Global recession fears grow as factory activity shrinks

Reuters, London/Hong Kong

FACTORY activity contracted across Asia and Europe last month as an escalating trade war between Washington and Beijing raised fears of a global economic downturn and heaped pressure on policymakers to roll out more stimulus.

Such growth indicators are likely to deteriorate further in coming months as higher trade tariffs take their toll on global commerce and further dent business and consumer sentiment, leading to job losses and delays in investment decisions.

Some economists predict a world recession and a renewed race to the bottom on interest rates if trade tensions fail to ease at a Group of 20 summit in Osaka, Japan at the end of June, when presidents Donald Trump and Xi Jinping could meet.

The US-China trade war, slumping automotive demand, Brexit and wider geopolitical uncertainty took their toll on manufacturing activity in the euro zone last month. It contracted for a fourth month in May - and at a faster pace.

"The additional shock from the escalated trade tensions is not going to be good for global trade. In terms of the monetary policy response, almost everywhere the race is going to be to the downside," said Aidan Yao, senior emerging markets economist at AXA Investment Managers.

IHS Markit's May final manufacturing Purchasing Managers' Index for the euro zone was 47.7, below April's level and only just above a six-year low in March.

In Britain, the Brexit stockpiling boom of early 2019 gave way last month to the steepest downturn in British manufacturing in almost three years as new orders dried up, boding ill for economic growth in the second quarter.

After an official gauge on Friday showed contraction in China, Asia's economic heartbeat, the Caixin/IHS Markit Manufacturing PMI showed modest expansion, offering investors some near-term relief.

The outlook, however, remained grim as output growth slipped, factory prices stalled and businesses were the least optimistic on production since the survey series began in April 2012.

Central banks in Australia and India are expected to cut rates this week, with others around the world are seen following suit in coming weeks and months.

While US manufacturing is expected to grow steadily, economists expect the global malaise to eventually feed back into the US economy. Fed funds rate futures are now almost fully pricing in a rate cut by September, with about 50 percent chance of a move by end-July.

JP Morgan now expects the Federal Reserve to cut rates twice this year, a major change from its previous forecast that rates would stay on hold until the end of 2020.

Meanwhile, Monday's survey adds to evidence that the euro zone economy is under pressure and will likely be of concern to policymakers at the European Central Bank, who have already raised the prospect of further support.

There is little likelihood of them hiking interest rates before 2021, according to economists in a Reuters poll last week. They said the bank's next policy move would be to tweak its forward guidance toward more accommodation.

The trade conflict between China and the United States escalated last month when Trump raised tariffs on some Chinese imports to 25 percent from 10 percent and threatened levies on all Chinese goods.

If that were to happen, and China were to retaliate, "we could end up in a (global) recession in three quarters", said Chetan Ahya, global head of economics at Morgan Stanley.

Washington's new tariff threats against Mexico last week also contributed to global recession fears, with stock markets tumbling around the world. The 10-year US Treasuries yield fell to 2.121 percent, a nadir last seen in September 2017.

Tensions flared again between the United States and China at the weekend over trade, technology and security.

REUTERS/FILE

An engineer makes an arm rail for residential buildings inside a metal processing factory at an industrial zone in downtown Tokyo.

Beijing's threats may soon come in bigger packages

Reuters Breakingviews

BEIJING'S threats may soon come in bigger packages. Officials are drafting a blacklist for badly behaved foreign companies. It's the latest warning signal, as China tries to respond to US blows without escalating an increasingly bitter trade dispute. That's getting harder, and a new FedEx probe raises the stakes.

China's Commerce Ministry said on Friday that it would create a catalogue of "unreliable entities", to name foreign companies, organisations and individuals that harm the rights and interests of local firms. It's not exactly clear what that entails, but the register does appear to be a direct response to the US attack on telecoms giant Huawei, via the Commerce Department's own entity list.

Officials in Beijing also arranged an unusual public reiteration of their trade stance, with a policy paper and weekend press conference. They blamed the US team for a recent breakdown in talks, while also emphasising a desire for cooperation and willingness to talk.

The timing may be coincidental, but it neatly underscores China's predicament. Its approach to the trade conflict has so far seemed ripped from the pages of a game-theory textbook: consistent, mostly proportional, tit-for-tat replies to US actions. It imposes costs on perceived American aggression, while avoiding escalation.

Yet the ferocity of the US assault on Huawei seems to have left China struggling for an appropriate comeback. It wants to get the company off the blacklist and to keep others from facing a similar fate. But it also needs to keep things from spiraling, especially ahead of a G20 summit meeting later this month.

The upshot is the combination of ominous statements, like those around rare-earth exports, alongside signals that it is not looking for a full-scale confrontation.

This balancing act will prove harder as time goes on: threats without action soon become meaningless.

