Steel, stimulus drive China's strongest economic growth since 2015

REUTERS, Beijing

REUTERS/FILE

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China's economy expanded faster than expected in the first quarter as higher government infrastructure spending and a gravity-defying property boom helped boost industrial output by the most in over two years.

Growth of 6.9 percent was the fastest in six quarters, with forecast-beating March investment, retail sales and exports all suggesting the economy may carry solid momentum into spring.

But most analysts say the first quarter may be as good as it gets for China this year, and worry Beijing is still relying too heavily on stimulus and "old economy" growth drivers, primarily the steel industry and a property market that is showing signs of overheating.

"The Chinese government has a tendency to rely on infrastructure development to sustain growth in the long term," economists at ANZ said in a note.

"The question we need to ask is whether this investment-led model is sustainable as the authorities have trouble taming credit. We need to watch closely whether China's top leadership will send a stronger signal to tighten monetary policy shortly."

Even as top officials vowed to crack down on debt risks, China's total social financing, a broad measure of credit and liquidity in the economy, reached a record 6.93 trillion yuan ($1 trillion) in the first quarter -- roughly equivalent to the size of Mexico's economy.

At the same time, spending by the central and local governments rose 21 percent from a year earlier.

That helped goose the pace of growth in the first quarter well above the government's 2017 target of around 6.5 percent, and pipped economists' forecasts of 6.8 percent year-on-year.

Such a strong bolt from the gate could see Beijing once again meet its annual growth target, even if activity starts to fade later in the year, as many analysts widely expect.

"Main indicators were better than expected...which laid a good foundation for achieving the full-year growth goals," statistics spokesman Mao Shengyong said at a news conference.

Once again, China's policymakers leaned on infrastructure and real estate investment to drive expansion in the first quarter. Growth in both areas has accelerated from last year and helped offset slightly weaker growth in the services sector.

"Faster growth in industrial output is the primary factor in the first quarter surprise, and due mostly to higher value-added growth related to supply-side consolidation in heavy industry," said Brian Jackson, China economist at IHS Global Insight.

Real estate investment also remained robust in the first quarter, expanding by 9.1 percent on-year, and the pace of new construction quickened despite intensifying government measures to cool soaring prices.

Most analysts agree the heated property market poses the single biggest risk to China's economic growth, but predict the cumulative weight of property curbs will eventually temper activity, not produce an outright crash.

"Sales have started falling, which means tightening measures are starting to take effect," said Shen Jianguang, an analyst at Mizuho Securities in Hong Kong, noting that will start to drag on both the services and construction sectors.

More than two dozen cities announced new or additional property cooling measures in March and early April, after curbs late last year appeared to have little lasting effect.

Buoyed by a near 12 percent increase in housing starts, China produced a record amount of steel in March, Reuters data showed, though analysts say warning signs are flashing.

Rising inventory levels and recent falls in steel prices suggest output has been growing faster than China's actual demand, raising worries of a glut later in the year, which could heighten trade tensions with the US and its other major trading partners.

There were also positive signs on the consumer front in Monday's data dump.

After slowing for five quarters, disposable income growth picked up to 7.0 percent in the first quarter, the fastest since the end of 2015.

March retail sales rebounded 10.9 percent on-year as consumers shelled out more for home appliances, furniture and decorations for new homes.

HSBC predicts 100 Saudi Arabian listings in privatisation drive

REUTERS, Dubai

Saudi Arabia's privatisation drive is likely to result in around 100 new stock market listings in sectors including mining, healthcare and retail, a top HSBC executive said on Monday.

Georges Elhedery, HSBC's chief executive for the Middle East and North Africa, did not give a time frame for the listings but said they were part of Saudi plans to diversify its economy beyond oil by 2030.

Close to 180 companies are already listed on the Saudi market and HSBC is advising the stock exchange on its planned listing of its own shares, while industry sources have told Reuters that the bank will play a key advisory role in the upcoming listing of national oil giant Saudi Aramco.

