

# Trump and the US dollar: Actions speak louder than words



REUTERS/FILE

Employees of a foreign exchange trading company work near monitors broadcasting TV news reporting from the summit between the US and North Korea, in Tokyo.

REUTERS, New York

US President Donald Trump may not be happy about the strength of the US dollar, but the greenback's recent rally may partly be a product of his own making.

The US dollar has been climbing against major currencies for several months, with the dollar index up nearly 7 percent over the last three months and on Thursday hit a one year high.

The dollar has strengthened since late 2015 as the Federal Reserve began raising interest rates against a background of steady economic growth, slowly rising inflation and the lowest US unemployment rate since the 1960s.

The Fed has raised rates twice this year and is expected to raise rates a couple more times by year end which may attract more foreign into the US dollar with monetary policy remaining loose in Europe and Japan, analysts said.

In a break with the usual practice by US presidents, Trump has been unusually vocal about the dollar, publicly criticizing its strength several times, though analysts question whether his frequent rhetoric will have a lasting impact.

In a CNBC television interview on Thursday and again on Friday, Trump said he was concerned about the potential impact of a stronger dollar on American exports.

He also broke convention by criticizing Federal Reserve policy on raising interest rates, saying it takes away from the United States' "big competitive edge".

But investors and traders attribute some of the gains to the Trump administration's tax cuts which are widening the fiscal deficit, leading to more government borrowing, and the imposition of import tariffs against China, Europe, Mexico and Canada which may contribute to inflation.

"By running tight monetary policy and loose fiscal policy, Trump has put almost perfect conditions in place for a rally in the dollar," said Karl Schamotta, a strategist at Cambridge Global Payments in Toronto.

"That attracts dollars to the United States and increases the absorption of capital within the US economy. That is going to boost the dollar in and of itself."

The \$1.5 trillion tax cut passed by Congress in

December last year, and the \$1.3 trillion spending bill enacted in March, have pushed forecasts for the fiscal deficit higher. As a result, by 2020 the US government's debt levels may be the highest since World War Two, according to the Congressional Budget Office in June.

While the Federal Reserve is raising short term interest rates in the face of consumer price inflation running at 2.9 percent annually in June, longer term bond yields may rise to attract foreign capital to finance the wider fiscal deficit and in turn keep the US dollar strong.

"The Fed is responding to the inputs that have been provided: stronger fiscal stimulus should imply stronger growth," said Mazen Issa, senior FX strategist TD Securities in New York. "That may lead to additional inflation and tighter labour markets. So in order to keep inflation in check they may need to hike interest rates."

"For that to change we'd need the Fed to back off its tightening policy or for tightening to begin to happen in Europe and Japan and I don't see either of those happening," said Stephen Massocca, Senior Vice President at Wedbush Securities in San Francisco.

But analysts also attribute some of the dollar's strength to the escalating tensions over trade policy between the United States and many of its key trading partners, with investors betting the dollar will gain at the expense of emerging market currencies which are dependent on commodity exports.

Companies in the US and other countries may find themselves less able to compete globally as import tariffs contribute to rising input costs, higher consumer prices, and lower demand for commodities from emerging markets as a result.

Trump, in the CNBC interview on Friday, said he was ready to impose tariffs on all \$500 billion of imported goods from China, potentially further escalating a trade clash.

"A lot of the stuff that he wants versus what is actually being implemented are inconsistent," said Mazen Issa, senior FX strategist TD Securities, in New York. "That is the way markets work and the economy works. You can't have your cake and eat it too."

Even though the dollar does tend to react sharply to Trump's words in the short term, analysts say there appears to be limited lasting impact and they do not expect that to change.

"I really only see this as a short-term consequence," said Issa.



CITY BANK

Seventh from right, City Bank CEO Sohail RK Hussain poses with some of the 16 customers who, on achieving energy efficiency in their business, were invited to a "Green Champion Recognition Ceremony" organised by the bank and Global Climate Partnership Fund at the bank's head office recently.

# Microsoft shares at all-time high after bumper results

REUTERS

Microsoft Corp shares rose about 5 percent to an all-time high on Friday, after investors cheered another blockbuster quarter, backed by growth in its legacy software business and Azure cloud computing services.

