

# US inflation stirring as healthcare, housing costs surge



A woman shops for groceries at a Whole Foods supermarket in New York.

REUTERS, Washington

US consumer prices rose more than expected in August as healthcare costs recorded their biggest gain in 32-1/2 years, pointing to a steady build-up of inflation that could allow the Federal Reserve to raise interest rates this year.

The cost of living last month was also pushed up by sustained increases in rents. The uptick in inflation is likely to be welcomed by Fed officials when they gather next week to deliberate on monetary policy, though a rate hike is not expected at that meeting.

"The economy may not be firing on all cylinders, but growth is enough to spark a little more infla-

tion than we thought. The Fed decision is going down to the wire," said Chris Rupkey, chief economist at MUFJ Union Bank in New York.

The Labor Department said on Friday its Consumer Price Index increased 0.2 percent last month after being unchanged in July. In the 12 months through August, the CPI increased 1.1 percent after advancing 0.8 percent in the year through July.

The so-called core CPI, which strips out food and energy costs, rose 0.3 percent last month, the biggest increase since February, after gaining 0.1 percent in July.

Economists had forecast the CPI nudging up 0.1 percent last month and the core CPI gaining 0.2 per-

cent. The core CPI increased 2.3 percent in the 12 months through August after rising 2.2 percent in the year through July.

The dollar rallied against a basket of currencies on the data, while prices for US Treasuries were mixed. US stocks were trading lower, with sentiment also hurt by declining oil prices and the US Justice Department's demand for \$14 billion from Deutsche Bank to settle claims related to sales of mortgage-backed securities.

The Fed is expected to leave interest rates unchanged next week against the backdrop of a raft of disappointing economic reports for August, including weak retail sales and industrial production as well as a slowdown in job growth.

A separate report on Friday, however, showed consumer sentiment was steady in early September, suggesting retail sales could rebound in the coming months. The US central bank has a 2 percent inflation target and tracks an inflation measure that has been stuck at 1.6 percent since March. Fed Governor Lael Brainard said on Monday she wanted to see stronger consumer spending data and signs of rising inflation before hiking rates.

The Fed raised its benchmark overnight interest rate at the end of last year for the first time in nearly a decade, but has held it steady this year amid concerns over persistently low inflation. Many economists expect the Fed to increase borrowing costs at its December policy meeting.

