GLOBAL ECONOMY

Testing times from Beijing to Wall Street

REUTERS, *Frankfurt*

IF you were surprised by this month's bounce in global stock markets, next week may tell you if you should join in or stay out.

Chinese output data on Monday will set the tone for a week that also sees the first policy updates of the year by the European Central Bank and the Bank of Japan against the backdrop of a continued global economic slowdown.

In the United States, results from blue-chip companies including IBM will give Wall Street traders something to chew on while officials in Washington are engulfed in the longest ever US government shutdown and unpredictable trade negotiations with Beijing.

Investors are running into the new week at full speed, with an index of global stocks up by more than 5 percent since the start of the year.

They have been lured by reassurances that the Federal Reserve will think twice before raising rates this year, hopes of a trade truce between the United States and China, and a perception that slower growth has already been incorporated in share price and economic forecasts.

"For this rally to continue investors need to become more comfortable about the outlook for global growth," Bank of America Merrill Lynch strategists said in a note to clients.

China's fourth quarter GDP data will show whether the bar has been set low enough for the world's second largest economy.

This is expected to have grown by 6.4 percent in the last three months of 2018, the slowest pace since 2009, as domestic demand weakened and exports were hit by US tariffs.

"Our base case is that data will stabilise," economists at HSBC said.

REUTERS/FILE

A general view of Hong Kong skyline seen from the Peak in Hong Kong.

Like many of their colleagues, they expected monetary stimulus and tax cuts from Beijing despite repeated denials from authorities.

With the latest data showing Chinese imports and exports plunging, traders were also betting Beijing would eventually blink in its trade standoff with Washington.

"We continue to believe China will strive to avoid a full-blown trade war with the US," Deutsche Bank economist Zhiwei Zhang said.

Chinese Vice Premier Liu He will visit the United States on Jan. 30 and 31 for another round of trade talks.

Elsewhere, the European Central Bank and the Bank of Japan are faced with the difficult task of delivering downbeat messages under an increasingly thin veneer of optimism.

The Bank of Japan is expected to cut its inflation forecasts on January 23 but maintain that the country's economy will keep expanding moderately, sources have told Reuters.

A day later, the ECB, which last month cut its own growth and inflation projections for this year, will be hard pressed to defend its assessment that the euro zone's economy is still motoring ahead.

"Risks have shifted to the downside but the ECB might not want to admit it," UBS economist Reinhard Cluse said.

So far, neither the ECB nor the BOJ is expected to take action, having already bought trillions of dollars worth of bonds and pushed interest rates below zero. On Wall Street, investors are bracing for possibly gloomy updates from IBM and other US blue chips after disappointing figures from Apple and Tesla.

Finally, the partial US government shutdown will enter its fifth week amid a political standoff over President Donald Trump's demand for $5.7 billion to help fund a US-Mexico border wall.

US regulators discuss fining Facebook for privacy violations

REUTERS

US regulators have met to discuss imposing a fine against Facebook Inc for violating a legally binding agreement with the government to protect the privacy of personal data, the Washington Post reported on Friday, citing three people familiar with the discussions.

The Federal Trade Commission has been investigating Facebook since last year. It has not finalized its findings in the probe or the total amount of the penalty, according to the newspaper.

Facebook has talked with FTC staff about the investigation, one of the people familiar with the matter told the Post. However, it is unclear if the company would settle with the FTC by accepting a significant financial penalty, which is expected to be much larger than the $22.5 million fine the agency imposed on Alphabet Inc's Google in 2012, the report said. Facebook declined to comment.

The FTC, which is affected by the US government shutdown, did not immediately respond to a request to comment. Generally secretive, it took the unusual step last March of announcing the opening of an investigation into Facebook's privacy practices.

The announcement followed news reports that revealed lax oversight by the social media company had enabled a quiz app on Facebook to gather details on 87 million users and share it with now-defunct British political consulting firm Cambridge Analytica.

