India-Pakistan tensions spread from Asia to European markets

REUTERS

The German share price index DAX graph is pictured at the stock exchange in Frankfurt on February 26.

REUTERS, *London*

EUROPEAN stock markets opened lower on Wednesday after fresh hostilities erupted between India and Pakistan, causing Asian assets to fall and pushing investors into safe havens such as the yen.

After about an hour of trading, the pan-European STOXX 600 was down about 0.5 percent. All the main regional indexes were in the red. US stock futures for the S&P 500 were down 0.1 percent.

Earlier, Pakistan said it had carried out air strikes in Indian-controlled Kashmir and shot down two Indian jets in its own airspace.

Indian and Pakistan bonds and currencies fell and MSCI's broadest index of Asia-Pacific shares outside Japan was last down 0.15 percent as the threat of conflict between the nuclear-armed neighbors grew.

"This adds another layer of risks for investors", said Charles St-Arnaud, a strategist at Lombard Odier, although he noted the market moves remained limited for now.

Markets were watching the US-North Korean summit, which begins in Hanoi later on Wednesday. US President Donald Trump will meet North Korean leader Kim Jong Un for their second summit, with the United States pushing North Korea to dismantle its nuclear weapons program.

The heightened geopolitical risks helped assets considered safer than stocks, such as the Japanese yen, which gained against the dollar.

The dollar itself hovered around a three-week lows after Federal Reserve Chairman Jerome Powell reiterated on Tuesday the Fed had shifted to a more "patient" policy approach regarding changes to interest rates.

"We didn't learn much new," St-Arnaud said. The new dovish stance of US monetary policy had not weakened the dollar much, notably against the euro.

Also in the currency market, the British pound continued to rise after Prime Minister Theresa May offered lawmakers a chance to vote on delaying Brexit.

Sterling last traded at $1.3274, having risen to $1.3288 on Tuesday, its highest levels in five months.

Oil prices rose after a report that US crude inventories had declined and as producer club OPEC seemed to stick to its supply cuts despite pressure from US President Donald Trump.

International Brent crude futures LCOc1 were at $65.32 per barrel, up 0.11 cents, or 0.21 percent from their last close.

Gold was down 0.17 percent at $1,326.24.

Fed's Powell: US inflation to fall further below 2pc target

AFP, *Washington*

DESPITE solid growth and continuing job gains, the US economy will see inflation fall even further below the central bank's two percent goal, at least for a time, Federal Reserve Chairman Jerome Powell said Tuesday.

That forecast added weight to the Fed's recent announcements that it will be "patient" before making any further changes in the benchmark borrowing rate, a stance Powell re-emphasized in semi-annual testimony before the US Senate Banking Committee.

"Recent declines in energy prices will likely push headline inflation further below the... longer-run goal of 2 percent for a time," he said.

The US central bank increased the key policy interest rate four times last year but rising uncertainty, especially around the US trade confrontation with China, amplified concerns about slowing global growth and fears the Fed was moving too aggressively.

And with no sign of rising inflation, that prompted the Fed to signal clearly for the past several weeks that it would tread carefully.

Many economists no longer expect any increases this year, while a few say the next move could be a cut if the economy slows further.

Noting the Fed's preferred annual inflation measure sits at 1.7 percent, Powell said "the extent and timing of any further rate increases would depend on incoming data and the evolving outlook."

The danger of having inflation continually below the target is that it saps confidence in the Fed's ability to impact the economy, especially during a slowdown.