Shares of one of the technology world's oldest and best-known names rose nearly 4 percent to \$108.20 in early trade, adding more than \$30 billion to a market capitalization that was already \$802 billion at Thursday's close.

At least six brokerages raised their price targets on the company's stock after the results.

Helped by a boom in demand for cloud-based software, Microsoft has more than doubled in value since Satya Nadella took over as chief executive in 2014 and refocused the software behemoth on newer businesses.

While Microsoft's core productivity and business processes unit, which includes the Office 365 software suite, rose 13.1 percent to \$9.67 billion, revenue for the Azure cloud service jumped 89 percent.

"Based on the results, they were able to beat on all major metrics that people were focusing on. I don't see anything that should raise an eyebrow of concern", said Daniel Morgan, a portfolio manager at Synovus Trust who holds 418,716 Microsoft shares.

Microsoft has been investing heavily to bolster the fast-growing cloud business and catch up with market leader Amazon.com Inc's Amazon Web Services (AWS).

"Given the competitive market and need to invest in both capex and operating expenses, profitability along AWS's level may prove elusive for Azure for several years, if not forever," Jefferies analysts said.

Microsoft also competes with Alphabet Inc, IBM and Alibaba.

According to research firm Canalis, AWS is beating the competition in terms of market share, followed by Microsoft, which continues to grow faster than AWS, as of April this year. Google was ranked third.

"Our early investments in the intelligent cloud and intelligent edge are paying off, and we will continue to expand our reach in large and growing markets with differentiated innovation," Nadella said on a conference call on Thursday.

Analysts expect the investments to pay off in the long run and provide rich dividends to shareholders, allowing Microsoft to rival Apple Inc and Amazon in the race to be the first company worth \$1 trillion.

"Our view on MSFT is unchanged: the stock is our favourite large cap name and we expect MSFT to deliver 10-20% annual stock price appreciation for the next several years," Canaccord Genuity analyst Richard Davis wrote in a client note.



MEKTRONICS SOLUTIONS

Paul Sedman, business development manager, Broyce Control Ltd, gives a presentation on the company's products before consultants, entrepreneurs and engineers at a seminar organised by Broyce's sole agent in the country, MekTronics Solutions Ltd, in the capital's Hotel Sarina on Thursday.

# Japanese auto imports no threat to US national security: Abe

REUTERS, Tokyo

Japan's Prime Minister Shinzo Abe said on Friday imports of Japanese automobiles pose no threat to US national security, vowing to convince President Donald Trump not to impose tariffs that could damage the global economy.

"Imports of our nation's automobiles and auto parts have never damaged US national security and will not do so in the future," Abe said at a news conference to mark the end of the parliamentary session.

Washington launched an investigation in

May into whether imported vehicles were a threat to national security threat. Trump has repeatedly threatened to impose tariffs as a key part of his economic message, repeatedly lamenting the US auto sector trade deficit, particularly with Germany and Japan.

Abe said Japanese companies built some 3.8 million cars annually in the United States, more than double the number of vehicles shipped there from Japan.

"Trade restrictions will not benefit anyone, and we will keep explaining that to the US and work closely with them to ensure those tariffs are not imposed," Abe said.

# S&P boosts Greece debt outlook to 'positive'

AFP, Washington

The ratings agency S&P Global on Friday raised its outlook for Greek sovereign debt to "positive" from "stable," citing greater political stability in the long-troubled European nation.

But S&P did not change its highly speculative "B+" debt rating, which it had raised on June 25 due to what it said was an improving balance of risks.

"The positive outlook on Greece reflects the likelihood of an upgrade should the government implement reforms to broaden

the tax base and improve the business environment, leading to a stronger economic recovery," the agency said in a statement.

The agency also said public infrastructure projects could boost investment in tourism and logistics and thereby raise economic growth forecasts.

Athens in June reached an agreement with its euro area creditors, allowing a 10-year extension for repaying much of its debts, which, at a 180 percent of GDP, are still the highest in the European Union. The agreement will also allow Greece to exit its financial bailout program on August 20.

