US, Chinese negotiators hold 'constructive' phone talks on trade

REUTERS/FILE

White House chief economic adviser Larry Kudlow speaks with reporters on the driveway outside the West Wing in Washington.

REUTERS, *Washington/New York*

US and Chinese trade officials held a "constructive" phone conversation on Tuesday, White House economic adviser Larry Kudlow said, marking a new round of talks after the world's two largest economies agreed to a truce in a year-long trade war.

US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin spoke with Chinese Vice Premier Liu He and Commerce Minister Zhong Shan on Tuesday in a further effort to resolve outstanding trade disputes between the countries, a US official said earlier in an emailed statement.

Kudlow said the talks "went well" and were constructive. He said the two sides were talking about a face-to-face meeting, but warned that there was not a magic way to reach what has so far been an elusive deal.

"There are no miracles here," Kudlow told reporters at the White House. "There was headway last winter and spring, then it stopped. Hopefully we can pick up where we left off, but I don't know that yet."

China's Commerce Ministry said in a short statement that the two sides had "exchanged views on implementing the consensus of the two countries' leaders at the Osaka meeting". It gave no other details.

The United States and China agreed during a Group of 20 nations summit in Japan last month to resume discussions, easing fears of an escalation. After meeting with Chinese President Xi Jinping at the G20, US President Donald Trump agreed to suspend a new round of tariffs on $300 billion worth of imported Chinese consumer goods while the two sides resumed negotiations.

Trade talks stalled in May after China backed away from commitments it had made to secure legal changes to its system, according to US officials.

Kudlow's comments suggested it was still unclear whether the two sides would resume work from the draft text agreed before that pull-back, as US officials want, or whether they will use a different starting point.

A face-to-face meeting between the two negotiating teams would be a good thing and could take place in Beijing, Kudlow said, but no details were available yet.

"Both sides will continue these talks as appropriate," the separate US official said in an email, declining to provide details on what was discussed and the next steps for talks.

The negotiations picked up after a two-month hiatus, but a year since a tit-for-tat tariff battle began between the two countries. Washington wants Beijing to address what US officials see as decades of unfair and illegal trading practices.

Trump said in Osaka that China would restart large purchases of US agricultural commodities, and the United States would ease some export restrictions on Chinese telecom equipment giant Huawei Technologies.

"President Xi is expected, we hope in return for our accommodations, to move immediately, quickly, while the talks are going on, on the agriculture (purchases)," Kudlow said on Tuesday at an event hosted by CNBC. "That's very, very important."

He also said relaxed US government restrictions on Huawei could help the technology giant but would only be in place for a limited time.

Kudlow, the director of the White House's National Economic Council, later told reporters there was no specific timeline for the agricultural buys, or for reaching an agreement. "No timeline. Quality not speed," he added.

Three sources familiar with the state of the talks said the Chinese side did not make firm commitments for immediate purchases. It's unclear that the two sides' differences have narrowed, even as the discussions resume.

Apple starts China app development programme in business push

REUTERS, *Shanghai*

APPLE Inc has started a program in Shanghai to help Chinese developers create apps as part of the iPhone maker's efforts to build out its services business in one of its most critical overseas markets.

The program, or accelerator, will hold lectures, workshops and networking sessions for developers regularly, the company said in a statement on Tuesday.

More than 2.5 million developers for Apple's platforms are from greater China, a region that includes Taiwan, Hong Kong, and mainland China.

The launch comes at a time when iPhone sales in China - and the world - have slowed and CEO Tim Cook has talked up Apple's services business in the country as a bright spot. The services business gets revenue from apps, media, and other software.

On Tuesday, a report from research firm Evercore ISI said that Apple's services revenue had likely risen over the quarter ended June, driven in part by growth in China.

Apple opened a similar accelerator in 2017 in Bengaluru, India. Both the Indian and Chinese smartphone markets are dominated by companies who make Android-based devices, such as Xiaomi and Samsung Electronics Co Ltd.

