Nazmur Rahim, head of retail banking at Brac Bank, and Zakaria Swapan, CEO of iPay Systems, exchange documents after signing a deal at the bank's head office in Dhaka recently facilitating iPay services for the bank's customers.

BRAC BANK

Top US bond managers betting bond market still has room to run

REUTERS, *New York*

US bond fund managers are betting that the steep gains in Treasuries over the last month are here to stay.

Yields on the benchmark 10-year Treasury rate have dropped to near 2.10 percent after rising as high as 2.55 percent as recently as May 2 as fears of escalating trade wars and slowing global economic growth have spooked equity markets and sent investors to the safety of bonds. Bonds yields fall as security prices rise, leaving investors with capital appreciation gains.

But instead of seeing the recent rally as just a fear trade, fund managers from firms including BlackRock Inc, Wells Fargo Asset Management and Sierra Investment Management say they are still buying Treasuries in anticipation of additional interest rate cuts this year by the Federal Reserve to try to revive inflation amid a slowing economy.

The near $16-trillion sector produced a total return of 2.35 percent in May, its strongest monthly showing since August 2011, according to an index compiled by Bloomberg and Barclays. Long-dated Treasuries generated a stellar 6.7 percent return, their juiciest performance since January 2015.

"We haven't gotten the inflation engine going and I don't think we will," said Margie Patel, a senior portfolio manager at Wells Fargo Asset Management. "It's a horrible outcome for fixed-income investors who have been spoiled for 30 years and now they're facing a complete yield drought that will probably get worse," she said, adding that a fall in the yield of the 10-year Treasury to 1.5 percent over the next year "would not be out of the question."

Divided G20 admits worsening trade wars pose risk to world economy

AFP, *Fukuoka, Japan*

The world's top financial policymakers admitted Sunday that trade tensions had worsened and posed a risk for the global economy, after a G20 meeting that laid bare differences between the United States and other nations.

Following 30 hours of wrangling in what one official described as a "tense" atmosphere, G20 finance minister and central bank chiefs produced a hard-fought final statement acknowledging that "growth remains low and risks remain tilted to the downside."

"Most importantly, trade and geopolitical tensions have intensified," the G20 said, adding they "stood ready to take further action" if required.

As a compromise pushed by Washington, the statement omitted language from a previous draft that mentioned a "pressing need to resolve trade tensions."

The statement capped two days of talks in the western Japanese port city of Fukuoka that also tackled the thorny issue of taxing internet giants and, for the first time, the economic challenges posed by ageing.

"In our view, this is the best outcome we could deliver. Not the perfect outcome but a good outcome," said EU Economic and Monetary Affairs Commissioner Pierre Moscovici, who admitted that reaching agreement was "not an easy task."

"Almost everyone in the room thinks that trade tensions are a threat to growth... It's not always the mood in the American administration," he said.

"I wouldnt say it's them against all the others but it looks like it sometimes, even if everyone also criticises some aggression from China."

Trade battles were front and centre of policymakers' minds as the US and China continue to threaten each other with tariffs that economists fear could slam the brakes on global growth.

IMF chief Christine Lagarde warned the tariffs could shave global GDP by 0.5 percent or about US$455 billion in 2020 and said trade conflicts constituted the "principal threat" to the global economic outlook.

The G20 ministers heaved a sigh of relief just hours before the meeting when the US and Mexico clinched a deal over immigration that stopped Washington imposing five percent tariffs on Mexican goods.

But US Treasury Secretary Steven Mnuchin said Washington stood ready to impose more tariffs on China if President Donald Trump and China's Xi Jinping fail to strike a deal at the G20 summit later this month in Osaka.

"If China wants to come back to the table and negotiate on the basis that we were negotiating, we can get a great historic deal. If they don't, we'll proceed with our tariffs," Mnuchin told reporters Saturday.

He tweeted Sunday he had had a "constructive" meeting with China's central bank governor Yi Gang, during which there was a "candid discussion on trade issues".

But taking a different line from the other policymakers, Mnuchin said the slowdown in some parts of the world was not due to trade difficulties and even said the friction could benefit some countries if companies relocated from China to avoid tariffs.

"There will be winners and losers," said the treasury secretary.

The quandary of reforming the global tax system to take into account the rise of internet giants such as Google and Facebook was another issue exercising the minds of policymakers in the coastal city.

In the final statement, the G20 agreed to "redouble our efforts for a consensus-based solution with a final report by 2020".

However, here again the Fukuoka meeting exposed a difference of opinion over what form this reform should take.

Frustrated by a lack of global action on the issue, some countries such as Britain and France have already introduced a so-called digital tax, but Mnuchin was blunt in his assessment of these policies.

