Surprise gain in Japan's machinery orders masks cooling investment outlook

Reuters, Tokyo

Japan's machinery orders unexpectedly rose for a third straight month in April, signaling solid business investment, though analysts expect an intensifying Sino-U.S. trade war and global slowdown to hurt capital spending plans in the coming quarters.

The upbeat data may solidify expectations that a planned sales tax hike will go ahead in October, and offers some support for an economy hampered by faltering exports, slowing corporate earnings and factory activity.

Cabinet Office data released on Wednesday showed core machinery orders, a highly volatile data series regarded as an indicator of capital spending in the coming six to nine months, increased 5.2 percent in April from the previous month. It marked the biggest gain since last October, and compared with economists' median estimate of a 0.8 percent decline in a Reuters poll. In March, orders rose 3.8 percent.

Capital spending has been a bright spot in the world's third largest economy, driven by investment in high-tech and labor-saving technology to cope with a labor crunch in the ageing society and refurbishing demand for upgrading old plants and equipment.

All the same, Japanese firms may turn cautious about boosting investment if uncertainty over the global economy and the bruising U.S.-China trade dispute persist, analysts say.

Underscoring the pressure on export-reliant Japan, external orders, which do not account for 'core orders' tumbled 24.7 percent month-on-month in April, reversing from the prior month's 9.0 percent gain and posting the biggest drop since November 2015.

"We think that rising uncertainty over the economic outlook will result in a slowdown in business investment growth over coming quarters," said Marcel Thieliant, senior Japan economist at Capital Economics.

Washington and Beijing have been locked in a tit-for-tat tariff war for nearly a year, which has curbed global trade and upended supply chains ranging from Asia to Europe, undermining Japan's exports and factory output.

Investors expect Japanese exporters' earnings will remain under pressure. Japanese companies are likely to report a 1 percent drop in pre-tax profits this fiscal year through March, Daiwa Securities said last month. Big companies such as factory-robot makers Yaskawa Electric Corp and Fanuc Corp as well as Mitsubishi Electric Corp and trading house Mitsui & Co have blamed the trade war and China's slowdown as they cut profit forecasts.

Still, solid domestic demand could dampen speculation that Prime Minister Shinzo Abe may once again postpone a twice-delayed sales tax hike to 10 percent from the current 8 percent in October.

REUTERS/FILE

A worker is seen in front of facilities and chimneys of factories at the Keihin Industrial Zone in Kawasaki, Japan.

Reckitt picks PepsiCo man Laxman Narasimhan as CEO

Reuters

Consumer goods group Reckitt Benckiser has picked PepsiCo executive Laxman Narasimhan as its next chief executive, becoming the latest industry heavyweight to turn to a company outsider to tackle faltering growth and new media-savvy rivals.

Narasimhan, PepsiCo's global chief commercial officer, is the first external candidate to be appointed as CEO at Reckitt since the maker of Durex condoms, Nurofen tablets and Dettol cleaners was formed in 1999.

The 52-year-old will join Reckitt as CEO-designate and be appointed to the board on July 16. He will become CEO on Sept. 1, replacing Rakesh Kapoor, 60, who has led Reckitt for more than eight years and said in January he would retire this year.

The appointment is the latest in a series of external hirings as major consumer goods groups look to make up ground lost to smaller brands that have done a better job selling online and connecting with millennials on social media, while also facing investor pressure to boost efficiency.

Analysts had tipped Reckitt's health division operations chief Aditya Sehgal and hygiene home president Rob de Groot as potential internal successors to Kapoor.

As well as industry challenges, Reckitt has faced company-specific setbacks in recent years, including a safety scandal in South Korea, a failed product launch and a cyber attack.

Kapoor launched a restructuring plan, dubbed RB 2.0, to split the group into two business units – one for health and one for hygiene and home products - under the same parent company.

Reckitt said on Wednesday Narasimhan would be charged with delivering the plan, due to be completed in 2020, but some analysts suggested he might have other ideas.

"The appointment of a new, external CEO is bound to raise questions regarding the timing of the end of the group's RB 2.0 plan and whether it will ultimately lead to a split of the company," Liberum analyst Robert Waldschmidt said.

Jefferies analyst Martin Deboo questioned why a company already smaller than rivals Procter & Gamble and Unilever wanted to "descale itself", which could hobble its ability to compete in emerging markets.

Reckitt's shares were little changed in morning trading. Still, at least three analysts welcomed Narasimhan's appointment.