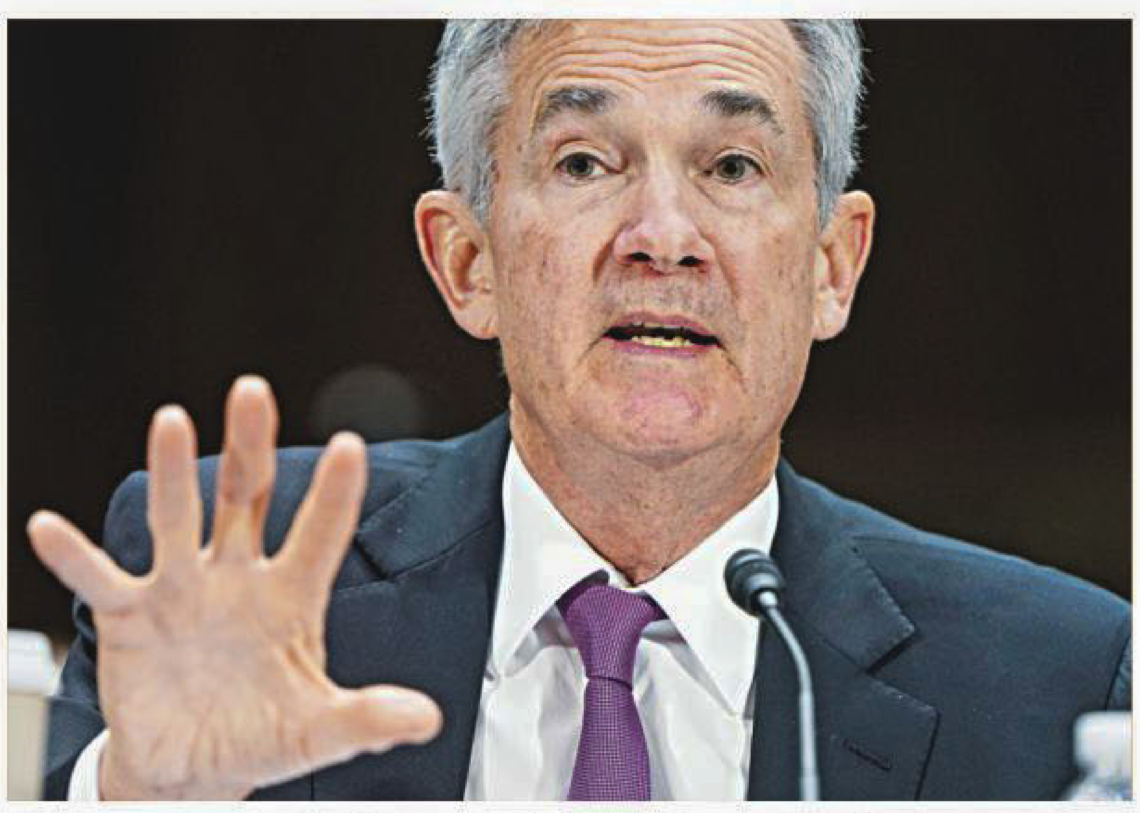
But the muted inflation pressures and risks on the horizon mean "this is a good time to be patient and watch and wait and see how the situation evolves," he said in response to a question.

Unlike the reaction to some of his comments late last year, markets largely shrugged off Powell's testimony, to focus on other issues.

Wall Street closed slightly lower.

He remained upbeat about the economic outlook, saying Fed officials "generally expected economic activity to expand at a solid pace, albeit somewhat slower than in 2018, and the job market to remain strong."

However, "crosscurrents and conflicting signals" pose a potential danger. The "predominant risks... are slowing global growth, particularly



Federal Reserve Chairman Jerome Powell

China and Europe," which he cautioned "can create headwinds for the United States economy."

Brexit and ongoing trade negotiations also are issues the Fed "will carefully monitor."

The United States and China have hammered each other with punitive tariffs on more than $360 billion in two-way trade, raising prices to producers and consumers and undercutting economic growth.

The International Monetary Fund cites the trade war between the world's two largest economies as a "major risk" to global growth, and cut their growth forecast for this year.

But President Donald Trump on Monday said he expected to hold a "signing summit" soon with China's leader Xi Jinping to resolve the issue and he pushed back a March 1 deadline which would have triggered tariffs to more than double on $200 billion in Chinese exports.

In the US economy, low inflation and sluggish wage growth -- despite net job gains that averaged 223,000 last year and GDP gaining just under three percent -- have continued to baffle economists and the Fed.

Powell noted some signs of stronger wage growth, particularly in lower-skilled jobs, but also said "disparities persist" in the labor market along racial and ethnic lines, and also between rural and urban workers. However, longer-run trends, "such as relatively stagnant incomes for many families and a lack of upward economic mobility among people with lower incomes, also remain important challenges," he said.

And the United States has a lower share of prime-age workers participating in the economy than comparable advanced economies, which has the effect of holding back productivity, which is needed to boost growth, he added.

Powell said in addition to programs to promote worker training, and dealing with the opioid crisis that keeps people out of the workforce, the government needs policies that do not punish people for going back to work.

China's steelmakers hit the skids as car sales slow

REUTERS, *Beijing*

CHINA'S steel mills may have taken a wrong turn by adding millions of tonnes of new high-end capacity just as the country's car sector, a key steel consumer, undergoes its first contraction in decades, cutting metal demand.

Hot-rolled coil (HRC), steel that is heat processed into metal

REUTERS/FILE

A labourer works at a cold-rolling mill in China.

sheets used for car bodies and household appliances, was a steady profit driver for mills but orders are now slowing down, two major steel mills and several traders told Reuters.

Sliding demand for hot-rolled coil is a further barometer of China's lagging industrial sector which is struggling with lower profits amid a trade war with the United States. Weakening steel end-user demand will add to the government's concerns about job layoffs as Chinese economic growth was at its slowest in 28 years in 2018.

