Asia gold: floods hit festival buying in India

REUTERS, Mumbai/Bengaluru

Demand for physical gold was modest in India this week as the top bullion consuming state of Kerala coped with floods, while interest for the metal remained lacklustre elsewhere in Asia as buyers awaited a dip in prices.

Gold demand usually sees a jump in Kerala during the festival of Onam, but this year, the southern state is reeling from some of the worst floods in a century, leaving thousands displaced and causing damage of at least 200 billion rupees ($2.85 billion).

"Demand has taken a hit in Kerala. For the next few weeks, demand will remain sluggish there as people are focusing on building their damaged homes," said Harshad Ajmera, the proprietor of JJ Gold House, a wholesaler in the eastern Indian city of Kolkata.

Dealers in India were charging a premium of up to $1.25 an ounce over official domestic prices this week, compared to a premium of $1 the last week. The domestic price includes a 10 percent import tax.

Local prices have risen more than 1 percent in a week due to the depreciating rupee and that is prompting some jewellers to postpone purchases, said a Mumbai-based dealer with a private bank.

In the Indian market, gold futures were trading around 29,635 rupees per 10 grams on Friday, after falling to 29,268 rupees last week, the lowest level since Jan. 10.

REUTERS/FILE

A salesgirl is reflected in a mirror inside a gold jewellery showroom in Kochi, India.

Meanwhile, global benchmark spot gold prices hit $1,201.51 an ounce on Wednesday, its highest since Aug. 13, and were set to register their first weekly gain in seven.

In top consumer China, premiums rose to $6-$8 an ounce this week from last week's $3 to $5, while premiums in Hong Kong were little changed at 90 cents-$1.40 versus 90 cents to $1.50 previously.

"When prices went down to $1,160-$1,170, people were happy to buy, but nobody wants to chase up on this ($1,200) level," said Ronald Leung, chief dealer at Lee Cheong Gold Dealers in Hong Kong.

Premiums in Singapore also remained largely unchanged at 80 cents to $1.50 an ounce compared with 90 cents-$1.50 last week.

"Demand in Singapore is slightly subdued right now... if the prices move down by $5-$10, I think we will see a lot of demand," said a Singapore-based banker, adding that there is a lot of demand around the $1,175 price level.

Japan premiums inched down to 75 cents-$1 an ounce versus $1 last week as higher prices muted demand, a Tokyo-based trader said.

Tesla CEO Musk drops pursuit of $72b take-private deal

REUTERS, San Francisco

Tesla Inc CEO Elon Musk said late on Friday he would heed shareholder concerns and no longer pursue a $72 billion deal to take his U.S. electric car maker private, abandoning an idea that had stunned investors and drawn regulatory scrutiny.

The decision leaves Tesla as a publicly listed company but raises new questions about its future. Its shares have been trading below their Aug. 7 levels, when Musk announced on Twitter he was considering taking Tesla private for $420 per share, as investors wondered what the long-shot bid meant for Musk's ability to steer the company to profitability.

The move also leaves Musk and Tesla having to fend off a series of investor lawsuits and a U.S. Securities and Exchange Commission investigation into the factual accuracy of Musk's tweet that funding for the deal was "secured".

Musk said on Friday that his belief that there is more than enough funding to take the company private was reinforced during the process. He attributed his decision to abandon the bid to feedback he received from shareholders and on the effort proving to be more time-consuming and distracting than he anticipated.

"Although the majority of shareholders I spoke to said they would remain with Tesla if we went private, the sentiment, in a nutshell, was 'please don't do this'," Musk wrote in a blog post on Friday.

Musk, who owns about a fifth of Tesla, had said earlier this month that he envisioned taking the company private without using the standard method of a leveraged buyout, whereby all the other shareholders would cash out and the deal would be funded primarily with new debt.

Instead, two-thirds of company shareholders, according to his estimate, would have chosen an option of "rolling" their stakes and continuing to be investors in a private company, rather than cashing out. This would significantly reduce the amount of money needed for the deal and avoid further burdening Tesla, which has a debt pile of $11 billion and negative cash flow.

However, Musk said on Friday that a number of institutional shareholders explained to him that they have internal compliance issues that limit how much they can invest in a private company. He added that there is no proven path for most retail investors to own shares were Tesla to go private.

Musk had previously said that Saudi Arabia's PIF, which became a Tesla shareholder earlier this year with a stake of just under 5 percent, could help him fund the cash portion of the deal, though sources close to the sovereign wealth fund had played down that prospect. PIF is in talks to invest more than $1 billion in aspiring Tesla rival Lucid Motors Inc, Reuters reported last Sunday.

Six members of Tesla's board of directors said in a separate statement that they were informed on Thursday that Musk was abandoning his take-private bid. The board then disbanded a special committee of three directors it had set up to evaluate any offer that Musk submitted.

"We fully support Elon as he continues to lead the company moving forward," said the board statement.

One of Tesla's biggest challenges now is ramping up production of its latest vehicle, the Model 3. Multiple "bottlenecks" at its Fremont factory and battery factory outside Reno, Nevada have delayed volume production.