To tackle competition, Apple launched several financing schemes earlier this year to make iPhones more affordable for Chinese consumers. Chinese electronics retailers also reduced the price of some iPhone models.

To add to slowing sales, Apple has also been caught up in a trade war between Washington and Beijing.

According to Japan's Nikkei, Apple has asked suppliers to assess the cost implications of moving some production capacity out of China. Foxconn, a major contractor for Apple, has said it is prepared to move Apple manufacturing out of China if needed.

In June, Tim Cook told CBS news he does not anticipate China targeting Apple amid the trade tensions.

REUTERS/FILE

A new iPhone X is sold at an Apple Store in Beijing.

Euro zone cuts growth outlook as risks from US trade grow

REUTERS, *Brussels*

THE European Commission lowered its estimates on Wednesday for euro zone growth and inflation, saying uncertainty over US trade policy posed a major risk to the bloc.

In its quarterly economic forecasts, the European Union's executive arm said prices would grow less than previously predicted, pushing the inflation rate further off the European Central Bank's target of close to but less than 2 percent.

The commission confirmed its prediction that economic growth in the euro zone would slow this year to 1.2 percent from 1.9 percent in 2018. It also revised down its estimate for next year's growth, which is now seen at 1.4 percent instead of the 1.5 percent forecast in May.

Risks for the bloc have increased, the commission said, and mostly come from "the elevated uncertainty" around United States' trade policy, as Washington keeps threatening punitive tariffs on a broad range of EU products.

Fears of increased trade tensions "could also trigger a shift in global risk sentiment at times when valuations appear stretched across many asset classes", the EU economics commissioner Pierre Moscovici told a news conference.

"This could lead to rapid tightening of global financial conditions," he added.

The weaker economic outlook contributed to a downward revision of inflation expectations, the commission said, cutting its estimate to 1.3 percent for this year and next from the 1.4 percent it previously estimated for both years.

This year's forecast matches the ECB's projection, but for 2020 the commission's estimate is lower than the 1.4 percent rate forecast by the central bank in its latest projections, released in June. That could give the ECB a reason to push ahead with fresh stimulus.

The commission confirmed the economic slowdown in the euro zone was mostly caused by weaker growth in Germany, the euro zone's largest economy, and Italy, its third largest.

German growth will slow to 0.5 percent this year, in line with earlier predictions, after reaching 1.4 percent in 2018. Growth is expected to return to 1.4 percent next year, less than the 1.5 percent the commission predicted earlier.

Forecasts for Italy remained unchanged, reiterating its economy will barely grow this year, seeing the worst growth rate in the whole EU. Next year's growth is expected to accelerate to 0.7 percent but remain the slowest in the bloc.

France's economy will expand 1.3 percent this year and 1.4 percent in 2020, the commission estimated, leaving unchanged its forecast for this year but lowering the estimate for the next, earlier seen at 1.5 percent.

The commission maintained unchanged its forecasts for Britain, whose economy is foreseen growing 1.3 percent this year and next. However, the projection does not take into account possible trade disruptions caused by a no-deal Brexit.

REUTERS/FILE

A container ship is being unloaded at a terminal in the port of Hamburg, Germany.

Uber founder takes aim at South Korea's shared kitchen market

REUTERS, *Seoul*

CHEF Youm Jung-phil plans to close his restaurant in Seoul's affluent Gangnam district this month, worn down by the rising cost of labour and rent as well as declines in the number of customers eating in.

Instead Youm, who has nearly 20 years of experience in the industry, has opted to sell his avocado burgers and bagels by delivery only, renting a 16.5 square metre kitchen space from Uber co-founder Travis Kalanick's CloudKitchens.

"I am anxious every day. I can't sleep well because this is not something I have done before," said Youm, who was approached by CloudKitchens.

"But the risks are low and I'll have the opportunity to experiment with various menus without high cost," he said, adding his rent will fall by roughly two-thirds.

The world's No. 4 market for online food orders, South Korea punches far above its population size in terms of sheer numbers of restaurants and spending on food deliveries.