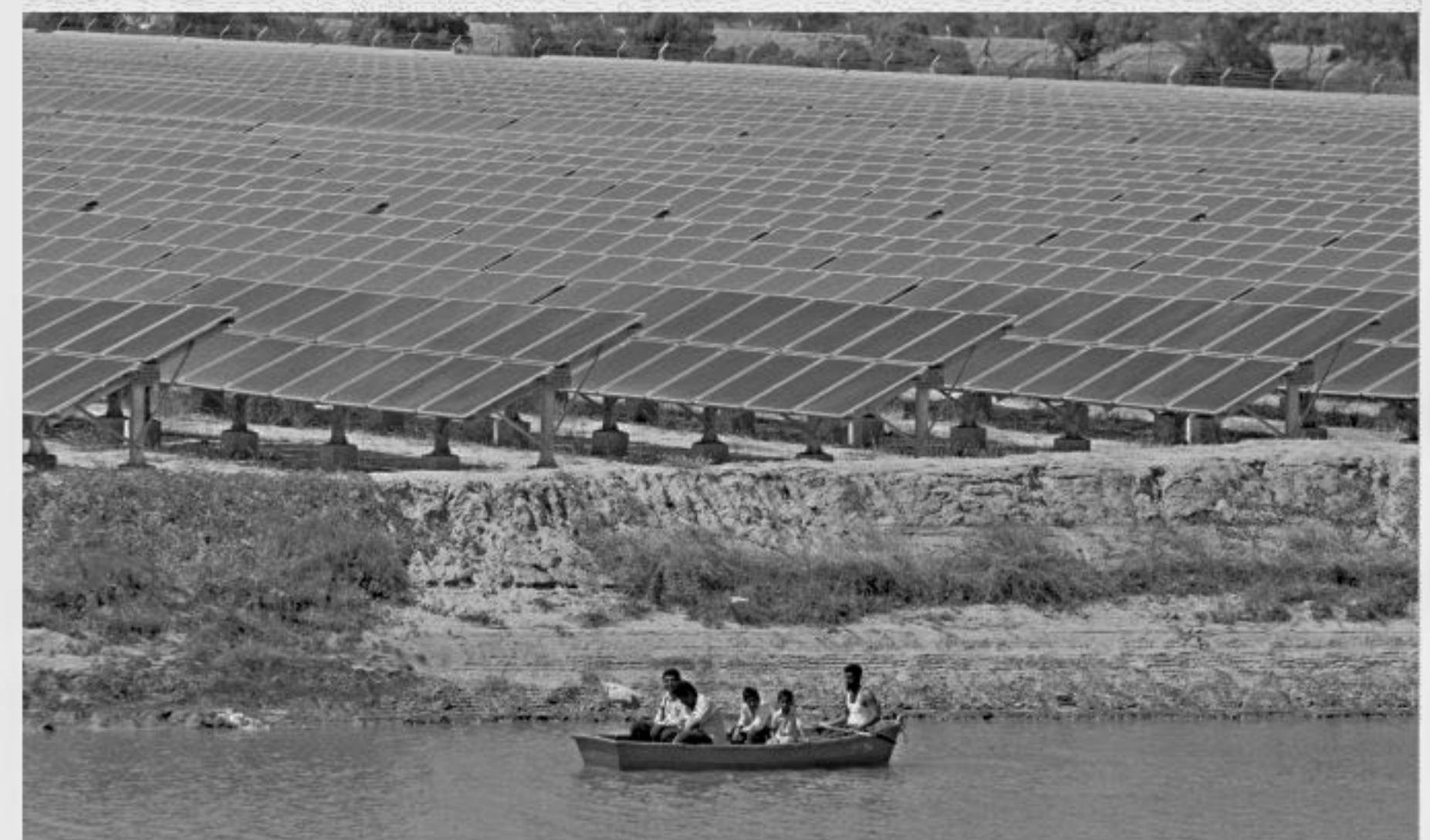
Medical care costs jumped 1.0 percent last month, the largest increase since February 1984, after advancing 0.5 percent in July. The cost of hospital services jumped 1.7 percent, the biggest gain since October 2015. Prices for prescription medicine soared 1.3 percent.

Economists linked the surges to the expansion of healthcare coverage under President Barack Obama's signature 2010 healthcare restructuring law.

"This, of course, is the dark cloud surrounding the good-news story about record numbers of people signing up for health insurance," said Jay Morelock, an economist at FTN Financial in New York. "The bulk of the increase was among the population with pre-existing conditions, which has significantly boosted costs for all."

Given the strong increases in healthcare costs, economists are forecasting the Fed's preferred measure - the core personal consumption expenditures (PCE) price index - to rise 0.2 percent in August after increasing 0.1 percent in both June and July.

# India loses WTO appeal in US solar dispute



Security personnel sit in a boat as they patrol the premises of a solar farm at Gunthawada village in Banaskantha district in Gujarat.

REUTERS

India lost its appeal at the World Trade Organisation in a dispute over solar power on Friday, failing to overturn a US complaint that New Delhi had discriminated against importers in the Indian solar power sector.

The WTO's appeals judges upheld an earlier ruling that found India had broken WTO rules by requiring solar power developers to use Indian-made cells and modules. The appeal ruling is final and India will be expected to bring its laws into compliance with the WTO rules.

"This report is a clear victory for American solar manufacturers and workers, and another step forward in the fight against climate change," US Trade Representative Michael Froman said in a statement.

Indian officials made no immediate comment on the appeal outcome.

US solar exports to India have fallen by more than 90 percent since India brought in the rules, the statement said.