Tesla now aims to consistently build 5,000 Model 3s per week, a target it says it has managed "multiple times" since first achieving it one week in June.

Nippon Steel sees India as most promising market

REUTERS, Tokyo

Japan's top steelmaker Nippon Steel & Sumitomo Metal Corp sees India as the most promising market and wants to become "an insider" to capitalise on growth of the world's third-biggest steel market, a senior executive said.

"India will be the fastest-growing steel market in the world going forward," Nippon Steel Executive Vice President Katsuhiro Miyamoto told Reuters in an interview on Thursday.

"But since it's not an easy market to export to due to trade and distribution issues, it's important for us to become an insider. That's why we are bidding for Essar Steel," he said.

Nippon Steel has teamed up with Luxembourg-based ArcelorMittal, the world's largest steelmaker, to bid around $6 billion for bankrupt Essar Steel, India's 4th-biggest steelmaker.

But the bidding process has been delayed due to legal battles over eligibility for the bidders. Asked if he thinks the chances are in their favour in the bidding race, Miyamoto said: "We have always believed so."

"We have submitted all the documents requested to the National Company Law Appellate Tribunal (NCLAT) and we expect their decision by the end of this month," he said.

World Steel Association (WSA) forecast steel demand in India will climb 5.5 percent in 2018 and 6 percent in 2019, becoming the fastest-growing market among the world's top ten steel consumption countries.

Even so, Japan's steel exports to India nearly halved in 2016 after India imposed duties of up to 20 percent on some hot-rolled flat steel products in September 2015. India also set a floor price in February 2016 for steel product imports to deter countries such as China, Japan and South Korea from undercutting local mills. Since then, Japan's annual steel exports to India have been hovering at around 1.3 million tonnes, just 3 percent of the country's total exports of the metal.

Nippon Steel has a joint venture with India's Tata Steel to produce cold-rolled sheets for automobiles, but it has little presence in steel used in other areas in the South Asian nation.

"If we can buy Essar, it will give us access to India's general steel users including builders," Miyamoto said.

Nippon Steel said in March it will spend 600 billion yen ($5.4 billion) for business investment, including for mergers and acquisitions (M&A), over the next three years. That would be up from 210 billion yen spent over the previous three years to step up global expansion.

Rise in US business equipment orders points to firm investment

REUTERS, Washington

New orders for key US-made capital goods increased more than expected in July and growth in shipments held firm, signalling that business investment started the third quarter on a strong note.

The Commerce Department said on Friday orders for non-defence capital goods excluding aircraft, a closely watched proxy for business spending plans, rose 1.4 percent last month after an upwardly revised 0.9 percent increase in June.

"That provides further reason to think that overall GDP has continued to expand at a healthy ... pace," said Andrew Hunter, an economist at Capital Economics.

Business spending on equipment is being supported by the Trump administration's $1.5 trillion income tax cut package, which came into effect in January.

But there are worries that trade tensions between the United States and its major trade partners, including China, Canada, Mexico and the European Union, could offset the fiscal stimulus.

Economists polled by Reuters had forecast the so-called core capital goods orders rising 0.4 percent in July after a previously reported 0.2 percent gain in June. Core capital goods orders increased 7.2 percent on a year-on-year basis.

Shipments of core capital goods rose 0.9 percent last month after an upwardly revised 0.9 percent gain in June.

Core capital goods shipments are used to calculate equipment spending in the government's gross domestic product measurement, so the higher estimate for shipments in June could contribute to an upward revision of economic growth in the second quarter.

Yields on US government debt rose modestly after the data, with investors awaiting a speech by Federal Reserve Chairman Jerome Powell. US stocks were trading higher while the dollar was down against a basket of currencies.

Business investment drove about a quarter of economic growth in the second quarter. The economy grew at its fastest pace in the April-June period as consumers boosted spending and farmers rushed shipments of soybeans to China before retaliatory trade tariffs took effect in early July.

The United States has slapped duties on $50 billion worth of Chinese goods so far, eliciting the retaliation from Beijing.

Overall orders for durable goods, items ranging from toasters to aircraft that are meant to last three years or more, fell 1.7 percent in July as volatile demand for civilian aircraft fell.

German finance ministry enjoys fiscal largesse

REUTERS, Berlin/Hamburg

All sectors of the German economy grew in the second quarter, data showed, with robust domestic activity helping to cushion against risks to exports from an uncertain global trade outlook.

Construction and state spending expanded the most, both up 0.6 percent quarter on quarter - but the head of one economic institute said a record public sector surplus meant government investments should be rising more rapidly.

Finance Minister Olaf Scholz cautiously agreed, saying the surplus created "further possibilities" though the precise extent of them would not become apparent until the end of the year.

His remarks could cheer critics who have until now been disappointed in their hopes that the Social Democrat would follow a looser fiscal course than his conservative predecessor Wolfgang Schaeuble, a reluctant spender who was dead set against new debt.

Friday's Federal Statistics Office figures, which matched a preliminary overall growth reading of 0.5 percent, confirmed the increasing reliance of Europe's largest economy on domestic drivers.