That, plus a near 30 percent rise in the minimum wage over the past two years, is helping drive a rapid shift to shared kitchens and delivery-only businesses, industry executives and investors say - a shift which threatens the traditional restaurant industry.

South Korea is the first overseas market Los Angeles-based CloudKitchens has entered under its own brand, people with knowledge of the matter said.

"That Kalanick and other investors are entering Korea speaks to its attractiveness as a market for cloud kitchens. It's a big market and is growing faster than the US," said Jimmy Kim, CEO of investment firm SparkLabs.

Tucked away in a Gangnam back alley, CloudKitchens' first South Korean outlet opened quietly in May with more than 20 separate kitchen spaces, sources said, declining to be identified as they were not authorised to speak to the media. Another 10 or more outlets are planned, six of them this year, one source added.

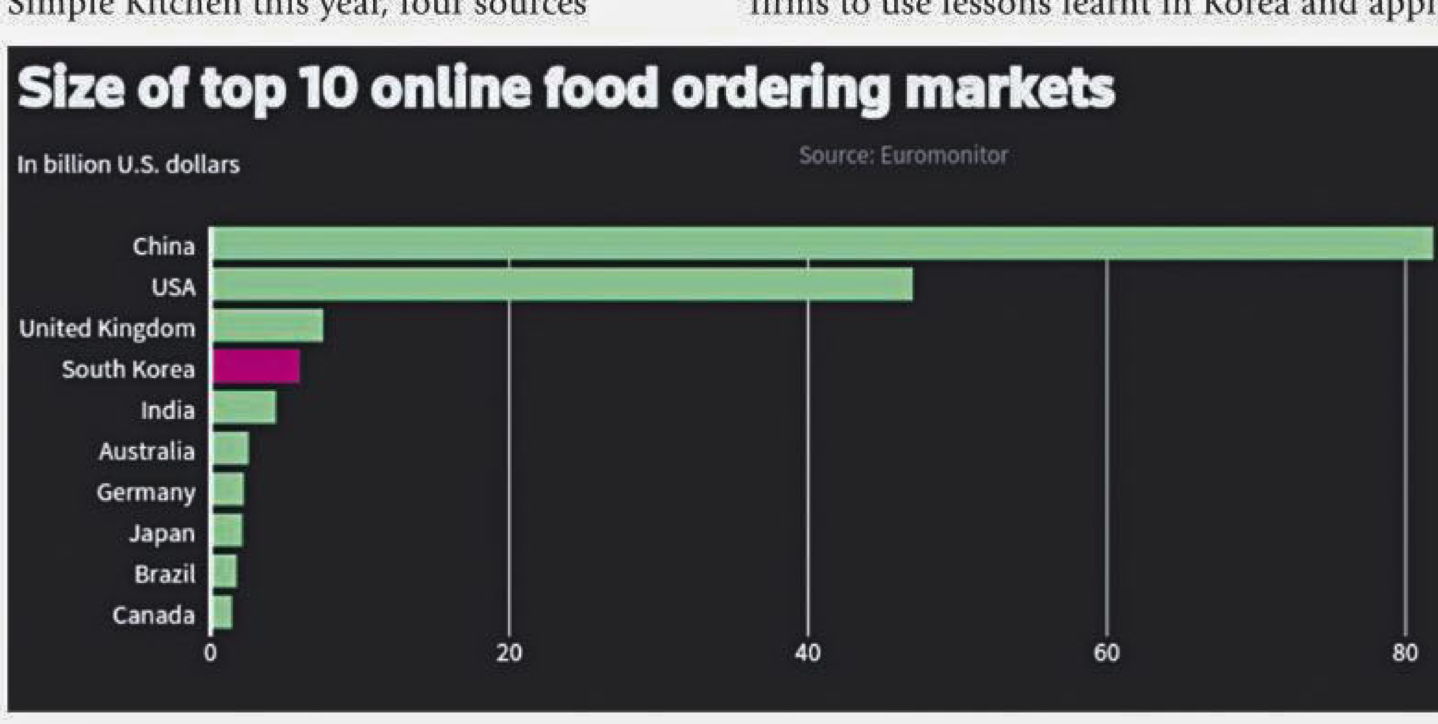
CloudKitchens also acquired local firm Simple Kitchen this year, four sources familiar with matter said. Simple Kitchen, which counts SparkLabs as an investor, said previously it was planning 25 branches for 500 restaurants by end-2019.