As in the earlier ruling, which was issued in February this year, the judges said India could not claim exemptions on the basis of that its national solar power sector was included in government procurement,

nor on the basis that solar goods were in short supply.

There was also no justification on the grounds of ensuring ecologically sustainable growth or combatting climate change.

The dispute, which the United States first launched in February 2013, involved an increasingly common target of trade disputes - solar power, with an increasingly common complaint - local content requirements.

The appeal ruling came just days after India launched a WTO complaint against subsidies for the solar industry in eight US states.

Under WTO rules, countries are not allowed to discriminate against imports and favour local producers, but in the past five years countries keen to support their own manufacturers have frequently resorted to local content requirements, while keeping a sharp eye out for their use by others.

"We strongly support the rapid deployment of solar energy worldwide, including in India," Froman said.

"But local content requirements are not only contrary to WTO rules, but actually undermine our efforts to promote clean energy by requiring the use of more expensive and less efficient equipment, making it more difficult for clean energy sources to be cost-competitive."

# Standard Chartered mulls spinning out PE business

REUTERS

Standard Chartered Plc is considering spinning out its private equity business to its managers, Bloomberg reported on Friday, citing two people familiar with the matter.

The unit's managers, led by Joseph Stevens, would take control of a business that oversees about \$5 billion of assets, Bloomberg reported.

"The Group is looking at non-core businesses, or those that do not sit within our tightened risk tolerance. We are not commenting on any specific businesses beyond those we have already disclosed," a company spokesperson said in an emailed statement.

Reuters reported earlier on Friday that PE firms such as Standard Chartered and Carlyle Group are shrinking their PE teams in Africa.

# Samsung to replace or refund 1m US Galaxy Note 7 phones

REUTERS

Samsung Electronics Co Ltd formally recalled 1 million Galaxy Note 7 smartphones sold in the United States, replacing or refunding the flagship phones, whose susceptibility to catching fire has damaged the image of the Korean powerhouse.

Samsung received 92 reports of batteries overheating in the United States, including 26 reports of burns and 55 cases of property damage, the company said as it announced the recall in cooperation with the US Consumer Product Safety

Commission (CPSC).

The recall is a costly setback for Samsung, which was counting on Galaxy Note 7 to bolster sales as rivals such as Apple Inc launch new devices. The scale of the recall is unprecedented for Samsung, the world's largest smartphone maker.

Samsung said on Thursday that new Note 7 replacement devices will be available at most retail locations in the United States no later than Sept. 21. Earlier this month, Samsung said it would recall all Note 7 smartphones equipped with batteries it found to be fire-prone and halted

their sales in 10 markets, denting a revival of the firm's mobile business.

While recalls in the smartphone industry do happen, including for rival Apple Inc, the nature of the problem for the Note 7 is a serious blow to Samsung's reputation, analysts have said. The CPSC said on Thursday that consumers should immediately power down and stop using the recalled Galaxy Note 7 devices.

The US Federal Aviation Administration has asked airline passengers to switch off and unplug the recalled Note 7s during flights.

# Global bond rout depresses Asia forex sentiment



A money lender counts Indian rupee currency notes at his shop in Ahmedabad.

REUTERS, Singapore

Sentiment towards most emerging Asian currencies turned bearish as increasing doubts about the ability of major central banks to offer fresh stimulus sparked a selloff in global bonds, a Reuters poll showed on Thursday.

The Chinese yuan's bearish bets increased to the largest since late July, according to the survey of 18 fund managers, analysts and currency traders conducted from Tuesday through Thursday. The renewed speculation of depreciation of

the renminbi came after the conclusion of the G20 summit in the city of Hangzhou earlier this month.

Views on most emerging Asian currencies turned pessimistic. Sentiment on those units had been bullish since early August on prospects that major central banks may ease monetary policies further to support their economies, helping investors seek higher yields in emerging Asia.

But those hopes diminished on perceived limits to the extensive easings by major monetary authorities such as the European Central Bank

and the Bank of Japan.

