China warns investment may weaken further

REUTERS, *Beijing*

China's investment growth, already at record lows, may weaken even further in the future and authorities should step up fiscal and financial measures to give it a boost, the state planner said on Monday.

Beijing is urging more infrastructure spending as the economy faces both domestic and external risks, such as US tariffs. But the benefits will take time to kick in, with analysts expecting the economy to get worse before it gets better.

Fixed-asset investment (FAI) in the first seven months of the year grew at the slowest pace on record since early 1996, after a long crackdown on illegal local government borrowing to finance vanity projects.

Moreover, initial investment approvals - an indicator of future activity - have dropped off sharply, the National Development and Reform Commission (NDRC) said in a statement.

The total value of such projects for which the NDRC has assigned a project code - an initial step in the approval process - rose just 3.1 percent in January-July compared with 6.9 percent in the first half of the year.

"The decline reflects the many barriers that our country's infrastructure construction faces, and the stiff competition in low-end manufacturing while middle- and high-end sectors have relatively high bar for entry," NDRC said in a monthly monitoring report published on its website.

Among these newly registered projects, the investment value of infrastructure projects fell 35.2 percent in January-July from a year earlier, with the most significant drop in sectors such as pipelines, railways and air and road transport. Growth in registered manufacturing investments slowed to 12.4 percent.

REUTERS/FILE

A construction worker walks with a bike in Beijing's central business district.

The slowdown is partly due to Beijing's stringent debt curbs and efforts to reduce financial risks, the NDRC said.

Beijing might tolerate some moderate increases in leverage at state-owned enterprises (SOEs) due to its success in the last few years on supply-side reform, including deleveraging and eliminating excess capacity, but it remains intent on keeping public-sector leverage under control, Fitch Ratings said on Monday.

New manufacturing investment projects in sectors ranging from tobacco and fur to petroleum and nuclear fuel processing all fell more than 30 percent.

In recent weeks, Beijing has told local governments to speed up the sale of special bonds to raise money for investments. Finance Minister Liu Kun told Reuters such bond issuance will blow past 1 trillion yuan ($145.48 billion) by the end of the current quarter.

Official data on Monday suggested manufacturing investment may weaken further. Profit growth for China's industrial firms, while still solid, cooled for the third month in a row in July as domestic demand softens and US trade pressures mount.

Real estate has been the lone bright spot so far on China's investment front, partly due to robust land transactions in smaller cities, with spending proving resilient to government efforts to tame hot property prices.

New real estate investment projects that obtained a project code rose a robust 38.1 percent by value in the first seven months from a year earlier, the NDRC said.

Regions that saw the slowest progress in new investment projects in January-July included Chongqing, the Xinjiang autonomous region, and Fujian province.

Local government financing vehicles (LGFVs) involved in railways and toll roads are likely to embark on new projects but will be constrained by their leverage, Fitch said in its statement.

Moreover, the senior management of LGFVs will be held personally accountable for their investment and financing decisions, which could lead to conservative project selection, Fitch said.

Musk's U-turn on Tesla deal could intensify his legal, regulatory woes

REUTERS, *Washington*

Tesla Inc Chief Executive Elon Musk's decision to abruptly abandon a plan to take his electric carmaker private will not resolve his mounting regulatory and legal woes, and may even make them worse, some securities lawyers said.

Explaining his reversal in a late-night blog post on Friday, the billionaire CEO said that taking the company private "would be even more time-consuming and distracting than initially anticipated," and that "most of Tesla's existing shareholders believe we are better off as a public company."

It was on Aug. 7 that Musk first surprised investors with his plan by tweeting that he had "funding secured" for a go-private deal, which would have had a value of $72 billion. In a separate tweet, he wrote: "Investor support is confirmed."

Musk and Tesla are facing investor lawsuits and a US Securities and Exchange Commission investigation into the truthfulness of the CEO'S Aug. 7 tweets, according to an Aug. 8 report by the Wall Street Journal.

The SEC declined to confirm that report to Reuters. A Tesla spokesman declined to comment.