"Narasimhan's strategic and leadership background make him a strong fit for Reckitt. We believe he will bring a fresh perspective to both the business and to investors," Morgan Stanley analyst Richard Taylor wrote in a note.

Narasimhan led Strategy, Global Category Groups and Global R&D in his capacity as Chief Commercial Officer at PepsiCo.

Prior to that, he headed the beverage maker's Latin America, Europe and Sub-Saharan Africa operations managing annual sales of 14.5 billion pounds ($18.5 billion) and at one time was also Chief Financial Officer of the group's Americas Foods business.

Narasimhan studied mechanical engineering in India before moving to the United States to get an MBA. Before joining PepsiCo, he worked at consultants McKinsey for two decades.

As CEO of Reckitt, Narasimhan will get a salary of 950,000 pounds and will be eligible to participate in the company's annual bonus plan with a target of 120% of salary.

US consumer inflation slows in May

AFP, Washington

Falling prices for energy and used cars held down US inflation in May, extending the long run of soft price pressures, according to government data released Wednesday.

The latest confirmation of the absence of inflation should comfort markets hoping the Federal Reserve will cut interest rates in the coming months to boost the economy, especially amid President Donald Trump's multi-front trade wars. The central bank is due to hold its next policy meeting next week but most investors do not expect the Fed to announce any changes so soon.

The Consumer Price Index -- which tracks costs for household goods and services -- rose a token 0.1 percent compared to April, matching analyst forecasts, the Labor Department reported.

Food prices jumped 0.3 percent in the month, but that was more than offset by a steep 0.6 percent decline in energy costs.

Compared to May of last year, prices are up 1.8 percent, slowing from the two percent increase in April.

When the volatile food and fuel categories are excluded, "core" inflation also rose 0.1 percent for the fourth month in a row, falling just shy of a consensus forecast.

Compared to May of last year, the core CPI is two percent higher, slowing slightly from the 2.1 percent pace of a month earlier.

Tesla is serious about a possible record quarter

Reuters

Tesla Inc has "a decent shot at a record quarter on every level", Chief Executive Officer Elon Musk said at the company's annual shareholder meeting on Tuesday, soothing concerns about weak demand for the electric car maker's sedans.

Tesla's stock rose 3.6 percent to $225 in extended trading, and Musk also said the company was on track to hit its volume production goal by the end of this year.

Musk was treated as a star by investors at the annual meeting, receiving applause as he laid out plans for global expansion and going so far as to tell an inquiring investor that Tesla engineers "actually have a design for a submarine car". He said making one would be a distraction and have a small market.

Analysts have questioned whether there is global demand for the hundreds of thousands of Model 3 sedans and other vehicles Tesla aims to produce, after deliveries fell 31 percent in the first quarter. Rivals are stepping up efforts and Tesla continues to invest heavily in expansion.

Musk's positive comments on Tuesday echoed his forecast last month that the company was on track to hit record deliveries in the second quarter.

Tesla previously said it plans to deliver 90,000 to 100,000 vehicles to customers in the second quarter versus 63,000 vehicles in the first, and is aiming to deliver 360,000 to 400,000 vehicles in 2019.

But ramping production strains finances, and Tesla is increasing output at its US factory, launching production in China, overhauling its U.S. retail and service operations and developing new models.

"It's hard to be profitable with a high growth rate," Musk said, expressing confidence that Tesla would be "cash flow positive" despite those challenges.

Tesla lost $702 million in the first quarter and has said profit would be delayed until the latter half of the year.

Musk's plans include unveiling an electric pickup truck this summer and getting into semi truck production toward the end of next year. He said he hoped to have an investor day on batteries by the end of the year and emphasized that battery production was the key to vehicle production.

