

# Turkey hits back at US with tariff hikes on key products

AFP, Istanbul

**T**URKEY on Wednesday said it was hiking tariffs on imports of several key US products in retaliation for American sanctions against Ankara, as a bitter dispute between the two allies that sent the Turkish lira into freefall showed no sign of ending.

The lira -- which had lost just under a quarter of its value in trade on Friday and Monday -- however continued to claw back some ground on financial markets, rallying over five percent against the dollar.

The lira's fall had raised fears Turkey was on the verge of a fully-fledged economic crisis, especially in its banking system, that could spill over into Europe and other markets.

Turkish Vice President Fuat Oktay said that the tariff hikes were ordered "within the framework of reciprocity in retaliation for the conscious attacks on our economy by the US administration".

President Donald Trump had previously announced that the US was doubling steel and aluminium tariffs on Turkey, as the two NATO allies row over the detention by Turkish authorities of American pastor Andrew Brunson.

The hikes were published in Turkey's Official Gazette in a decree signed by President Recep Tayyip Erdogan, who has repeatedly described the crisis as an "economic war" that Turkey will win.

The tariff increases amount to a doubling of the existing rate, the state-run Anadolu news agency said, in an apparent parallel response to Trump's move.

The decree said the move brought tariffs to 50 percent on imports of US rice, 140 percent on hard alcoholic drinks like spirits, 60 percent in leaf tobacco and 60 percent on cosmetics.

The tariffs on auto imports are now up to 120 percent, depending on the type of vehicle.

Erdogan on Tuesday said Turkey would boycott US electronic goods like iPhones, even though he has himself been photographed repeatedly using the product



REUTERS

Turkish President Tayyip Erdogan shakes hands with Iraqi Prime Minister Haider al-Abadi after a news conference in Ankara on Tuesday.

himself.

He also made his now famous speech on the night of the July 2016 failed coup calling citizens out into the street through FaceTime, an iPhone app.

Moves by the central bank to ensure Turkish banks have liquidity and a planned conference call by Turkish Finance Minister Berat Albayrak, who is Erdogan's son-in-law on Thursday have gone some way to giving reassurance to investors.

The lira was trading on Wednesday at 6.02 to the dollar, a gain in value on the day of 5.5 percent.

But many analysts say the only way for the authorities to show they are really

serious about tackling Turkey's economic problems -- which include inflation approaching some 16 percent -- would be a sharp rate hike.

"Significantly more than just official promises of action are needed to exit the current crisis," said Andy Birch, principal economist at IHS Markit, calling for "a sharp central bank rate rise".

Turkey has meanwhile resisted pressure to release Brunson -- who has been held for two years and is currently under house arrest -- with officials warning it could face further sanctions.

A court in the western Turkish city of Izmir rejected a new appeal to free Brunson on Wednesday, the state televi-

sion TRT reported.

Erdogan has warned Turkey could seek alternative partners pointing to Ankara's strong ties with Russia, Iran and China.

The president is due to meet with the emir of gas-rich Qatar, one of Turkey's very closest allies on Wednesday.

Turkish officials have also been keen to emphasise that Ankara wants to retain strong ties with Europe, which has also expressed deep unease with Trump's trade policies.

A Turkish court Tuesday released two Greek soldiers detained since March on espionage charges for illegally crossing the border in a case that has stoked tensions with Brussels.

## UK inflation accelerates to 2.5pc in July

AFP, London

Britain's inflation rate accelerated last month on higher transport costs, as workers' wages continued to lose purchase power, official data showed Wednesday.

The Consumer Prices Index (CPI) 12-month rate picked up speed to 2.5 percent in July after 2.4 percent in June, the Office for National Statistics (ONS) said in a statement. The news came almost two weeks after the Bank of England (BoE) hiked its main interest rate by a quarter-point to 0.75 percent to tame high inflation.

The CPI reading, which met market expectations, marked the first increase since November 2017.

"Transport tickets and fuel, along with often erratic computer game prices, drove up costs for consumers," said ONS inflation chief Mike Hardie.

"On the other hand, there was a drop in prices for women's clothing and footwear, and some financial services." The CPI figure has held above the BoE's official 2.0-percent target range for 18 months as Brexit uncertainty weighs on the pound, pushing up the cost of imported goods.

## Blackstone may buy stake in India's Jet Airways loyalty arm

REUTERS

US private equity firm Blackstone Group LP is in talks to acquire a stake in the frequent-flier loyalty program of Jet Airways (India) Ltd, Bloomberg reported on Wednesday, citing people familiar with the matter.