"It's a good development (offering) further possibilities," Scholz said in Hamburg after meeting finance ministers from fellow German-speaking countries Austria, Luxembourg and Liechtenstein. He added that he would see at the end of the year exactly how much extra wiggle room had been created.

Private consumption extended its growth run to six straight quarters, reflecting steady falls in unemployment during what has been a long phase of economic recovery.

That surge has fuelled criticism of Berlin by its euro zone partners for not helping their economies by spending more of its budget surplus on investments.

Carsten Brzeski of ING Diba said Friday's data should help counter that view. "Defying the often-heard international criticism, the economy is already showing a very balanced growth model," he wrote in a note to clients. It had delivered "a full strike", with all sectors growing.

But after the data also showed the overall public sector surplus soared to a record high of 48.1 billion euros ($55.0 billion) in the first half of the year, the president of the DIW economics institute added his voice to the calls for more investments.

"The massive surplus and tax revenues for the government are a source of envy," Marcel Fratzscher wrote on Twitter. "A smart investment offensive in infrastructure, education and innovation is necessary."

Other critics say that, given the less robust export sector, the government should also approve tax relief for families beyond the 10 billion euros a year it granted in June.

"The state needs to give taxpayers something back. The middle class needs to have more money in its pockets," Bavarian state Premier Markus Soeder told the RND newspaper group.

Germany's economy has traditionally been dominated by exports. That sector's prominence has declined in recent quarters, and trade disputes between the United States and many of its largest commercial partners, including the European Union, risk diminishing its influence further.

Stefan Kipar of BayernLB said he saw no signs of that yet, however. "It's encouraging to see that investments did not decline. And we don't see an export weakness," he wrote in a note to clients.

Imports rose 1.7 percent in the second quarter while exports gained 0.7 percent, resulting in net trade deducting 0.4 percentage points from growth.

Business as usual for Australian economy under new PM

AFP, Sydney

Scott Morrison is respected by investors and his elevation to Australian prime minister is a good outcome, analysts say, with the latest bout of political instability unlikely to hurt the economy.

The 50-year-old outgoing treasurer took the top job after a Liberal Party revolt instigated by hardline conservatives, led by Peter Dutton, to unseat moderate Malcolm Turnbull.

Morrison was an ally of Turnbull's and presided over the economy as the government sought to return the budget to surplus and simultaneously cut personal income and small-business taxes.

Analysts see him continuing along the same economic path now that he has climbed into the prime minister's chair. "He did not bring on the challenge so can't be blamed for the instability," said AMP Capital chief economist Shane Oliver.

"More importantly he is seen as a reasonably sensible policy maker, is respected by investment markets in his role as treasurer and is seen as a centrist giving the Liberals perhaps a better chance of victory in the coming federal election."

Oliver said he expected the government to continue with its existing budgetary strategy with Morrison at the helm, including abandoning a policy to cut the tax rate for large companies.

This, along with the budget coming in better-than-expected, would provide scope for earlier and bigger tax cuts for low- to middle-income earners which could help economic growth, he added.

AFP

Australia's Governor General Peter Cosgrove (R) congratulates new Australian Prime Minister Scott Morrison after the latter was sworn into office at Government House in Canberra on August 24.

The Australian dollar rallied on news of the change, as did the stock market, which was rattled by the political uncertainty during the week.

Under Morrison's tutelage, Australia's economy -- which is transitioning from an unprecedented investment boom in mining -- recorded a strong start to 2018 as exports and business inventories rose, although consumer spending and wage growth remain weak.

The 1.0 percent growth in the first three months of 2018 -- the third quarter of Australia's current financial year -- took annual economic growth to 3.1 percent.

Morrison was by far the best outcome of the political crisis, said National Australia Bank's chief markets economist Ivan Colhoun, with business and markets breathing a sigh of relief.

"He is more of a known quantity and will be perceived as less likely to make radical shifts in policy than if Peter Dutton had been elected," he said. "Importantly, the Australian economy continues to perform well, in spite of what is now a decade of intermittent political instability, highlighting the strength of the broad institutional framework that exists in Australia."

Colhoun suggested Josh Frydenberg, who was picked as the new deputy Liberal leader on Friday, could assume Morrison's job at the treasury due to his "good economic and financial credentials".

One uncertainty is whether Morrison will have to introduce policies to please the right of the party, which had pinned its hopes on the more conservative Dutton.

Dutton had called for cutting immigration and removing taxes on soaring energy prices, which analysts warned could slow the economy and blow out the federal budget.

Colhoun added that a key question that could spook markets was whether the government can survive in the short-term.

Turnbull has signalled he will resign from parliament, which would trigger a by-election, threatening the government's slim one-seat parliamentary majority with the prospect of early elections, which must be held by the middle of next year. ANZ Research said in a note that political volatility had been a constant theme in Australia for the past decade and it expected little economic impact from the change in leader.

"What's more, we think after a decade of political volatility businesses have very low expectations about goings on in Canberra," it added. "So we don't think it inevitable that this week's events will have a measurable impact on the economy, but we will certainly be watching for evidence to the contrary."