"The SEC will continue its investigation until it's satisfied that it is on top of the facts," said Stephen Crimmins, an attorney with Murphy & McGonigle who spent 14 years at the SEC, where he prosecuted hundreds of securities cases.

"What happened on Friday will be of interest to the SEC because it will allow them to probe whether Musk's pulling back from the go-private somehow indicates that he did not have a reasonable basis for his statement. They will be asking questions of him and others involved in the decision as to why he reversed course."

Musk has stuck to his original statement that he believed a deal was possible, and one person familiar with the discussions told Reuters that Musk was serious about taking the carmaker private.

But acting in good faith may not be enough to help Musk escape the regulator's gaze.

US securities law requires public company executives to have a "reasonable basis" on which to make representations to the investing public, and that would likely be the focus of an SEC probe, said three securities lawyers.

It remains unclear what Musk meant by "funding secured." In an Aug. 13 statement, Musk said that he left a July 31 meeting with the managing director of Saudi Arabia's sovereign wealth fund "with no question that a deal ... could be closed."

The Saudi fund had earlier acquired a just-below 5 percent stake in Tesla on the open market. But the fund has made no comment on whether it had promised to back a much larger Tesla go-private deal.

Musk said on Friday he believed there was plenty of potential funding to take the company private, but he did not provide any further details to bolster his "funding secured" assertion.

Teresa Goody, CEO of law firm Goody Counsel and a former SEC attorney, said Musk's statement on Friday appeared to undermine his Aug. 7 tweet that investor support was confirmed.

She also raised concerns about a second comment Musk made on Friday, where he said it had become apparent that compliance restrictions would prevent many of Tesla's institutional shareholders from holding private Tesla equity.

Both statements are likely to raise further questions among SEC officials as to whether Musk had performed sufficient due diligence to have had a reasonable basis for his Aug. 7 tweets, she said.

Another statement in the blog that could catch the eye of SEC officials is Musk's reference to his discussion with Tesla's board on Thursday, during which both parties decided not to pursue the deal, said M. Ridgway Barker, a partner and chair of the corporate finance practice at law firm Withersworldwide.

Such discussions are unlikely to be subject to legal privilege and the SEC could subpoena minutes of the meeting, he said.

"If the board discussion included that the deal is not financeable, or prohibitively expensive, that is going to cast further doubt over Musk's claims," he said.

Turkey's economic pain felt as far as Tennessee

REUTERS/FILE

Turkish lira banknotes are seen in this picture illustration in Istanbul, Turkey.

REUTERS, *New York*

Turkey's currency crisis has roiled emerging-markets investors far and wide, including the US state of Tennessee, where the state's retirement system is the biggest institutional holder in a Turkey exchange-traded fund (ETF).

The Tennessee Consolidated Retirement System (TCRS), which manages a retirement plan for public employees statewide, was the largest institutional shareholder in the US-based iShares MSCI Turkey ETF, according to Thomson Reuters data based on public filings as of June 30, with more than with 880,000 shares valued at around $19 million as of Friday's value.

The Turkey ETF has lost around half its value for the year to date, hit by worries about Turkish President Tayyip Erdogan's influence over monetary policy and a worsening diplomatic rift with the United States. The lira is down more than 37 percent this year and the country's BIST 100 stock index is down around 22 percent.

It was a reversal from the prior year, when the Turkey ETF generated a total return of nearly 38 percent in 2017, including dividends, according to Thomson Reuters data.

"It is a obviously a frustrating situation and it's a real shame what's happening in the country," Michael Brakebill, TCRS's chief investment officer, said in an interview on Friday.

Still, the investment was a small part of the fund, which at the end of its fiscal year on June 30 had a value estimated at $49.7 billion and an annual return of 8.19 percent, according to data the fund provided.

"We own thousands of things and there are going to be a bunch that will go wrong and this is one of those," said Brakebill.

TCRS invested in the iShares Turkey fund in 2012, it said.

The retirement system had a strategy of building up a passive portfolio of single-country ETFs so it could exclude countries that ranked poorly on third-party indexes of corruption and democracy. That meant excluding the largest emerging market, China, according to one of the fund's investment reports.