REUTERS/FILE

A smartphone user shows the Facebook app on his phone.

China growth hit slowest pace in decades in 2018

AFP, *Beijing*

CHINA'S economy grew at its slowest pace in almost three decades in 2018, analysts in an AFP poll said, as the government struggles to contain ballooning debt and a bruising trade war with the United States.

And in a sign of the battle Beijing faces in getting things back on track, the survey of 13 economists also forecast expansion in the last three months to be at its weakest since the global financial crisis 10 years ago.

The figures are the latest in a long-running trend that have prompted officials to vow they will not let the economy "fall off a cliff" and announce support measures including tax cuts and making it easier for banks to lend.

The full-year figure of 6.6 percent would be the worst since 1990, when the economy was hit by outrage over the Tiananmen Square crackdown a year earlier. The October-December rate of 6.4 percent marks the slowest quarter since 2009 and indicates China faces a tough year ahead.

"Economic momentum is clearly slowing," said Raymond Yeung, economist at ANZ bank.

Economists in China and abroad have long suspected data is massaged upward, often noting that full-year gross domestic product hits Beijing's pre-set targets with suspicious regularity.

A widely respected global business think tank, the US-based Conference Board, says its methodology indicates growth of 4.1 percent growth for the year.

Relations with top trading partner the United States deteriorated sharply last year after President Donald Trump hit roughly half of Chinese imports with new tariffs in an attempt to force trade concessions from Beijing.

The trade war with the US is on hold for now after President Xi Jinping and Donald Trump agreed a three-month ceasefire while the two sides try to find a resolution.

China's top negotiator is heading to Washington for talks this month ahead of a March deadline to avoid further tariff hikes, while a report said the US is considering lifting some levies in return for reforms by Beijing.

While analysts say the standoff has dented confidence -- leaving the stock markets battered and the yuan weakened -- they attribute most the downturn to government policies to tackle growing debt, financial risk and pollution.

The 2018 growth forecast is above the official target of around 6.5 percent but down from the 6.8 percent chalked up in the year before -- after officials on Friday revised down the 2017 figure.

The National Bureau of Statistics will release its official results on Monday.

After halting some major infrastructure projects such as subway lines and motorways in the first half of the year to keep a lid on debt, policymakers gradually eased up and encouraged more infrastructure spending in the autumn.

