ability to receive money arising from any government investigations into their former employers.

Some language in the settlements could run afoul of rules adopted by the U.S. Securities and Exchange Commission (SEC) in 2011 that generally bar corporate attempts to muzzle whistleblowers, the lawyers.

A Wells Fargo spokeswoman declined to comment, as did a spokesman for Advanced Micro Devices. A spokesman for Fifth Third said the agreement "speaks for itself" and that the company "takes seriously" its obligation to comply with all "relevant laws." A SEC spokeswoman declined to comment.

Record German budget surplus fuels investment debate

REUTERS, *Berlin*

Solid economic growth generated a record budget surplus for Germany in the first half of this year, stoking a debate within government about whether the country should use its spare revenue to cut taxes or increase spending.

The budget has been running a surplus since 2014, but that increased between January and June to 18.5 billion euros ($20.8 billion), or 1.2 percent of gross domestic product (GDP), the Federal Statistics Office said on Wednesday.

With tax revenues rising as the economy revives and debt costs pegged at unprecedentedly low levels, the gap was the highest since current records began with the country's reunification in 1990.

The run of surpluses has allowed Finance Minister Wolfgang Schaeuble to increase state spending on roads, housing and digital infrastructure ahead of federal elections in 2017, while sticking to his goal of running a balanced budget.

But the International Monetary Fund and other euro zone governments have urged Berlin to do more and hike investment in education and infrastructure, as a means of helping to boost the currency bloc's anaemic growth rate.

Germany's economy grew 0.4 percent in the second quarter from the first, final data also released by Statistics Office on Wednesday showed.

That marked a slowdown from 0.7 percent in the first quarter but matched a preliminary reading and beat average rate of 0.3 percent in the euro zone as a whole.

Higher state spending and strong private consumption more than compensated for weaker investment in construction and equipment between April and June.

Exports - less of a growth driver than domestic demand in recent quarters - also bounced back after a weak performance at the start of the year, rising 1.2 percent.

With imports slipping 0.1 percent, net foreign trade added 0.6 percentage points to overall economic growth.

Robi incurs losses in second quarter

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Customers' average phone use a month also declined drastically for Robi, standing at 124 minutes in the second quarter compared to 139 minutes just one year ago.

In this quarter, the company contributed Tk 310 crore to the state coffer, representing 24.6 percent of company revenue.

UNITED HOSPITAL

United Hospital Managing Director Faridur Rahman Khan opens a health booth at the lobby of the hospital for free basic health check-up of patients to mark the 10th anniversary of the hospital on Wednesday.

Russia's biggest bank upbeat on 2016

AFP, *Moscow*

Russia's largest lender Sberbank on Thursday announced it almost tripled its profits in the second quarter and predicted further stabilisation of the economy this year despite credit growth slowing.

The majority state-controlled bank made a net profit of 145.4 billion rubles ($2.23 billion, 1.98 billion euros) in the second quarter, up 166.3 percent on the same period last year.

Its total revenues were up 31 percent to 442.8 billion rubles.

CEO German Gref said the results came on the back of "some signs of stabilisation, such as the oil prices rising and the ruble strengthening", as well as expectations of a return to positive GDP growth in the second half of the year.