

# Major US banks would withstand recession: US Fed

AFP, Washington

**T**HE largest US banks would withstand a severe recession and still be able to lend to American households and businesses, the Federal Reserve announced Thursday.

The results of the first part of the central bank's so-called stress tests showed 34 major lenders were on solid capital footing, the Fed said. The tests are conducted under the 2010 Dodd-Frank financial reform laws, which Congress enacted in the wake of the 2008 global financial crisis -- and which President Donald Trump has vowed to scale back.

"This year's results show that, even during a severe recession, our large banks would remain well capitalized," Fed Governor Jerome Powell said in a statement.

"This would allow them to lend throughout the economic cycle, and support households and businesses when times are tough."

The results portrayed a picture of increasing resilience in the banking sector, with the 34 participating firms having added \$750 billion in common equity capital since 2009.

The most severe hypothetical scenario imposed by the Fed supposed a global economic downturn even worse than the recent Great Recession.

US unemployment would rise to 10 percent, accompanied by a 35 percent drop in commercial real estate prices and pressures on corporate loan markets as well.

In this scenario, loan losses would amount to \$383 billion over nine quarters. The ratio of capital, which allows lenders to absorb losses, to risk-weighted assets would drop from 12.5 percent to 9.2 percent.

The tested banks included Bank of America, JP Morgan Chase, Wells Fargo, Morgan Chase and the Deutsche Bank Trust Corp, a US unit of the troubled



A customer is using an ATM at a Wells Fargo branch in Washington, DC.

German financial giant.

The participating banks represent more than 75 percent of the assets of all domestic bank holding companies, according to the Fed.

In next week's second phase of the annual stress tests, the capital strengths of the individual banks will be weighed against their capital plans -- whether they would remain adequately strong after planned dividend distributions and share buybacks.

In the past, some banks have been forced to reel back those plans in order to further build capital strength.

Earlier this month, Trump's Treasury Department released a 150-page report calling for far-reaching changes to Dodd-Frank.

The report said some stress tests should be conducted every two years instead of annually and that they should be limited to the largest banks.

The American Bankers Association endorsed the Trump administration's measures and said Thursday's findings bolstered the case for a rethink of the rules, which banks say are crimping lending.

"Today's results reaffirm that US banks are strong and remain well positioned to continue playing their important role in accelerating economic growth," the group said.

"From this solid foundation, the focus should now turn to what can be done to help US banks promote economic growth even further."

# US approves sale of drones to India

REUTERS

**T**HE United States government has approved the sale of a naval variant of the Predator drone made by General Atomics Aeronautical Systems Inc to India, the US-based company said on Friday.

Reuters reported earlier on Friday that the US government was expected to authorise the sale of drones ahead of a visit next week by Prime Minister Narendra Modi.

India has been looking to buy 22 of the unarmed surveillance aircraft, MQ-9B Guardian, worth more than \$2 billion to keep watch over the

Indian Ocean.

"We are pleased that the US Government has cleared the way for the sale of the MQ-9B Guardian to the Indian Government," General Atomics Aeronautical Systems Chief Executive Linden Blue said in a statement.

The Indian embassy and the US State Department did not immediately respond to a request for comment.

Securing agreement on the purchase of the drones is seen in New Delhi as a key test of defence ties that flourished under former President Barack Obama but have drifted under Trump, who has

courted Asian rival China as he seeks Beijing's help to contain North Korea's nuclear programme.

The deal would be the first such purchase by a country that is not a member of the NATO alliance.

Such a sale of sensitive military hardware must be authorized by the State Department before being sent to Congress for review.

A congressional source said on Thursday that no notification of a planned sale has yet been sent to Congress, but this could come next week.

The State Department declined comment on Thursday ahead of any notification.

# Germany lobbies for Indian railway projects

REUTERS

**B**ERLIN is lobbying for German firms to win business revamping India's creaking railway network, one of several countries attracted by the scale of India's transport needs and which are campaigning to export their technology.