CloudKitchens and Simple Kitchen did not respond to Reuters requests for comment.

CloudKitchens, which also offers restaurant owners marketing support, is a unit of shared service provider City Storage Systems which scandal-hit Kalanick bought last year for $150 million after stepping down as Uber CEO. Kalanick has since acquired UK commercial kitchen firm FoodStars and is reportedly looking at investing in China.

In South Korea, a key rival is local firm WECOOK, which has four outlets and plans to lift that to 17 this year.

"Investors are plowing money into South Korea which is coming to the fore in the global delivery market," said WECOOK CEO Andy Kim, adding he expects shared kitchen firms to use lessons learnt in Korea and apply them to other Asian markets.



While shared kitchens are growing in popularity in many countries including the United States and China, the South Korean market is seen as particularly ripe for development of delivery-only restaurants.

About half of South Korea's 51.8 million people are located in Seoul and its two surrounding cities, while 95 percent of adults own a smartphone. It also has 127 restaurants per 100,000 people, compared with 69 for China, 57 for Japan and 21 for the United States, according to research firm Euromonitor.

China tech bonds reward investors as trade war fears ebb

REUTERS, *Hong Kong*

THE beaten-down bonds of Chinese internet companies have rebounded since the May flare-up in US-China trade tensions, reaping a good profit for investors who braved the storm to buy the dips.

Investors bought dollar bonds issued by firms such as Alibaba (BABA.N) and Baidu (BIDU.O) in May, soon after the market sold off following a US announcement of higher tariffs on China and Washington's sanctions against Chinese telecommunications giant Huawei Technology.

"When things like trade war start to hit, the immediate reaction is to sell anything that's related to China," said Henry Loh, Asian fixed income investment manager at Aberdeen Standard Investments in Singapore.

Loh was referring to the broad selling in these bonds by the US and other offshore investors as fresh worries about the technology sector, trade and economic growth jangled nerves.

Those who held onto bonds issued by Baidu, Alibaba and Tencent - known as B.A.T. on Wall Street - were rewarded as major central banks hinted at lower interest rates and trade talks resumed, lifting the value of the tech giants' investment grade-rated bonds.

"You need to get yield one way the other," said Wonnie Chu, managing director at Tencent-backed Gaoteng Global Asset Management, adding that bond investors had to either take greater risk buying the bonds of lower-rated issuers or go for longer-tenor investment-grade bonds.

Chu said she bought longer duration bonds issued by Chinese technology firms after the sell-off in May.

Since their sell-off, the recovery in the bonds of Chinese internet firms has outpaced that of their US peers.

The spread over comparable US Treasuries on Alibaba's 10-year bond has tightened about 40 basis points since early June and wiped out all losses since early May. It is now being traded at around 110 basis points above Treasuries.

Other assets directly in the firing line of the trade war, such as the share prices of Chinese tech firms and bonds issued by US tech giants such as Apple Inc, have recovered far less.

The B.A.T. firms rely on domestic markets for the bulk of their revenues and will continue to do so, Fitch Solutions wrote in a report back in January.

Bonds of US tech peers such as Apple, which have been hugely affected by tariffs and slowing Chinese growth, Amazon and Oracle are more expensive than those of B.A.T, at between 47 to 67 basis points above Treasury yields, even though the US companies, on average, are rated just slightly higher - making the Chinese bonds a bargain.

"We added risk because they were really cheap compared with global peers," said Tiansi Wang, Hong Kong-based senior credit analyst at asset manager Robeco.

Strong financials also make Chinese tech bonds appealing, unlike their stocks that could be subject to volatility in earnings this year.