# Over sorghum salad, US farmers and Chinese buyers chew on trade

REUTERS, Chicago

Chinese importers of the livestock feed sorghum feasted on tabbouleh salad and chipotle tortillas made with the US grain at a Texas barbecue this week, as farmers try to woo buyers in the middle of an escalating US-China trade war.

The delegation heads to Kansas next week for meetings with top US sorghum exporters, including Archer Daniels Midland Co, Cargill Inc and Gavlion, a unit of Marubeni Corp, participants and other sorghum traders said.

Despite the overture to the world's top sorghum buyer, deals have so far remained elusive because the trade dispute is making importers nervous, according to traders. Beijing imposed a tariff on US sorghum on July 6 in a blow to US farmers already harvesting the crop.

Sorghum was one of the first casualties of the US-China trade war, which has also pushed China to buy more soybeans from Brazil because of a duty on imports of the US oilseed.

The United States and China have slapped tariffs on \$34 billion of each other's imports and US President Donald Trump on Friday said he was ready to place tariffs on all \$500 billion of imported Chinese goods.

China, which in 2017 bought about \$839 million worth of US sorghum, has not purchased significant volumes since February, according to US Department of Agriculture data. Tensions have been high since China launched an anti-dumping probe of US sorghum in February, though it dropped it in May.

On the trip, planned before Beijing implemented tariffs, the Chinese importers visited a farm in Texas, the port of Houston and the home of Wayne Cleveland, executive director of the industry group Texas Sorghum Producers, for a down-home barbecue that included beef brisket.

Buyers are afraid to strike deals because of the risk for China to impose additional tariffs and steered clear of talking politics at

the party, Cleveland said. "We need that market back," Cleveland told Reuters in an interview.

Sorghum farmers in coastal Texas are among the first growers to harvest crops since the world's two largest economies started announcing tariffs on each other's goods, leaving them scrambling to find buyers.

Colin Chopelas, who farms near the Texas port of Corpus Christi, finished harvesting his sorghum fields three weeks ago. His crop is in a grain elevator awaiting buyers.

A Chinese sorghum buyer not participating in the trip told Reuters that US prices will decline as more sorghum is harvested.

"We will definitely buy when prices are at a reasonable level, even with the 25 percent tariff," the buyer said.

The United States accounts for more than 90 percent of total sorghum shipments to China, which uses it to feed livestock and ducks and make a fiery liquor called baijiu.

Florentino Lopez, executive director of the United Sorghum Checkoff, an industry group, said

Chinese buyers at the dinner were concerned US farmers may cut back on sorghum plantings because of the trade war, which could tighten up supplies available for sale next year.

"They are looking forward and being prepared for when they can actually make some purchases," Lopez said.

Prices have dropped on the slowdown in sales. An elevator operated by ADM at Corpus Christi was bidding roughly \$3.65 per bushel to buy sorghum. Earlier this year, sorghum fetched as much as \$4.80 per bushel, according to Reuters data.

"I want to sell and they want to buy," one trader said, though he acknowledged that 25 percent tariffs were impeding deals.

ADM and Gavlion said they were participating in the trade mission. ADM said in May it would take a \$30 million hit to its second-quarter trading profit related to disrupted sorghum shipments.

Cargill had no comment.

Mexico, another big market for US sorghum, has been cancelling sales. It exited deals for 114,000 tonnes of sorghum to be shipped

by Aug. 31 and 38,000 tonnes of grain that would be shipped during the next marketing season beginning on Sept. 1, USDA data showed on Thursday.

"All I can say is demand is down on sorghum," another US trader said. "Last year (at Corpus Christi), there were boats getting loaded left and right at harvest and this year the ports are actually closed."

The Chinese importers on the trip accounted for more than 50 percent of China's total sorghum imports from the United States, according to the Sorghum Checkoff.

At a tour of an Attebury Grain facility in Saginaw, Texas, some buyers said they still want to purchase US sorghum but are worried about the tariff making deals too expensive, said George Gurganus, a grain buyer for the company who met the group.

With China's demand down, Gurganus is looking for other places to sell sorghum, including Mexico and US ethanol plants.

"China's demand has really fallen off because of the tariff talk so we're looking at every other outlet we can find," he said.



REUTERS/FILE

People work on a sorghum field. Analysts mark the crop as one of the first casualties of the US-China trade war.