A potential deal could value the loyalty program, Jet Privilege Private Ltd, between 30 billion rupees and 40 billion rupees (\$429.1 million-\$572.1 million) and would be dependant on Jet Airways securing adequate funding for its airline operations, Bloomberg said.

The Indian carrier and its partner Etihad Airways will remain investors in Jet Privilege even after a potential Blackstone transaction, Bloomberg said.

Etihad owns 50.1 percent of the loyalty program, while Jet Airways owns the rest.

"As a minority shareholder (in Jet Airways), Etihad continues to work constructively with the Jet Airways board, promoter and management team," an Etihad spokesman said in an emailed statement.

Earlier this week, Jet said it was considering various options on priority to meet its funding requirements but called media reports on stake sale or plans to monetize its investment in its frequent flier program as "purely speculative".

The airline has also deferred its quarterly earnings report. Blackstone was not immediately reachable for comment, while Jet Airways was unavailable for comment on account of a public holiday.

# Saudi fund may only play minor part in Musk's \$72b Tesla plan: bankers

REUTERS, Riyadh

**E**RON Musk told investors this week that "obviously, the Saudi sovereign fund has more than enough capital needed" to finance taking Tesla private.

The fund is estimated to have over \$250 billion in assets. But it is not that simple.

The Public Investment Fund (PIF) has many claims on its resources, both financial and political.

More than half of its assets are tied up in large Saudi companies whose stocks could be difficult to sell en masse.

The PIF has made substantial commitments to other technology companies or investments, including a \$45 billion agreement to invest in a giant tech fund led by Japan's Softbank.

Then there's \$3.5 billion invested in US ride-sharing firm Uber, the \$1 billion pumped into Virgin Group's space ventures, and another \$20 billion tentatively committed to an infrastructure investment fund planned with Blackstone.

There is also pressure to spend money at home, where a slumping economy has driven unemployment among Saudi citizens to record highs.

"They could handle part of taking Tesla private, but not necessarily a large part of it and certainly not all of it," a banker at a major Gulf firm operating in Saudi Arabia said.

Musk has not put a formal buyout proposal to Tesla's board, the company said on Tuesday.

The Tesla CEO has said he does not believe he would need to raise the full \$72 billion value placed on Tesla by his \$420-a-share bid because he expects many existing shareholders -- including himself -- with 20 percent of the company -- to roll their shares into a private Tesla.

The Saudi PIF already holds about a 5 percent stake in Tesla.

Saudi Crown Prince Mohammed bin Salman, who heads the PIF, is driving to diversify the Saudi economy beyond oil exports by developing new industries. Participation in a Tesla deal could bring Saudi Arabia closer to developing a domestic car industry or playing a role in Musk's electric battery manufacturing or

space activities.

What Prince Salman, PIF managing director Yasir al-Rumayyan and other officials of the fund decide will be crucial to Musk's take-private effort.

Musk said on Monday that al-Rumayyan had voiced support for Tesla going private and that talks with the PIF, along with other investors, were continuing.

Spokesmen for the fund, as well as Saudi government officials, have

selling many of them would conflict with another of the PIF's declared roles, to help Saudi firms "grow into regional and global leaders".

Meanwhile, in Saudi Arabia's illiquid market, selling real estate to raise money does not look like a near-term option.

"The PIF is not nearly as liquid as people might like to think," an international banker who deals with the fund said.

However, the PIF may get two



REUTERS/FILE

Saudi Arabia's Crown Prince Mohammed bin Salman Al Saud.

so far declined any comment on Musk's statements. But bankers familiar with the secretive PIF said on Tuesday they had seen no sign yet of it preparing to commit to a Tesla deal.

Those bankers added that although the fund is huge, many of its assets are not liquid and readily available cash is limited.

The PIF said last October that it had some \$230 billion of assets under management, and analysts think this figure has now probably swelled to more than \$250 billion, largely as a result of a rise in the Saudi stock market.

But stock exchange data shows \$140 billion or more of the PIF's assets are in big Saudi companies such as Saudi Basic Industries (SABIC) and National Commercial Bank.

These could not be monetized quickly without driving down prices in the local stock market, while

infusions of cash in the coming months and is seeking to raise between \$6 billion and \$8 billion in its first commercial loan, sources have told Reuters, adding that there was no mention of any acquisition linked to the debt.