The economy ministry said on Friday it had agreed to finance a government feasibility study into a high-speed rail link between Chennai and Mysore, and had also discussed a project to modernise the Chennai-Hyderabad route.

"The government is conducting talks ... with the Indian government about two railway projects in which German companies are interested," it said in a statement, confirming an earlier report in German business weekly WirtschaftsWoche.

It said the projects had been a topic of conversation during Indian Prime Minister Narendra Modi's visit to Berlin in May.

The ministry did not name any companies but industrial group Siemens would be most likely to



People wait on a platform as a train is unloaded in a railway station in New Delhi.

benefit from any business. Siemens declined to comment.

Under Modi, India has been talking up the appeal of bullet trains as the main rail network, slow and saturated, struggles.

India appointed Chinese, French and Spanish firms in 2015 to con-

duct studies into building three high-speed rail lines linking its major cities.

However, aside from one line awarded to the Japanese, Modi's government has not said how it would pay for high-speed lines if they eventually get the green light.

# Wal-Mart not considering a bid for Whole Foods



Souvenir t-shirts are seen for sale at the Wal-Mart Neighborhood Market in Bentonville, Arkansas, US.

REUTERS

**W**AL-MART Stores Inc is not actively considering making an offer for Whole Foods Market Inc, a source familiar with the matter told Reuters on Friday.

Whole Foods, which accepted a \$13.7 billion offer from Amazon.com Inc last week, has not received any rival bids as of Friday, a second source said. Both sources spoke on condition of anonymity because the matter is confidential.

Wal-Mart spokesman Greg Hitt declined to comment on whether the company is considering a bid for Whole Foods. Whole Foods and Amazon did not immediately respond to requests for comment.

Whole Foods shares have been trading above Amazon's deal price of \$42 per share since the deal was announced last Friday, as stock market investors speculate about the possibility of a higher offer.

Whole Foods shares reached a high of \$43.84 earlier on Friday, but dropped after Reuters reported that no rival bids have so far emerged. Its shares were last trading after hours at \$42.85.

Wal-Mart had been tipped as a potential bidder for Whole Foods by retail analysts, although Hitt previously called reports that Wal-Mart might put in a rival offer "false and baseless."

Wal-Mart, the world's largest retailer, has been investing heavily in building its e-commerce business and has been acquiring smaller online companies such as Jet.com, ModCloth, Moosejaw and Bonobos.

"Bidding for Whole Foods would be a 180-degree turn from what Wal-Mart's strategy has been for the past two to three years," said Edwards Jones analyst Brian Yarbrough.

Amazon's proposed purchase of Whole Foods brings disruption to the \$700 billion U.S. grocery sector, a traditional area of retailing that is in the middle of an intense price war.

In preparation for that price war, Wal-Mart in recent months has cut grocery prices, improved its fresh food and meat offerings, modernized shelving and lighting in its grocery department and expanded its online pick-up service.

Whole Foods' peer Kroger Co, as well as Target Corp and Costco Wholesale Corp, have also been identified by analysts as potential bidders for Whole Foods.

Both Amazon and Whole Foods cater to younger consumers, including millennials, as well as more affluent shoppers.

Whole Foods has said it will continue to operate stores under the Whole Foods Market brand, and that John Mackey will remain chief executive.

# Oil's drop could leave a stain on earnings

REUTERS, New York

**H**EADING into second-quarter earnings season, investors are looking for a continuation of strong US company results to justify high stock valuations, now trading near their loftiest levels since 2004.

However, drilling a hole into that hopeful scenario is the current bear market in oil prices and an economy showing signs of growth below the pace expected earlier in the year.

"A lot of the expectation for a recovery in earnings is predicated on oil prices being around \$47-\$50 a barrel," said Hugh Johnson, chief investment officer of Hugh Johnson Advisors LLC in Albany, New York. "So if you don't get those numbers, you don't get the strong earnings the stock market needs. This is not trivial stuff. It creates a lot of uncertainty and volatility in forecasts."

US crude futures CL1 have been pressured lower by a supply glut. They've averaged over \$48 per barrel so far this quarter, but traded around \$43 on Friday and are down more than 20 percent from February, when they hit an 18-month high.