He said the US had "significant concerns" and stated "I don't like them."

But Moscovici was more positive, saying he was "rather optimistic" the G20 would clinch agreement on a new set of international tax rules by 2020.

"It's doable, it's more than doable," he told reporters.

Appropriately for a meeting held in Japan -- on track to become the world's first "super-aged" society in which more than 28 percent of the population is over 65 -- the G20 ministers discussed for the first time the "challenges and opportunities" posed by ageing.

They suggested getting more women and elderly people into the workforce and "promoting elderly-friendly industries", as well as reforming the fiscal and banking systems to take into account ageing populations.

"You basically have a very large portion of mankind that is ageing and then the workforce is shrinking," OECD Secretary-General Angel Gurria told AFP in an interview.

AFP

Japanese Finance Minister Taro Aso and Bank of Japan Governor Haruhiko Kuroda pose with other delegation members during a family photo session at the G20 finance ministers and central bank governors meeting in Fukuoka yesterday.

ECB policymakers catch glimpse of their own future

REUTERS, *Fukuoka, Japan*

Europe's top central bankers who met their global peers in Japan this weekend may have caught a glimpse of their own future.

With a stagnant economy and declining population for the past two decades, Japan has long been seen as a harbinger for the euro zone.

Talk of the "Japanification" of the currency bloc is set to gain further traction after European Central Bank President Mario Draghi last week shelved plans to raise interest rates from record lows and opened the door to ease policy further.

That evoked parallels with the Bank of Japan's prolonged stimulus policy under Governor Haruhiko Kuroda, which has seen it gobble up 45 percent of the country's government debt as it tries to hit an elusive 2 percent inflation target.

"There's a real risk of Japanification right now," one euro zone central bank official said at the meeting of finance ministers and central bank governors in Fukuoka, southern Japan.

The similarities are obvious. Both Japanese and euro zone governments have been slow in implementing politically costly but much-needed reforms to boost productivity, such as making their labor markets more flexible.

This has created a negative loop whereby low borrowing costs allow loss-making "zombie" firms to survive, locking up capital that could be used by more competitive ones, curbing productivity growth and perpetuating the need for low interest rates, analysts say.

Whether that means monetary policy could be carbon-copied is less clear. Unlike the BOJ, the ECB must seek consensus among a group of diverse national central banks.

In Japan, the BOJ can keep printing money to keep borrowing costs ultra-loose under the administration of Prime Minister Shinzo Abe, which is supportive of its pro-growth policies.

The prospect of an endless supply of central bank money to finance government debt, however, is a hard sell for Germany - the most powerful economy in the euro area.

Following the BOJ's lead in buying stock index funds and other risky assets would also likely come under heavy resistance in the euro zone, where stocks are in hands of a healthy few.

Past experience showed lessons don't always travel well. The BOJ took a leaf from Europe's book when it adopted negative interest rates in 2016. It took lessons from similar steps already put in place by central banks in Europe.

RBI to enhance monitoring of shadow banking firms

REUTERS, *mumbai*

Reserve Bank of India Governor Shaktikanta Das said the central bank would closely monitor the health of non-banking financial companies (NBFCs) and it would not hesitate to take corrective measures, if needed, to address issues in the shadow banking sector.

"We will not hesitate to take any required steps to maintain financial stability in the short-, medium- and long-term," Das said in a speech on Saturday at a convocation ceremony in the western Indian city of Pune.

The comment comes at a time when there are fears that India may be facing a major crisis in its shadow banking sector after shares of Indian mortgage lender Dewan Housing Finance Corp Ltd (DHFL) plunged this week after two credit-rating firms cut their view of DHFL debt to "default" levels.

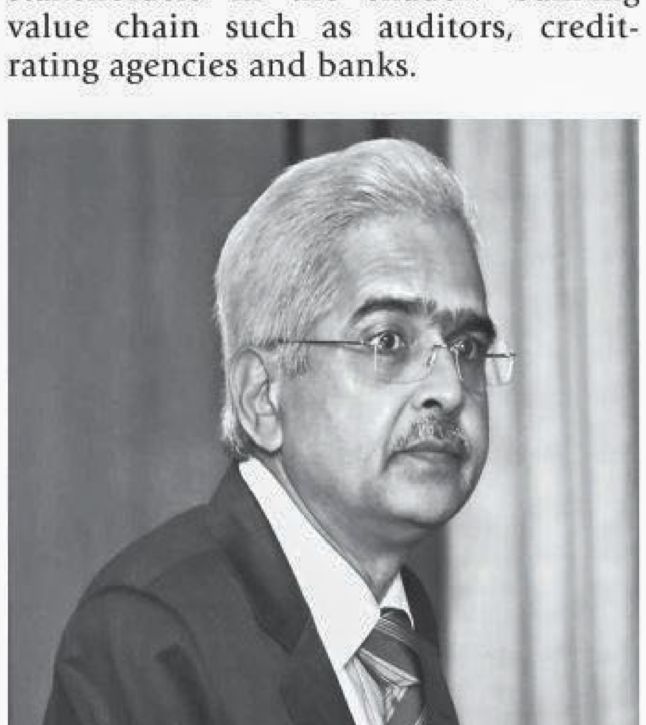
The looming trouble at DHFL comes nine months after a series of downgrades and defaults at another major NBFC, Infrastructure Leasing and Financial Services (IL&FS), shook stock markets and stoked concerns of a malaise in the sector.