A new probe into FedEx heightens the tension. Officials are investigating whether the US parcel delivery service harmed the rights of its clients, after Huawei said two shipments destined for company addresses in Asia were re-routed to the United States.

FedEx says it was an error. It is becoming increasingly hard to unpick legitimate complaints from the widening spat. That will make reversing any actions far tougher, too.

Australia readies for landmark interest rate cut

AFP, Sydney

AUSTRALIA'S central bank is expected to slash interest rates to historic lows on Tuesday, the first cut in three years amid global trade concerns and an underperforming domestic economy.

Australia's resource-rich economy dodged the worst of the global financial crisis, but rising unemployment, low wages and below-target inflation are stoking fears about the health of the economy Down Under.

Analysts and investors are almost unanimous in their view that the Reserve Bank of Australia will cut rates by 25 basis points to 1.25 percent when it holds its monthly policy meeting.

"Neither we nor the market think the Bank will stop there," ANZ analysts told clients Monday.

"Market pricing has the cash rate falling below 1% before the end of this year."

In the 10 years since the global meltdown, the Reserve Bank of Australia has -- apart from a brief burst of optimism in 2010 -- steadily cut rates from a peak of 7.25%.

Any hope of returning rates to more "normal" pre-crisis levels have been quashed by the slow global recovery and domestic headwinds.

A downturn in the country's hypercharged housing market, falling consumption and stalled wages have already pushed Australia into a per capita recession, with the output per person falling for two consecutive quarters.

The decision to cut rates will take the central bank further into uncharted territory.

US ban has 'no effect' on Huawei's aviation business: official

AFP, Seoul

US moves against Chinese tech titan Huawei have had "no effect" on the firm's aviation business despite several countries taking steps to block its mobile services, a top company executive said Monday.

Huawei has been caught in an intensifying trade war between the United States and China, with President Donald Trump moving to blacklist the Chinese manufacturer over national security concerns.

But Eman Liu, president of Huawei's global transportation business unit, said the company's aviation business was untouched so far.

Huawei provides information and communication technology solutions to more than 50 airports and 15 airlines around the world, including Dubai Airports and the Changi Airport Group in Singapore.

Its services include video surveillance and airport cloud systems as well as wifi services and storage servers.

"Until now, there is no effect," Liu told AFP on the sidelines of the annual International Air Transport Association (IATA) conference in Seoul.

Huawei customers at the event had pledged to "keep cooperating" with the firm despite Washington's accusations, Liu said.

"For all the rest of the world, we are keeping doing business with them for more than 10 years," Liu said.

"Because this trust is not one day trust. It's a long-term trust for the past 15 years, even 30 years."

Huawei has risen to become the world leader in telecom networking equipment and one of the top smartphone manufacturers alongside Samsung and Apple.

The US Commerce Department last month placed the company on an "entity list" on grounds of national security, a move that curbs its access to US-made components it needs for its equipment. A 90-day reprieve was later issued.

A number of countries have also blocked Huawei from working on their mobile networks and companies have stepped back from the firm following the US ban, citing legal requirements.

"We cannot change the situation right now because we are businessmen," Liu said. "But we hope the United States can change their way."

If the US persisted with its moves, Liu said, it would "force us to use Plan B", referring to heavy investments in new technology, including developing its own chips.

Washington has long voiced suspicions that Huawei is controlled by the Chinese government and thus a global security threat -- charges strongly denied by the firm and by Beijing.

China's defence minister said Sunday that Huawei was "not a military company" despite its founder Ren Zhengfei's previous career in the People's Liberation Army.

Wealth gap widens in Paris region: study

AFP, Paris

RISING property prices have widened the gap between the rich and poor in the Paris region where the number of people living in poverty has also increased, according to a study published on Monday.

The Institute for Urban Planning and Development (IAU) found increasing gentrification in the historic heart of Paris as poverty concentrates in the suburbs or satellite towns of the region.

The Ile de France, with Paris at its centre, accounts for 30 percent of the national economy and is also home to the biggest immigrant population, where poverty concentrates.

A total of 15.9 percent of people lived below the poverty line in 2015 - one percentage point higher than the national average -- up from 12.3 percent nine years earlier, the study said.

Average income fell in 44 areas of the region between 2001-2015 in places such as Grigny, Clichy-sous-Bois and Aubervilliers where both unemployment and the foreign-born population has increased, the study said.

In contrast, the highly qualified and managerial class occupies central Paris and its wealthy western suburbs.

"Wealth is more noticeable and more concentrated than poverty," said Mariette Sagot, the report's author. "The wealthy tend to stick together more so than the poor".

The main driver of rising inequality is property prices, which have increased 50 percent in Paris over the last decade.

"Social differentiation is mainly a reflection of the housing market," said Martin Omhovere, director of the institute's housing department. Social housing is "the only way poorer households can live in the centre".