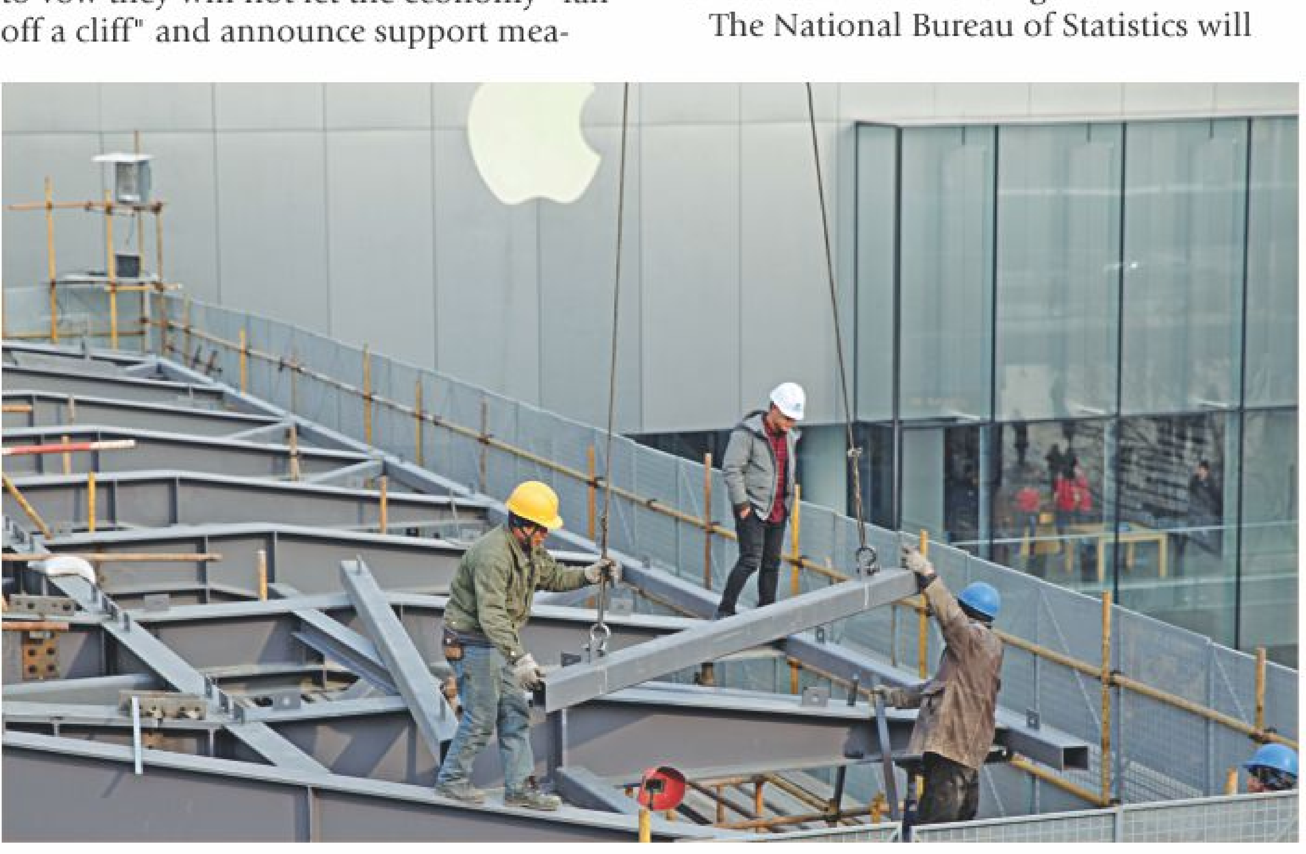
"The squeeze on shadow financing activity took a particularly heavy toll on infrastructure investment," economists at Fitch Ratings wrote in a report, referring to off-the-books loans.

Analysts say the credit tightening also made loans harder to come by for some would-be car buyers, which contributed to annual car sales falling for the first time in more than 20 years.

It is one of a raft of recent economic indicators that point to a deepening slowdown. Imports and exports fell in December while the manufacturing sector contracted for the first time in more than two years.

Chinese officials have announced tax cuts, fee reductions, and cutting red tape, among other measures to stimulate the economy.

"We propose to keep the Chinese economy operating in a reasonable range, which means that we allow the economic growth rate to have certain fluctuations," Chinese Premier Li Keqiang told academics and businessmen this week.



REUTERS/FILE

Men work at a construction site in front of an Apple store in a shopping district in Beijing.

A month into US govt shutdown, the economy blinks first

AFP, *Washington*

AFTER four weeks, the partial shutdown of the US government has begun to rattle the world's largest economy, particularly hitting consumer sentiment, a mainstay of growth.

A closely-watched monthly consumer survey on Friday touched its lowest level since President Donald Trump's election in 2016, suffering its biggest one-month drop in more than six years, according to University of Michigan economists.

Americans have less confidence in the economy's strength in 2019, while 800,000 government workers are furloughed or work without pay as Trump battles on Democratic lawmakers over funding for a wall on the Mexican border.

The shutdown, which began December 22, directly affects only 0.5 percent of the labor force, but indirectly, it is beginning to hit morale for more than half of US consumers, according to the report.

When government operations resume, federal workers should ordinarily get back pay. But this may not be true for contractors, who could have to eat the loss.

As the work stoppage continues, economists have progressively raised their estimates for its cost to GDP growth.