The portfolio weights individual country ETFs by their market size relative to the overall benchmark. TCRS said it did not take an active position, either positively or negatively, on Turkey.

"This particular incident doesn't make us rethink the strategy," said Brakebill. "It is part and parcel with what we walk through in the risks involved with emerging markets."

In a separate email, Brakebill added that with a rapidly growing population of 80 million, Turkey embodies the "potentials and risks of emerging market investments," although he said the retirement

Cryptominers dreaming of rebound after price crash

AFP, *London*

Surrounded by the cryptocurrency mining "rig" that is taking over his bedroom, "Ali" lays bare the risks of his trade, revealing his profits "are a tenth of what they were".

Prices of cryptocurrencies have plunged since the heady heights of last year, slashing the profits of miners such as Ali.

"This is the worst possible time to invest," the young Lyon native, who preferred to keep his name secret, told AFP.

Ali still ekes out a profit and has amassed enough reserves to absorb around six months of losses, but the days of generating 15,000 euros (£13,580; $17,450) profit per computer seem long gone.

He acquired his first rig, an assembly of six graphics cards, in January 2017, and was just about to buy his seventh.

This investment totalled around 13,000 euros, soon paid off with his initial gains.

But the cryptocurrency boom at the end of 2017, of which Bitcoin was the best-known example, has multiplied the number of miners.

Many virtual currencies require that machines are connected to the network and miners are rewarded with units of currency when they create a new block, achieved by solving complicated mathematical problems.

However, the more units are mined, the more the currency is devalued.

"We were of course very uneasy about seeing our customers not getting what they expected," recently admitted Genesis Mining, a company that rents computing power.

It blamed the "downward trend" of prices and the "heavily rising difficulty" of mining since April.

The collapse of Bitcoin, which has lost two-thirds of its value since December and dragged many more cryptocurrencies in its wake, has not discouraged miners.

On the contrary, the power dedicated to Bitcoin mining has more than tripled since its peak prices, and the trend shows no sign of abating, according to the bitinfocharts site.

A "farm" consisting of more than 3,000 mining units was inaugurated in Russia last week, cutting profitability even further.

In mid-December, the reference unit for computing power, the THash/second, permitted the equivalent of $3.84 to be mined in one day, compared to only 25 cents today.

As a result, Genesis Mining offered its customers newer equipment to rent at a reduced price, halving maintenance costs, but the proposal was not greeted warmly.

"This is not fair! Your early customers helped you get to where you are now. Give us a free upgrade, we deserve it and you know it," tweeted one customer.

Mining can also be expensive due to the huge amount of electricity required to earn units.

For example, the Antminer S9 -- a mining device dedicated to Bitcoin -- is worth more than 600 euros and consumes 1,600 euros of electricity per year.

Individuals, who generally focus on other virtual currencies that are easier to mine than Bitcoin, tend to rely on graphic cards to do the heavy lifting, which are less power hungry.

Those who get special rates on their electricity bills, such as EDF employee Philippe Vanbaelinghem, a miner for almost a year, can therefore exploit their "huge advantage" for monetary gain.

His staff discount allows him to reduce his bill by 80 euros per month, helping him generate around 140 euros in monthly mining earnings.

"Not everyone is equal on this," he admitted, pointing out that he could still have made a profit on standard tariffs when prices were high, but not now.

As a tenant, Ali's electricity bill is fixed each month, and he has not received any complaints from his landlord.

Other costs include technical faults, maintenance and the hours required to learn how to optimise equipment, meaning miners have little room to cut costs, despite market prices.

"As strong believers in the industry and its potential, we are certain the market will soon recover," said Genesis Mining.

Ali and Philippe are among the many miners who have incorporated speculation into their business model, hoarding some of their mined cryptocash.

Ali hopes to stop mining in four or five years.

With cryptos, "you have to expect everything," said 25-year-old.

AFP/FILE

An employee inspects machines for the production of bitcoins and lightcoins at a mining centre in Russia.