US stocks are in the ninth year of a bull run which has been fueled by bets on pro-growth policies from US President Donald Trump. However, with the timetable for reforms stretching further into the future, earnings are seen as a critical support for stock prices.

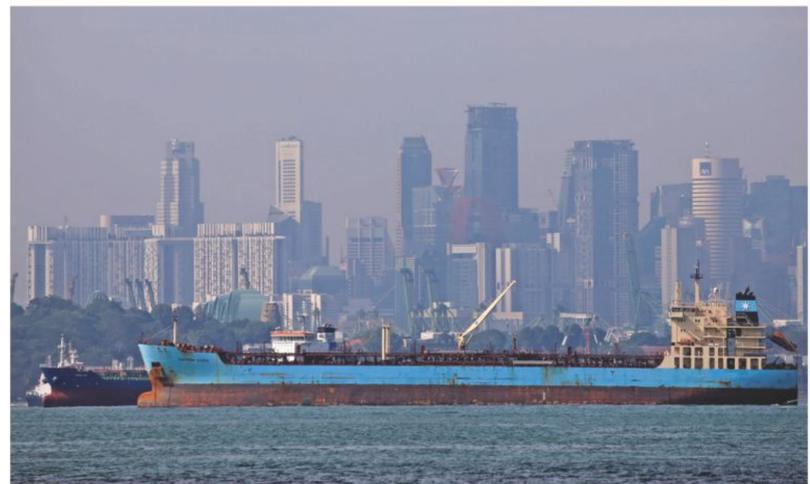
With indexes near record highs, there is speculation among Wall Street analysts about whether a correction is due.

Earnings expectations have dropped for 10 of 11 industry groups since early April, with only industrials looking better than they did then.

The benchmark S&P 500 stock index as a whole is expected to deliver 7.9 percent profit growth, down from 15.3 percent in the first quarter, and below the 10.2 percent forecast in April, Thomson Reuters data shows.

On Thursday, Nike will be the first Dow component to report earnings for the most recent quarter. The season heats up in the second week of July.

Technology earnings are seen posting double-digit growth, helped by gains in semiconductor companies, and financials are close



Oil tankers pass the skyline of Singapore.

behind with estimated 8.1-percent profit growth.

While lower energy prices can help some sectors such as industrials and transports, as well as boosting consumer sentiment, high expectations for energy earnings growth mean any stumble will be felt broadly.

Energy sector profits are seen up a whopping 683 percent from a year ago, when many companies posted losses, according to Thomson Reuters data. Without energy, profit growth estimates drop to 4.8 percent for the quarter.

Expectations for the sector will probably have to come down for the second half of the year if low oil prices persist, said David Joy, chief market strategist at Ameriprise Financial in Boston.

"The one wild card right now is the price of oil. Expectations that are baked into full-year forecasts assume a higher price for oil certainly than we have now," he said.

Energy has been the weakest performing sector so far this year, with the S&P energy index .SPNY down near 15 percent.

The drop in oil prices notwithstanding, some analysts have cautioned that Wall Street

has been too optimistic about overall earnings.

Michael Purves, chief global strategist at Weeden & Co, cut his 2017 S&P 500 earnings estimates from \$127 to \$116, below the \$131.51 consensus, as economic growth and inflation are not as high as expected.

"I'm looking for CEOs to start taking down their forecasts for the year," Purves said.

In fact, the Citigroup US economic surprise index, a gauge of economic data compared to expectations, this month fell near a six-year low. An Atlanta Federal Reserve model recently forecast second-quarter economic growth coming in at a 2.9-percent annualized pace, down from a previous 3.2 percent.

Another hurdle for earnings growth: declining corporate buybacks.

"Over the past two years, more than 20 percent of S&P 500 issues have given at least a 4 percent tailwind for (earnings per share) via reduced share counts," Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, said in a note.

For the first quarter of 2017, that rate fell to 14.8 percent of companies, and there are indications of "even less support" in the second quarter, he said.