"We are talking, up to possible 100 IPOs (or) 100 entities to be listed on the stock exchange in Saudi Arabia," Elhedery said at an event marking the 150th anniversary of Thomson Reuters in the region.

Elhedery said the planned listing of a "jewel" like Aramco is a strong example of Saudi Arabia's commitment to the privatisation programme.

Aramco is gearing up for a 5 percent share listing next year, aiming to get a valuation of up to $2 trillion in what could be the world's biggest initial public offering.

Although Aramco has not made a decision yet on the international venue for the IPO, Gulf Capital's co-founder Karim El Solh said at the same event on Monday that he expected it to be New York "given the size (and) the nature of the industry".

Global exchanges such as the London Stock Exchange are pitching to win a slice of Aramco's IPO, which HSBC's Elhedery said would generate huge demand from strategic investors regardless of where it is listed.

In recent weeks, Chinese oil firms PetroChina, and Sinopec Corp have both shown interest in the Aramco IPO.

Elhedery also said the region's debt capital market issuance this year was likely to exceed last year's record of more than $60 billion.

Richad Soundardjee, head of Middle East for Societe Generale, said that the region is "on a good track to beat the 2016 record" of issuance but noted that there has been a lot of "front loading" in the first quarter.

That meant companies taking advantage of good market conditions and coming to market to refinance debt which is still some time away from maturing.

Soundardjee also said that diversification of sources of funding and currencies will have a positive impact for the region, referring to the emerging of structured finance solutions and export credit agency-backed financing.

HOTEL SARINA

Poet Asad Chowdhury inaugurates a food festival organised by Hotel Sarina on the premises of the hotel on April 13. The festival of Bangladeshi foods will end on April 20.

GREEN DELTA

Nasir A Choudhury, founding managing director and adviser of Green Delta Insurance, receives the "Mother Teresa International Award" for his contribution as a social worker, at a programme at Kolkata in India on April 16.

Turkish economic weakness exposed in post-referendum data

REUTERS

Turkish unemployment hit a seven-year peak in early 2017 while the budget deficit rose, data showed on Monday, underlining the economic challenges facing the country a day after its social divisions were laid bare in a referendum.

Turks narrowly voted on Sunday in favour of constitutional changes granting sweeping powers to President Tayyip Erdogan. He has cast the reforms as necessary in part to boost the country's economic development.

Hours after the referendum result, Statistics Institute figures showed the unemployment rate reached 13 percent in the three months to February, from 12.7 percent in the three months to January and 11.1 percent a year earlier.

"Syrian refugees, higher number of bankruptcies, slower economy, public sector lay-offs...and stress on the tourism sector showed its impact on the figures," said BGC Partners chief economist Ozgur Altug.