The slowdown, occurring as overall steel profit margins have dropped 60 percent in the past three months, threatens to push China's entire embattled steel sector further into debt, forcing mills to cut costs and leaving them unable to upgrade products and processes, said analysts and mill executives.

"We may have to lay off 10 percent of our workers this year," said a manager at a medium-sized steel mill in Hebei, China's biggest steelmaking province, with 10,000 staff.

He declined to be identified due to company policy.

HRC accounts for about half of China's total steel output, up from roughly one-third in the early 2000s, after mills upgraded product lines to comply with Beijing's goal of expanding the higher value products made by its heavy industry.

Profit margins for HRC shot to more than 1,100 yuan ($164.37) per tonne in 2018 as benchmark futures prices pushed beyond 4,000 yuan a tonne to record highs. That prompted mills to expand their capacity even further, and 20 million tonnes per year of new HRC lines are set to start up this year.

But that expansion now looks out of synch with China's sputtering economic engine. Annual automobile sales in China for 2018 contracted for the first time in more than 20 years. The sector uses almost 30 percent of the country's hot-rolled coil and products derived from it.

HRC futures fell about 25 percent after reaching a record in August 2018 to about 3,000 yuan per tonne, pushing margins into the red for the first time since 2015.

"The hot-rolled coil market will see oversupply this year. On the one hand mills are expanding their output, meanwhile demand for HRC is weakening," said Li Xinchuang, president of the China Metallurgical Industry Planning and Research Institute, a government think-tank. "Lots of manufacturing plants who actually use HRC have moved outside China."

With the additional hot-rolled coil capacity, higher raw material costs and flat demand, profit margins for the HRC sector as a percentage of earnings before interest, taxes and depreciation (EBITDA) are set to slump to 6 percent this year, down from an EBITDA margin of 15 percent in 2018, said Kevin Bai, an analyst at CRU in Beijing.

Hot-rolled coil prices are now trading at a rare discount to steel rebar, reflecting market expectations that demand of the metal used to reinforce concrete and in construction will rise because of stimulus spending by Beijing.

The flat demand for higher value capital goods like cars and washing machines has meant HRC spot orders are falling and there are risks for long-term contracts, said a sales manager at a small-sized mill in Hebei.

"We don't even know if the long-term contracts can be maintained in the second half of this year. There are too many uncertainties," he said.

Beijing has promised subsidies to boost sales of some vehicles and analysts expect demand to gradually pick up from the second quarter. But even then, government and industry forecasts say that demand growth will be at most 2 percent in 2019.

"It's particularly demand from the inland small cities that is weak. The competition between mid- and low-end models will become more intense and small-scale automakers may be wiped out," said Yale Zhang, the head of Shanghai-based consultancy Automotive Foresight.

That is set to hurt the lower capacity steel mills that tend to supply the smaller car makers.

Longer-term, the outlook remains bleak for HRC products for cars. Under pressure to lower emissions, car companies are expected to increasingly switch to aluminium to make lighter vehicles that consume less fuel.

British employers' confidence in economy slides before Brexit

REUTERS, *London*

BRITISH employers' confidence in the economy has fallen sharply ahead of Brexit, hammering hiring and investment intentions, an industry survey showed on Wednesday.

The Recruitment and Employment Confederation's (REC) gauge of confidence in the economy slid to -20 in the three months to January, the lowest reading since the survey started in mid-2016 and down from -14 in the previous report.

REUTERS/FILE

People walk to work during the morning rush hour in the financial district of Canary Wharf in London.

The survey adds to a raft of business surveys showing that businesses have put the brakes on investment plans ahead of Britain's scheduled departure from the European Union on March 29.

Lawmakers in London have yet to approve a deal that would smooth Britain's divorce with the EU, leaving open the prospect of a disorderly departure - although on Tuesday Prime Minister Theresa May offered lawmakers the chance to vote next month in favour of a delay.

"With employers' confidence levels at a low point and hiring intentions for both permanent and temporary staff dropping in today's survey, there can no longer be any argument: uncertainty is damaging for job creation," REC chief executive Neil Carberry said.

By contrast, consumer confidence has held up relatively well, although a separate survey showed households are being hit with higher prices in shops.

The British Retail Consortium said shop prices rose at an annual pace of 0.7 percent in February, the highest inflation rate since March 2013 and following a 0.4 percent increase in January.

"While price rises over the last six months have been relatively modest, a no deal Brexit would have a much more immediate and dramatic effect," BRC chief executive Helen Dickinson said.

A Citi/YouGov survey earlier this week showed expectations for consumer price inflation among Britain's public hit a joint five-year high in February.

Although consumer price inflation hit two-year low in January, the Bank of England has said this mainly reflects a fall in the price of oil and that domestic price pressures are strengthening.

The REC jobs outlook surveyed 611 companies between Nov. 1 and Jan. 25.