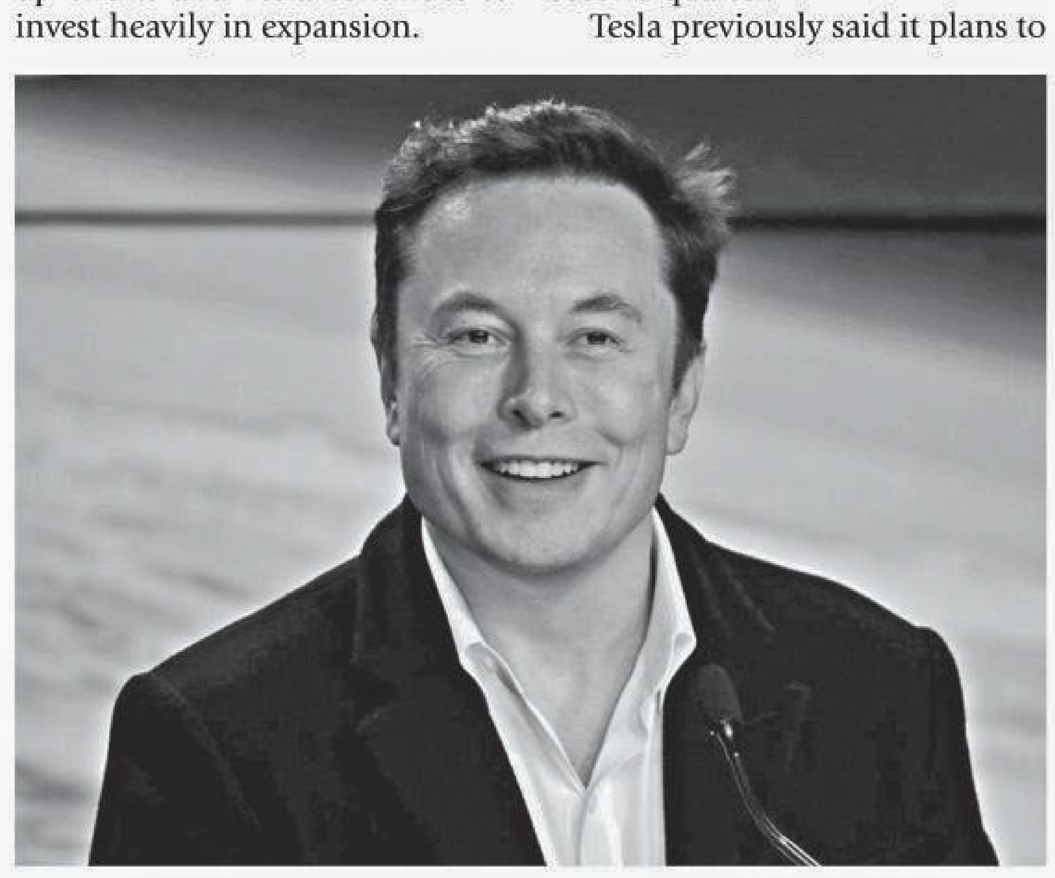
"Having to not pay tariffs and have the really long delivery chain and high transport costs will make the cars a lot more affordable to people in Europe and China," Musk said.

Tesla was likely to settle on a location for a European factory by the end of the year and expects to start selling in India by next year.

Musk also teased that Tesla could get into mining of metals crucial for battery production to further lower costs.

"We'll do whatever we have to, to ensure that we can scale at the fastest rate possible," he said.

Musk has faced criticism about his outspoken nature, including Twitter use that led to a settlement with US regulators, but shareholders rejected corporate governance proposals calling for reducing the terms of directors and eliminating some supermajority voting requirements.



Tesla CEO Elon Musk

Reforms on cards

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It is visible that the fiscal framework is in a less-than-a-stout form to providing a strong hand to sustaining the high GDP growth.

"Let us see what credible measures will be proposed in the upcoming budget to strengthen the fiscal framework."

Stress on the foreign exchange reserve is also becoming visible, he said, adding that the exchange rate of taka is under pressure and a downward adjustment is called for.

The quality and delivery of the annual development programme project portfolio remains a matter of concern. Effective introduction of the new law on value-added tax will be an added challenge.

Putting the banking sector in the right path, reviving the capital market and bringing down the alarmingly high default loans will warrant special attention from Kamal.

Focus has to be given on raising private investment and attracting much-needed foreign direct investment.

Something has to be done for the rice farmers who have been deprived of their rightful market price.

Like other annual national budgets, the new budget will be much more than a narrow instrument of fiscal policy, said Zaidi Sattar, chairman of the Policy Research Institute of Bangladesh.

"Its impact will be spread across the sphere of macroeconomics, trade, employment, growth and social equity, among others. That makes it a formidable bellwether for the future directions of the economy and society," he said in a write-up published on the PRI website.

The budget must address a host of questions all at once.

"Can it be pro-poor, pro-employment and pro-growth all at the same time? If my reading is right, it will be business and investment-friendly like never before, considering the fact that so many business leaders are in the cabinet and in parliament and the economy is crying out for more investment -- in infrastructure, health, education, industry, agriculture and services."

"But it is up to the government to strike a realistic balance between business and national interests, between producer and consumer interests, and so many other competing claims on scarce national resources."