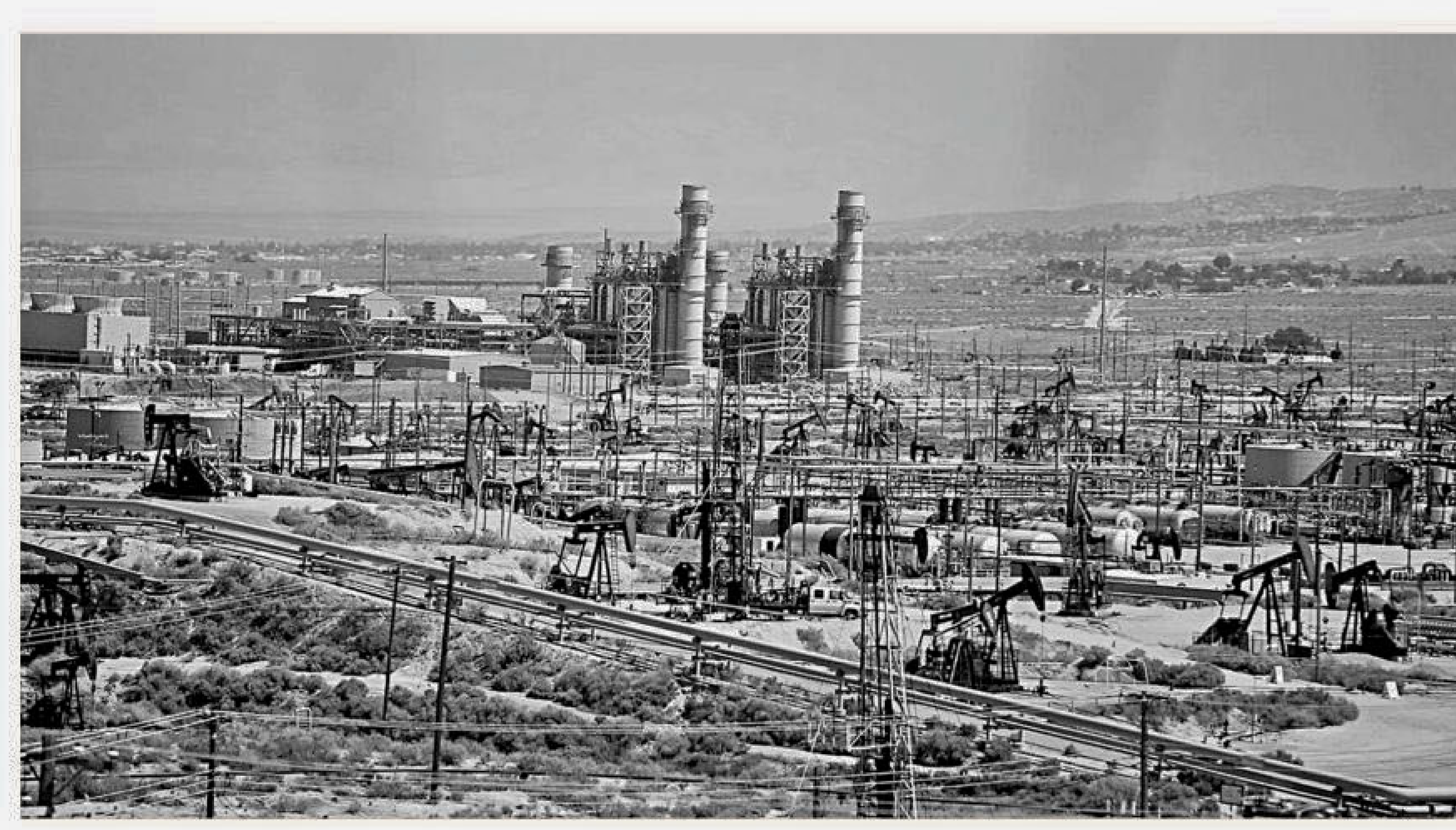
The non-farm jobless rate rose to 15.3 percent during from 13.0 percent a year earlier, while youth unemployment surged to 24.5 percent from 19.2 percent.

Altug said the labour market "bleeding" might stop once a government employment campaign, providing 12 billion lira in support and expected to create 1 million new jobs, gained traction. The initiative was launched in early February.

Separate data showed the budget deficit jumped to 19.5 billion lira ($5.3 billion) in March, creating a first quarter gap of 14.9 billion lira.

Undaunted by oil bust, financiers pour billions into US shale

REUTERS, Houston



REUTERS/FILE

Pump jacks are seen near vast Monterey shale formation in the Midway Sunset oilfield, California.

Investors who took a hit last year when dozens of US shale producers filed for bankruptcy are already making big new bets on the industry's resurgence.

In the first quarter, private equity funds raised $19.8 billion for energy ventures - nearly three times the total in the same period last year, according to financial data provider Preqin.

The quickening pace of investments from private equity, along with hedge funds and investment banks, comes even as the recovery in oil prices from an 8-year low has stalled at just over $50 per barrel amid a stubborn global supply glut.

The shale sector has become increasingly attractive to investors not because of rising oil prices, but rather because producers have achieved startling cost reductions - slashing up to half the cost of pumping a barrel in the past two years. Investors also believe the glut will dissipate as demand for oil steadily rises.