Poverty in the suburbs was highlighted in "Les Miserables", which featured at the Cannes film festival last month.

French actor-director Ladj Ly, shot the film in a social housing project in a northeast Paris suburb where nation-wide riots broke out in 2005.

"This a film is a warning cry," Ly said at the festival, urging President Emmanuel Macron to watch.

Macron has faced seven months of protests by France's "yellow vests", who accuse him and his government of increasing inequalities through pro-business policies.

The centrist leader has made tackling high unemployment his main priority, seeing it as the biggest source of inequality.

In 2015, Prime Minister Manuel Valls warned of "apartheid" in Paris, drawing attention to the wealthy, mostly white centre and the immigrant-heavy and poorer areas that ring the capital.

The region's poorest location, Seine-Saint-Denis, boasts a number of sites for the 2024 Paris Olympics, in a bid to regenerate areas with high crime and unemployment.

Oil loses luster as banks cash in on cleaner commodities

Reuters, London

INVESTMENT banks are beefing up trading teams in markets such as gas, metals and carbon permits that are flourishing as businesses and economies become greener, according to recruitment consultants.

The shift in staffing at the world's biggest investment banks comes at the expense of oil, which has fallen out of favor after being the most profitable and best-staffed commodities business for years.

Natural gas, which is considered a cleaner energy source than oil, and metals, which are essential components of batteries and for electrifying transportation systems, are now seen as a better bet, some headhunters said.

"As we move toward a decarbonized economy these businesses realize they need to be involved in electricity," said Jonathan Funnell at recruiters Proco Commodities. "Oil (revenues) being so bad has brought this to the forefront."

The world's 12 biggest investment banks earned a combined $2.5 billion from power, natural gas and metals last year, according to previously unpublished data provided to Reuters by consultancy Coalition www.coalition.com. That's more than five times the $450 million they made from oil.

Four headhunters specializing in commodities positions said hiring in the oil sector fell 20 percent -25 percent over the last 18 months or so. Hiring of power and gas specialists, meanwhile, rose about 20 percent and there was an increase in metals desks of 5 percent -10 percent.

Investment banks regularly chop and change teams depending on which markets are the most profitable and some consultants say the latest shift is just the result of a poor performance in oil over the last two years.

In some cases, investment banks have just been rebuilding power and gas teams they had a few years ago. Recruiters and industry sources say oil is still the best staffed commodities business, with power and gas in second place and metals third.

But some believe the greening of industries and economies could eventually lead to a change in the hierarchy.

"In the next five years, banks may have more people in power and gas than in oil," said Dylan Pany at recruitment consultants Phaidon International.

Overall, commodities businesses have become far less profitable for investment banks as tougher capital regulations have reduced their ability to take positions in physical markets, or own assets such as warehouses for metals. Some banks suffered huge commodities losses during the financial crisis and performances since have been patchy, leading them to cut back on commodities operations. That has allowed trading giants and brokers subject to less onerous regulation to take the lion's share of the commodities market.

According to Coalition data, net revenue from commodities at the 12 largest investment banks, a group including Morgan Stanley, JPMorgan Chase and Goldman Sachs, plunged from more than $13 billion in 2009 to $2.5 billion in 2017 and $3.6 billion last year. Coalition measures income from trading, selling derivatives and other activities.

But revenues from oil, which typically accounted for a quarter to a third of the overall commodities income, slumped the most over the last few years.

Behind the recent weakness was lack of demand for hedging and trading losses at several banks in the second half of last year, said Coalition research director Amrit Shahani. "Client activity was low and trading conditions were difficult."

Oil prices plunged during the last quarter of 2018 from a four-year high of $86.74 a barrel in October to below $50 at the end of December. Oil prices have bounced back somewhat this year boosting revenues, though Shahani said banks might have earned more if they hadn't been cutting back their oil teams and being more cautious in trading.

Investor interest in metals, power, gas and carbon prices, meanwhile, has revived in part thanks to price rallies and bumper trading volumes.

Metal prices surged from 2016 to the middle of 2018 after an environmental clampdown on polluting smelters and mines in China threatened to curtail supply. Some metals, such as copper and nickel, have also been boosted by hopes electrification will require more material for wiring and batteries, although a trade row between Washington and Beijing has since weighed on prices.

High volumes and volatility in gas futures on the US NYMEX exchange also created opportunities for banks to make money, while European carbon permits, which come under banks' power and gas desks, have tripled in price since the start of 2018.

Industry sources said banks including Citi, JPMorgan and Bank of America have been building up their power and gas businesses in the United States, where Goldman Sachs has also expanded in power.

REUTERS/FILE

People surf as a vessel involved in the construction of a natural gas pipeline is seen behind them in the Mediterranean Sea near Dor Beach, northern Israel.