And national oil giant Saudi Aramco said last month it was working on a possible purchase of a strategic stake in SABIC from the PIF. A complete purchase of the PIF's 70 percent holding would give the fund about \$70 billion.

Bankers expect the Aramco purchase to take at least several months to negotiate, however, and the PIF has already committed itself to large projects planned to stimulate the Saudi economy.

These include a \$500 billion business zone in the northwest of the country, multi-billion real estate developments in Mecca and Medina, and a huge entertainment area outside Riyadh.

# China vows to control debt despite fresh stimulus for cooling economy

REUTERS, Beijing

**C**HINA'S state planner pledged on Wednesday to keep debt levels under control even as Beijing rolls out fresh stimulus to support the stumbling economy as a trade war with the US deepens.

The comments by the National Development and Reform Commission (NDRC) came a day after China reported surprisingly weak data that showed investment growth has slowed to a record low.

To stabilize business conditions and weather the trade war, Beijing is stepping up infrastructure spending and injecting more funds into the banking system, which is lowering borrowing costs. New loans by China's largely state-backed banks surged 75 percent in July from a year earlier.

But some China watchers fear Beijing's shift in priorities may mark a return to its unrestrained, credit-fueled growth, reversing years of work by regulators to reduce risks in the financial system and stem a rapid build-up in debt.

NDRC spokesman Cong Liang told a media briefing that new spending on roads, railways, elderly care and education will not be as heavy as in the past and will aim to meet real demand, reducing the risk of overcapacity.

Authorities are also hoping to attract private investment in such projects to reduce the government's debt burden, he said, noting that regulators are relaxing restrictions on local governments' ability to sell special bonds to fund projects.

Several large rail projects have been announced in just the last few days. On Wednesday, the NDRC gave Jiangsu Communications Holdings the green-light to sell up to 20 billion yuan (\$2.90 billion) of so-called enterprise bonds, or debt issued by state-owned firms.

Of the proceeds, 12 billion yuan will be used to finance high-speed railway and toll road projects.

The issuance was the biggest enterprise bond approved by the NDRC since mid-June.

In a more tangible sign of pump-priming, builders and engineers started work on a revamp of a train station in southwest Beijing on Monday. The station is said to be the biggest in Asia by size, and the project

is budgeted to cost 7.2 billion yuan.

However, analysts such as Capital Economics have cautioned that new projects are unlikely to put a floor under economic growth until the middle of next year. Cong reiterated a pledge made by the ruling Communist Party's Politburo last month that China will still meet this year's economic growth target of around 6.5 percent, despite the trade war.

Analysts say that will surely require more spending, but Cong maintained



A man walks at Lujiazui financial district of Pudong in Shanghai, China.

that the government will push ahead with its "structural deleveraging" in a gradual and orderly way.

Highlighting the dangers

policymakers face in stimulating the slowing economy without fueling asset bubbles, data on Wednesday showed China's new home prices accelerated at their fastest pace in almost two years in July.

Cong said China would "resolutely curb" property price rises.

"We still have sufficient capacity to cope with impact from escalating trade frictions, and ensure the successful completion of the economic and social development goals set at the beginning of the year," Cong said.

At the start of this year, China's leaders had made risk and debt

reduction their top priority, even if it led to somewhat slower growth.

That scenario appeared to be playing out roughly to plan earlier in the year, before the trade war erupted, with growth easing only slightly to 6.7

percent in the second quarter year-on-year. Some economists are now cutting their second-half and full-year growth estimates for China in the wake of Tuesday's weak readings.

While stressing it does not see a hard landing for the world's second-largest economy, ING said in a note it has trimmed its 2018 forecast to 6.6 percent from 6.7 percent.

It sees growth cooling to 6.5 percent and 6.3 percent in the third and fourth quarters, respectively, as

tougher US tariffs start to bite.

So far, official data shows trade frictions have had limited impact on the economy, and any impact from higher tariffs will be "controllable", the NDRC's Cong said.

Many local governments and state firms are still saddled with debt following China's massive stimulus during the global financial crisis.

Despite some progress in its risk crackdown in the last few years, China is still among the economies most at risk of a banking crisis, the Bank for International Settlements (BIS) said earlier this year.

China's overall debt level rose 2.7 percentage points in 2017 to 250.3 percent of gross domestic product, according to the central bank.

The corporate debt ratio fell 0.7 percentage points to 159 percent of GDP - the first decline since 2011, but the household debt ratio climbed 4 percentage points to 55.1 percent of GDP.