White House economists doubled their estimate early this week, determining that after a month, the shutdown would shave a half percentage point off the first quarter.

Influential central banker John Williams, president of the New York Federal Reserve Bank, upped the ante on Friday, saying the first quarter could lose a full percentage point.

"It is going to be a drag on consumer spending and the economy in the first quarter directly, enough to pull growth down by up to a half percentage, or maybe even a percentage point, if it continues," he told a local banking conference, according to Bloomberg.

Nevertheless, Williams said there could be a post-shutdown rebound, as had been the case in the past. The battle over wall funding coincides with other clouds on the horizon, as a recent Fed survey showed.

The US-China trade war, sharp volatility on stock markets that left the major Wall Street indices in correction for a month, and fumbled public statements from the central bank also made investors shudder.

With a slowing global economy and trade uncertainties, the Fed for now expects 2.3 percent growth in 2019, down sharply from the growth of about three percent expected for 2018. Forecasts for the first quarter of this year are not yet available.

The fundamentals of the economy remain sound, analysts say, even if much economic data -- including home and retail sales or the trade deficit -- is not being produced during the shutdown.

Gregory Daco, chief US economist at Oxford Economics, said in an analytical note on Friday that some were sure to claim the Michigan survey "signals an imminent recession." But he said the index had already been too high in recent months, meaning it was due to fall.

"Further, while growth in outlays will slow in 2019, a strong labor market, firming wage growth, lower prices at the pump and reduced mortgage rates remain supportive of momentum," he wrote.

REUTERS

Long lines are seen at a Transportation Security Administration (TSA) checkpoint at Hartsfield-Jackson Atlanta International Airport amid the partial federal government shutdown, in Atlanta, Georgia on January 18.

Pound set for biggest weekly gain vs euro

REUTERS, *London*

THE pound weakened on Friday as investors took profits after a stellar rally that set the currency up for its biggest weekly gain against the euro in more than a year on growing confidence that a no-deal Brexit can be avoided.

Data showing British shoppers cut back on spending in the three months to December was broadly in line with market expectations and sparked just a brief rise in sterling.

The bigger focus for traders remained Brexit, especially after a tumultuous week in which British Prime Minister Theresa May's deal suffered a heavy defeat in parliament but won a subsequent vote of confidence.

Those developments boosted a perception in markets that Britain will be able to avoid leaving the EU without a deal.

The pound has risen about 1.3 percent against the euro this week, set for its biggest weekly gain since December 2017.

"Sterling has rallied quite a bit over the past week-and-a- half and the weakness today is a bit of check on those gains and a bit of profit taking," said Tapas Strickland, of National Australia Bank in London.

"The market is pricing out the risk of hard Brexit and some kind of agreement ... so against this background, you'd expect sterling to grind higher above $1.30."

At 1540 GMT, the pound was down 0.65 percent at $1.2895 , having touched $1.30 on Thursday.

Against the euro, sterling slipped 0.5 percent to 88.12 pence and below two-month peaks hit a day earlier at around 87.65 pence.

On Friday, prominent Brexit campaigner Nigel Farage said the United Kingdom is likely to delay Brexit and another referendum is possible.

May is due to hold a series of meetings with some of her top ministers on Friday to discuss the way forward after her deal with Brussels was rejected by parliament, her spokeswoman said.

"The bottom line for sterling is that when the probability of second referendum rises it is positive and when the probability of hard Brexit rises it is negative so sterling crashes between the two views," said Adam Cole, chief currency strategist at RBC Capital Markets.

Ross Hutchison, rates portfolio manager at Aberdeen Standard Investments, added that as concerns about a no-deal Brexit recede, factors such as brighter outlook for the economy and what the Bank of England will do on rates come back into play.

"I think that kind of analysis is broadly correct but that doesn't mean there couldn't be an accident on Brexit," he said.

Britain's 10-year government bond or gilt yield rose to 1.376 percent on Friday, its highest in more than six weeks.