"The Reserve Bank will continue to monitor the activity and performance of this sector with a focus on major entities and their inter-linkages with other sectors," he said, in a speech that was published on the RBI's website late on Saturday.

The regulator will soon issue final guidelines for liquidity risk management and will put in place a comprehensive information technology framework to strengthen surveillance of NBFCs, the governor said.

Given the importance of NBFCs for the Indian economy, the governor stressed the need for a higher level of supervision of such companies to ensure solid credit growth and asset liability management.

Das said as part of initiatives to enhance supervision of NBFCs, the central bank is putting in place a system to ensure regular interaction with all stakeholders in the shadow banking value chain such as auditors, credit-rating agencies and banks.



RBI Governor Shaktikanta Das

The central bank on Friday issued new guidelines around the resolution of stressed assets after India's Supreme Court in April struck down its earlier guidelines saying it had acted beyond its powers.

The new rules "will sustain the improvements in credit culture" and help in making India's financial system strong and resilient, Das said on Saturday.

Das also urged Indian public sector banks (PSBs) to not depend solely on government capital infusions to solidify their balance sheets.

"Depending upon individual situations, PSBs should access the capital market for mobilisation of capital," he said.

China calls in foreign tech firms after Huawei sales ban

REUTERS, *Beijing*

China summoned global technology companies for talks last week following last month's US ban on selling technology to China's Huawei Technologies Co Ltd, two people familiar with the matter told Reuters on Sunday.

The blacklisting of Huawei, the world's largest maker of telecoms network equipment, bars US companies from supplying it with many goods and services due to what Washington said were national security issues, a potentially crippling blow that sharply escalated US-China trade tensions.

Huawei denies that its equipment poses a security threat.

Soon afterwards, Beijing announced it would release its own list of "unreliable" foreign entities. It also has hinted that it will limit its supply of rare earths to the United States.

A person at US software giant Microsoft Corp said the company's session with Chinese officials was not a direct warning but it was made clear to the firm that complying with US bans would likely lead to further complications for all sector participants.

The company was asked not to make hasty or ill-considered moves before the situation was fully understood, the person said, adding that the tone was conciliatory.

Microsoft declined to comment.

The New York Times first reported on the meetings led by the National Development and Reform Commission (NDRC), saying major foreign tech firms were warned against complying with a US ban on selling American technology to Chinese firms or potentially face what the newspaper described as dire consequences.

The NDRC did not immediately reply to a faxed request for comment from Reuters.

It is not unusual for China to summon representatives of foreign and domestic companies, sometimes in groups, to make its views heard.

One person with another US tech company in China who was briefed by colleagues on the company's meeting told Reuters that the tone was "much softer" than expected.

"No mentioning of Huawei. No ultimatums. Just asked to stay in the country, contribute to the win-win negotiation," the person said, declining to be identified by name or company given the sensitivity of the matter.

chip designer ARM, which last month halted supplies to Huawei.

Samsung and SK Hynix declined to comment. Dell did not immediately respond on Sunday to an emailed request for comment and a spokesperson for ARM could not immediately be reached.

Separately, the editor of China's Global Times tabloid said on Saturday that Beijing was preparing to curb some tech exports to the

REUTERS/FILE

People walk past a sign board of Huawei in Shanghai, China.

"I think they realize they still need US tech and products for now; self-sufficiency will take a long time, and only after then they can kick us out," the person said.

The New York Times reported that other companies summoned for meetings last Tuesday and Wednesday included US computer maker Dell Technologies Inc, South Korea's Samsung Electronics Co Ltd and SK Hynix Inc, and British

United States. In a tweet, Global Times Editor-in-Chief Hu Xijin said that China "is building a management mechanism to protect China's key technologies."

"This is a major step to improve its system and also a move to counter US crackdown," he added. "Once taking effect, some technology exports to the US will be subject to the control."