The budget should give the right signals so that the economy is firing on all cylinders to sustain more than 7-8 percent annual GDP growth for the next five years as Bangladesh prepares to graduate out of the least-developed country status in 2024, said Sattar, also a former senior economist of the World Bank.

Entrepreneurs and investors are watching and waiting for the right signals that will drive growth-oriented resource allocation in the economy.

"More of the business-as-usual cannot be the answer at this challenging moment in our economic destiny. The expectation is for some visionary if not radical changes in policy direction," he added.

Public enterprises incur Tk 4,325cr losses

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The drop in the profit ratio occurred amidst a hike in prices of petroleum products in international markets, while BPC remained dormant when it came to adjusting domestic prices.

The corporation had been incurring losses for many years for failing to make such tweaks but encountered profits in the last two years on remaining nonchalant to a decline in international prices.

In 2015-16, BPC made its highest profit of Tk 9,040 crore. It was Tk 8,653 crore in the following year.

Since 2017-18, the profit margin started to decline and the trend continued in the outgoing fiscal year.

Britain to become first G7 country with net zero emissions target

Reuters, London

Britain has announced it will enshrine a new commitment to reach net zero greenhouse gas emissions by 2050 into law, marking a first among G7 nations facing increasingly severe impacts from the climate crisis.

With global carbon emissions at record highs despite decades of talks aimed at bringing them within safe limits, outgoing Prime Minister Theresa May said the goal was ambitious but essential for protecting Earth's future.

"Now is the time to go further and faster to safeguard the environment for our children," she said in a statement.

"Reaching net zero by 2050 is an ambitious target, but it is crucial that we achieve it to ensure we protect our planet for future generations."

Britain's existing target is to cut greenhouse gas emissions by 80 percent from 1990 levels by 2050. The new target is in line with the 2015 Paris climate agreement which calls on countries to reduce carbon emissions to net zero by mid-century to try to keep the global temperature rise as close to 1.5 degrees Celsius as possible.

Temperatures have already risen about one degree Celsius since pre-industrial times. Scientists warn further increases risk triggering tipping points that could render swathes of the globe uninhabitable, devastate farming and drown coastal cities.

May, who is due to step down this summer after her political career became a casualty of the turmoil over Brexit, said legislation would be put before parliament on Wednesday to incorporate the new target into an existing climate change act.

Although May had staked her legacy on delivering an orderly exit from the European Union to respect the result of a 2016 referendum, the new target earned her praise from climate specialists heartened by any sign of greater ambition from a major economy.

"It's momentous," said David Reay, professor of carbon management at the University of Edinburgh. "Achieving net zero by 2050 will change all our lives.

State banks weighed down by bad loans

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The spiral means default loans now account for 11.87 percent of total outstanding loans, up from 10.30 percent three months earlier and 10.78 percent a year earlier, according to data from the Bangladesh Bank. During the quarter, default loans soared a record Tk 16,962 crore.

Mobile users complain of 'unbearable' service

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"We always welcome complaints and that will help us to address issues and improve service quality," he said.

The BTRC chairman acknowledged that if the past few years are taken into consideration, the service quality was gradually declining. He too said to have sometimes received unwanted marketing calls promoting flat or plot sales and other commodities.

All the commissioners, director generals, chief executive officers from all the mobile operators, senior officials from law enforcing agencies and consumer rights bodies also attended the hearing.

MERCANTILE BANK

Lawmaker Rashed Khan Menon and AKM Shaheed Reza, chairman of Mercantile Bank, pose with the recipients of "Mercantile Bank-Abdul Jalil Education Scholarship- 2018" at Fars Hotel and Resorts in the capital yesterday. The bank handed over cheques and certificates to 178 students, including differently able children, of Dhaka division as part of its corporate social responsibility activities.

Ford recalls 1.2m Explorer SUVs for potential steering problem

Reuters, Washington

Ford Motor Co said on Wednesday it is recalling 1.2 million Explorer sport utility vehicles in the United States for a potential suspension defect that could lead to reduced steering control.

The second largest US automaker said the recall covers 2011-2017 model year Explorers that could experience a fractured rear suspension toe link that could increase the risk of a crash.

Ford said one customer reported hitting a curb when the toe link broke but it not aware of any reports of injury.

Ford said the $180 million cost, which will be incurred by its North America business unit, will be taken in the second quarter. The company said it continued to expect adjusted earnings before interest and taxes to be higher than in 2018.