MERCANTILE BANK

Md Zakir Hossain Chowdhury, a general manager of Bangladesh Bank, and Kazi Masihur Rahman, CEO of Mercantile Bank, attend the "Branch Anti Money Laundering Compliance Officers Conference 2018" of Mercantile Bank at the FARS Hotel and Resorts in Dhaka on Saturday.

India's August inflation seen easing below RBI's mid-term target

REUTERS, *Bengaluru*

India's inflation likely eased below the Reserve Bank of India's medium-term target in August on softer food prices, a Reuters poll showed, raising the probability the central bank will keep interest rates on hold at its next rate review.

The poll of nearly 40 economists conducted from Sept. 4-7 predicted retail inflation eased to 3.86 percent from July's 4.17 percent, below the RBI's 4 percent target for the first time this year.

While nearly three quarters of contributors expected inflation fell below target, two economists expected it to be at 4 percent and the remaining nine said it would be above target. The highest call was 5.4 percent.

Inflation data is due to be published on Sept. 12 at 1200 GMT.

Still, core inflation which excludes highly volatile food and fuel components, was expected to remain elevated.

"Headline consumer price inflation is likely to have eased in August due to another fall in food inflation," noted Shilan Shah, a senior Indian economist at Capital Economics.

"But core price pressures are set to remain elevated. The upshot is that the RBI's tightening cycle still has a little bit further to run."

If those forecasts come true, it would give the RBI a breather after it raised rates in its previous two meetings, taking borrowing costs to a four-year high of 6.50 percent to tame speeding inflation. However, this could be temporary as a weakening rupee and rising crude oil prices would boost consumer prices.

While oil prices have risen nearly 15 percent this year, the rupee touched an all-time low of 72 per dollar on Thursday and was expected to hover near there on a worsening trade balance.

"For the RBI, the policy path is likely to get challenging as inflation is slowing at a time when market volatility is high, and the rupee is at a record low versus the US dollar," wrote Radhika Rao, an economist with DBS Bank.

Capex drives Japan's fastest expansion since 2016, seen backing growth

REUTERS, *Tokyo*

Heavy capital spending in the second quarter drove Japan's economy to its fastest growth since 2016, underscoring the view that capex continues to back the economy even as trade tensions and a string of natural disasters pose risks to the outlook.

Revised Cabinet office data out on Monday showed the economy grew an annualised 3.0 percent in April-June, handily beating economists' median estimate for 2.6 percent gain and the initial estimate of a 1.9 percent expansion.

It was the fastest expansion since first-quarter 2016.

The economy's improved performance should be a relief for policymakers worried over fallout from a trade war between the United States and China, which could derail global growth and in turn damage Japan's export-reliant economy.

Capital expenditure has been a bright spot in Japan's economy, the world's third largest, although companies remain cautious about sharing more of their profits with workers, keeping a lid on private consumption and inflation.

"The environment surrounding capex is favourable thanks to labour-saving investment because of labour shortages, construction demand related to the 2020 Tokyo Olympics and inbound tourism, and research and development, on top of hefty company profits," said Yoshiki Shinke, chief economist at Dai-ichi Life Research Institute.

"The Bank of Japan's tankan survey has indicated there's a strong appetite for business investment. As such, capex is likely to remain in an uptrend to underpin the economy ahead."

REUTERS/FILE

A general view of the construction site of Athletes' Village for Tokyo 2020 Olympic games in Harumi, Japan.

The updated second-quarter growth showed quarter-on-quarter expansion of 0.7 percent in real, price-adjusted terms, compared with an initial reading of a 0.5 percent growth and the median estimate for a 0.7 percent gain.

The capital expenditure component of GDP grew 3.1 percent in April-June from the previous quarter, versus the median forecast for 2.8 percent growth, and the preliminary 1.3 percent gain.

That was the fastest increase since the start of 2015, driven by transport and postal services, and electrical and chemical industries.

The upbeat GDP data followed a finance ministry survey that last week showed corporate capex rose at the fastest pace in 11 years in the second quarter, driven by procurement of production equipment for cars and semiconductors.

Still, a recent run of soft data such as exports and factory output, has cast doubt on the robustness of recent growth.

A series of disasters including floods, last week's typhoon and an earthquake, prompted some analysts to forecast a contraction in the current quarter.

"Japan's exports and factory output are set to slow in July-September as supply and shipments are constrained due to natural disasters and inbound tourism slumps," said Yoshimasa Maruyama, chief economist at SMBC Nikko Securities.

"Japan's economy may suffer a temporary contraction in this quarter."

Private consumption, which accounts for roughly 60 percent of GDP, grew 0.7 percent in April-June from the previous three months, unchanged from the preliminary estimate.

Domestic demand contributed 0.9 percentage points to revised GDP, while net exports - or exports minus imports - shaved 0.1 percentage point off the second quarter growth.

Turkey sees growth slow in Q2

AFP, *Ankara*

Turkey's economic growth slowed to 0.9 percent in the second quarter, official statistics showed on Monday, with further declines expected as the impact of the slide in the value of the lira begins to show up in the data.