Investors also grew wary ahead of policy meetings of the Federal Reserve and the BOJ next week. The Fed is unlikely to raise interest rates this month, but it is seen tightening eventually later this year.

The fading optimism over more stimulus from major central banks lifted bond yields globally, prompting investors to cut some holdings in emerging Asian debts.

Malaysia's ringgit was one of main victims with its bearish bets at the highest since late May. The currency came under further pressure from falling oil prices.

The Philippine peso also reported the largest pessimistic positions in near four months on equity outflows. Sentiment on local assets soured as Philippine President Rodrigo Duterte was in the spotlight last week over a televised tirade against the United States and President Barack Obama.

Bullish bets on South Korea's won evaporated on increasing geopolitical tensions sparked by North Korea's nuclear test last week.

The Indian rupee bucked the regional trend with its bullish bets moving up. The country is likely to post its first current account surplus in nine years in the latest quarter.

Most poll participants provided their estimates before an Indian television reported that India's commerce ministry will propose a devaluation of the rupee to support exports, but the finance ministry denied the report.

Indonesia's rupiah also posted larger long positions on speculations that the central bank may cut interest rates.

Last week, Bank Indonesia Governor Agus Martowardojo said the central bank may ease policy this month or next either by cutting its benchmark interest rate or commercial banks' reserve requirement ratio, or through some other means.

# Deutsche Bank to fight \$14b demand from US authorities

REUTERS, Frankfurt

Deutsche Bank said it would fight a \$14 billion demand from the US Department of Justice to settle claims it missed mortgage-backed securities, a shock bill that raises questions about the future of Germany's largest lender.

The claim against Deutsche, which is likely to trigger several months of talks, far exceeds the bank's expectations that the DOJ would be looking for a figure of only up to 3 billion euros (\$3.4 billion).

The demand adds to the problems facing Deutsche Bank's Chief Executive John Cryan, a Briton who has been in the job for a year.

The bank only scraped through European stress tests in July and has warned it may need deeper cost cuts to turn itself around after revenue fell sharply in the second quarter due to challenging markets and low interest rates.

Deutsche Bank shares, which have lost around half their value this year, tumbled 7.6 percent to 12.10 euros in Frankfurt on Friday, with analysts saying the bank may need to raise fresh funds from investors or sell assets to shore up its capital ratios.

The cost of insuring Deutsche Bank debt against default rose by around eight percent.

The bank, which employs around 100,000 people, said it regarded the DOJ demand as an opening shot.

"Deutsche Bank has no intent to settle these potential civil claims anywhere near the number cited," it said in a statement.

"The negotiations are only just beginning. The bank expects that they will lead to an outcome similar to those of peer banks which have settled at materially

lower amounts."

Analysts said that even a hefty reduction in the bill was likely to weigh heavily on Deutsche Bank's finances.

"If the final bill is at 5 billion euros or more Deutsche Bank will not be able to avoid a capital hike anymore," said Ingo Frommen, banking analyst at LBBW.

Deutsche Bank's problems are likely to alarm political leaders in Europe's largest economy and the home to the European Central Bank.

The German finance ministry said on Friday that the government expected a "fair result" from the negotiations but that the talks were a matter for the bank and the American authorities.

Finance minister Wolfgang Schaueble took the unusual step of voicing public support for the bank earlier this year and a senior opposition figure said he expected the government to step in as a last resort if needed.

"The question would be how much damage would it do to the economy if the bank were to topple," said Green Party financial spokesman Gerhard Schick.

The DOJ has taken a tough stance in settlement negotiations with other banks, requesting sums higher than the eventual fine.

A recent European Union ruling that Apple must pay up to 13 billion euros in taxes to the Irish government and the forthcoming US election could complicate Deutsche Bank's efforts to whittle down the demand.

One of Deutsche's top 10 investors said he expected the bank to have to pay 4-5.5 billion euros for the mortgages case. "But because of the election campaign it may end up higher - at maybe 6 or 7 billion."