That gives financiers confidence that they can squeeze increasing returns from shale fields - without price gains - as technology continues to cut costs. So they are backing shale-oil veterans and assembling companies that can quickly start pumping.

"Shale funders look at the economics today and see a lot of projects that work in the $40 to $55 range" per barrel of oil, said Howard Newman, head of private equity fund Pine Brook Road Partners, which last month committed to invest $300 million in startup Admiral Permian Resources LLC to drill in West Texas.

Data on investments by hedge funds and other nonpublic investment firms is scant, but the rush of new private equity money indicates broader enthusiasm in shale plays.

"Demand for oil has been more robust than anyone imagined three years ago," said Mark Papa, chief executive of Centennial Resource Development Inc.

Papa referred to the beginning of an international oil price crash in 2014, which took many firms in the shale sector to the brink of bankruptcy.

Centennial is a Permian oil producer backed by private equity fund Riverstone. Papa, a well-known shale industry entrepreneur, built EOG Resources Inc into one of the most profitable US shale producers before he retired in 2013.

The chance to further develop the Permian, he said, was enough for him to come out of retirement to deliver one of its bigger recent successes. The value of Riverstone's original $500 million investment has grown nearly four times since Centennial's initial public offering last fall.

Riverstone this year copied the Centennial model, putting experienced managers atop a startup charged with acquiring operations or assets. The equity fund hired Jim Hackett - the former head of shale producer Anadarko Petroleum Corp - to run the newly created Silver Run Acquisition Corp II.

Hedge funds Highfields Capital Management LP and Adage Capital Management have taken stakes in the new company, which has a valuation of about $1 billion after going public last month.

Private equity fund NGP Natural Resources XI LP invested $524 million last fall in Luxe Energy LLC, a shale producer formed in 2015 by former Statoil executives.

NGP's investment was effectively a bet that Luxe could repeat its success of early 2016.

Then, NGP contributed about $250 million to Luxe, which used the money to acquire land in the Permian - and sold it seven months later for a double-digit profit.

This year's drilling rush could be tested if global supplies grow too fast or if demand cools. The US drilling rig count is rising at its fastest pace in six years and US crude stockpile are close to 533 million barrels - near an all-time high and enough to supply the United States for 25 days.

But some investors say even a decline of $10 in the oil price would not dissuade them.

"There is a ton of private capital to invest in the US oil industry," said Gerrit Nicholas, co-founder of private equity fund Orion Energy Partners.

Nicholas said he is comfortable lending even if oil prices fall to $40 per barrel.

Orion this month helped finance the expansion of a Florida oil-storage terminal, a move predicated in part on growth in US oil exports. Since the US lifted its oil export ban last year, crude exports have climbed to about 746,000 barrels per day, according to US Energy Information Administration data.

The oil industry has seen boom-and-bust cycles since the first well was drilled about 160 years ago, and industry and government have sought to tame the volatility for just as long.

Texas regulators set output quotas from the 1920s through the 1970s, a practice that served as a model for the creation of the Organisation of the Petroleum Exporting Countries (Opec).

The US boom has caused concern among OPEC member nations ahead of its meeting next month in Vienna, where they will consider extending oil production cuts that first took effect in January. Investors believe the cartel's members will extend the cuts because it is in OPEC's financial interest to prevent a steep drop in oil prices.

That likely will keep money flowing to nimble US oil producers and the companies that provide them with services and equipment. Investors see the United States as the new swing producer, having the ability to quickly increase supply in response to any sudden increase in demand.

"The US, with its substantial inventory capacity and swing oil producer status, should see strong onshore activity for the next few years," said Charlie Leykum, founder of private equity fund CSL Capital Management LLC, in an interview.

CSL has invested in several oilfield service business in the past year. It partnered with Goldman Sachs and Baker Hughes Inc, for instance, to create a shale services company.

Centennial's Papa expects the flood of fresh capital to push US production up 23 percent to 11.3 million barrels a day (bpd) by 2020, based on strong demand for oil. "We're still in a hydrocarbon-based economy," said Papa.