The second quarter performance was down considerably from the 1.5 percent seasonally-adjusted quarter-on-quarter growth registered in the first three months of the year.

Compared to the second quarter of 2017, the Turkish economy grew by 5.2 percent in the three months through June this year, slightly lower than the market consensus of 5.3 percent.

Second quarter growth was driven by the services, industry and construction sectors, as well as a rise in exports, the official data published by the Turkish Statistics Institute (TUIK) showed.

The data does not yest include the 20 percent plunge the value of the Turkish lira in the past month, with the currency briefly passing seven to the dollar.

The lira traded at 6.4 against the dollar on Monday after 0830 GMT, a loss of over one percent in value on the day.

ABN Amro economists last week said lira's weakness was "not over yet as capital outflows will continue", warning the lira could reach 8.2 against the dollar. They also forecast that Turkey could face a recession in 2019.

Meanwhile, Jason Tuvey, senior emerging markets economist at London-based Capital Economics, said Monday that "more timely figures point to a steep recession at the start" of the third quarter.

"We expect the Turkish economy to contract by 2-4 percent year-on-year in the second half of this year and in early 2019," he added.

Argentina faces key week for IMF loan negotiations

AFP, *Buenos Aires*

Argentine President Mauricio Macri's government will continue discussions with the International Monetary Fund this week as efforts to stave off an economic crisis multiply.

It will be a crucial week for Macri and his government after a turbulent few months in which the currency has been badly hit by a crisis of confidence, while public protests have increased in regularity and fervor.

"Argentina will start again, but there is a transition to navigate," Macri admitted on Friday.

The peso was starting to recover at the end of last week after a dramatic two days of crashes the week before.

Having lost 20 percent against the dollar over two days a week earlier, it regained 5.35 percent from Wednesday to Friday to close at 37.77.

But that still represents a loss of around half its value since the start of 2018.

Panicking Argentines, who view the dollar as a safety net for their savings, have withdrawn $500 million from the banking sector since April.

According to official estimates, they are holding $300 billion outside of their country's financial circuit, either in cash or abroad, mostly in Uruguay and the US.

The micro-recovery has been helped by positive noises coming out of Washington, where Finance Minister Nicolas Dujovne met with IMF head Christine Lagarde last week.

But Macri says the public is right to remain worried.

"All the structural issues have not been resolved because we had three days of calm," said the president.

"Hopefully the calm will continue, because we don't know if another storm is coming."

Gold edges lower as trade concerns lift the dollar

REUTERS, *London*

Gold prices edged lower for a second session on Monday as trade tensions between China and the United States helped to boost the dollar and weaken the yuan.

US President Donald Trump said on Friday that he was ready to impose tariffs on virtually all Chinese imports, representing a further $267 billion of goods in addition to the $200 billion already facing potential duties, prompting a threat by China to retaliate.

The rhetoric has pushed investors to the greenback in the belief that the United States has less to lose from a trade war - making dollar-priced gold more expensive for non-US buyers - while puncturing the yuan, currency of the world's biggest gold consumer.

"That gold is below $1,200 an ounce again is mainly to do with the dollar," said ABN AMRO analyst Georgette Boele.

"I expect the uncertainty around the yuan should calm down a bit and that should support prices," she said, predicting that gold would end the year around $1,250.

Spot gold was down 0.1 percent at $1,193.93 at 1122 GMT, slipping towards the 19-month low of $1,159.96 touched last month. US gold futures were 0.1 percent down at $1,199.

Gold has tumbled more than 12 percent from a high of $1,365.23 in April, mirroring a 10 percent fall in the value of the yuan against the dollar.

The dollar has gained broadly against other currencies this year and was boosted again on Friday by strong US jobs data that suggested that the Federal Reserve will continue to raise interest rates. A rate increase is expected this month.

Higher interest rates hurt gold because they increase bond yields, making non-yielding bullion less attractive, and tend to boost the dollar.

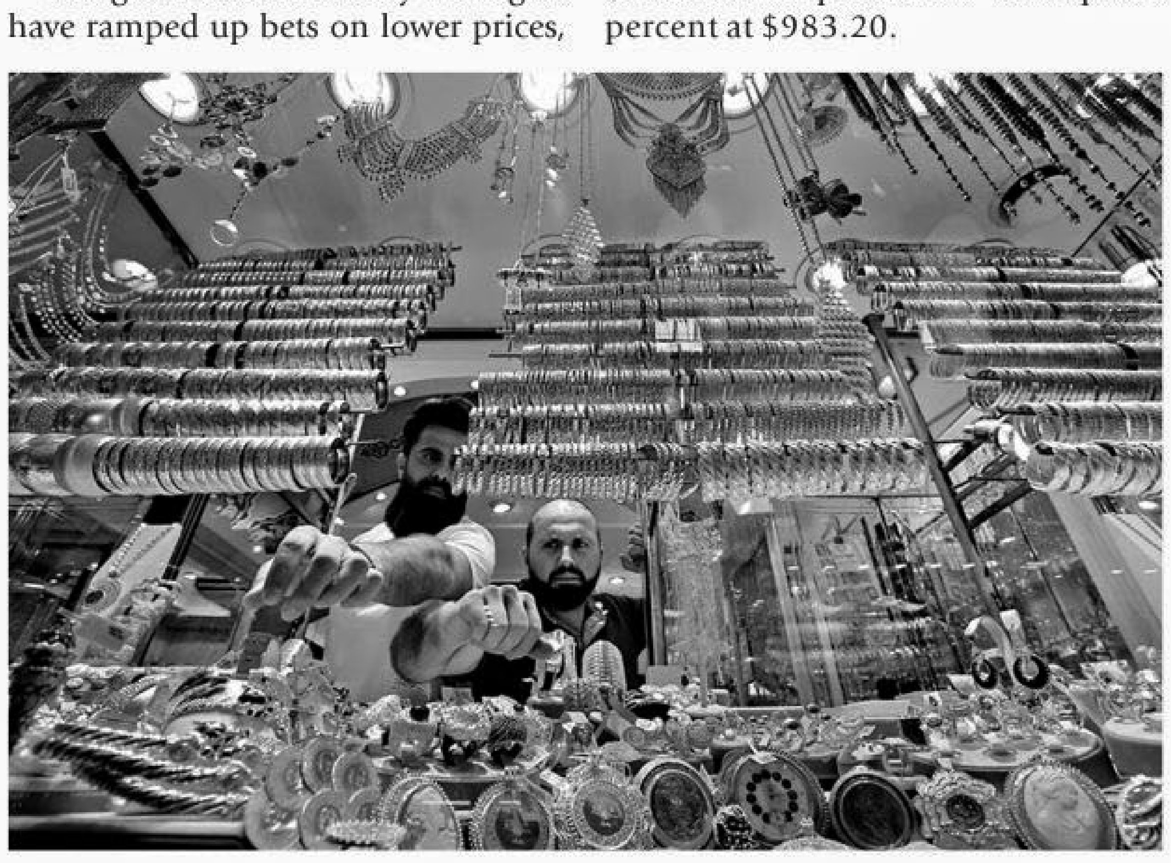
Against this backdrop, gold investors are pessimistic.

Hedge funds and money managers have ramped up bets on lower prices, with their net short position in Comex gold the biggest since the data began in 2006.

Meanwhile, holdings of gold-backed exchange-traded funds are down almost 5 million ounces, or 8.6 percent, from a May high.

"We could see a first positive signal only if prices return above $1,200, with space for further recoveries to $1,210 and $1,230," said ActivTrades analyst Carlo Alberto De Casa.

In other precious metals, spot silver was up 0.6 percent at $14.19, platinum rose 0.9 percent to $785.70 and palladium was up 0.3 percent at $983.20.



REUTERS/FILE

Goldsmiths arrange products in a gold and jewellery store in Istanbul, Turkey.

UCB

N Mustafa Tarek, deputy managing director of United Commercial Bank (UCB), opens an agent banking outlet of the bank at Moheshkhali in Cox's Bazar yesterday.

Oil up as US drilling stalls, Iranian sanctions bite

REUTERS, *London*

Oil prices rose on Monday as US drilling stalled and investors anticipated lower supply once new US sanctions against Iran's crude exports kick in from November.

Benchmark Brent crude oil rose $1.09 a barrel, or 1.4 percent, to a high of $77.92 and was trading at $77.50 by 1130 GMT. US light crude was 50 cents higher at $68.25.

"A higher oil price scenario is built on lower exports from Iran due to US sanctions, capped US shale output growth, instability in production in countries like Libya and Venezuela and no material negative impact from a US/China trade war on oil demand in the next 6-9 months," said Harry Tchilinguirian, oil strategist at French bank BNP Paribas.

"We see Brent trading above $80 under (that) scenario," he told Reuters Global Oil Forum.

US drillers cut two oil rigs last week, bringing the total count to 860, Baker Hughes said on Friday.

The number of rigs drilling for oil in the United States has stalled since May, reflecting increases in well productivity but also bottlenecks and infrastructure constraints.

Outside the United States, Iranian crude oil exports are declining ahead of a November deadline for the implementation of new US sanctions.

Although many importers of Iranian oil have said they oppose sanctions, few seem prepared to defy Washington. "Governments can talk tough," said Energy consultancy FGE.

"They can say they are going to stand up to Trump and/or push for waivers. But generally the companies we speak to ... say they won't risk it," FGE said. "US financial penalties and the loss of shipping insurance scare everyone."

While Washington exerts pressure on countries to cut imports from Iran, it is also urging other producers to raise output in order to hold down prices.

US Energy Secretary Rick Perry will meet counterparts from Saudi Arabia and Russia on Monday and Thursday respectively as the Trump administration encourages the world's biggest exporter and producer to keep output up.