Consumers supporting US economy amid manufacturing slump

AFP, *Washington*

American consumers appear to be carrying the US economy in their shopping carts as manufacturing slumps amid President Donald Trump's trade conflict with China, and financial signals warn of a possible recession.

"The economy is phenomenal," Trump said Thursday. "We had a couple of bad days but we are going to have some very good days because we had to take on China."

But despite his cheerleading, a raft of new US data reports showed a mixed picture on the economy, leading Wall Street to post a modest recovery from its worst day of the year.

Global financial markets remain concerned about slowing European and Chinese economies, which caused a closely watched recession signal to flash red, sending stocks worldwide down two percent or more on Wednesday.

Longer term bond yields continued to fall with the 30-year US Treasury bond dropping below two percent for the first time ever, while the 10-year hit the lowest point in three years as investors sought safe havens to hedge against a possible downturn.

Trump continued to call on the Federal Reserve to cut interest rates, saying it made a "big mistake" by increasing too fast.

Fed Chairman Jerome Powell "should be cutting rates. Every country all over the world is cutting. We want to stay sort of even," Trump told reporters.

The US manufacturing sector, which declined in the first two quarters of the year, putting it in recession, slumped again in July and is now down 1.5 percent this year, the Federal Reserve reported.

That comes on the heels of other data showing the trade war has undermined business confidence and is curtailing investment amid the uncertainty.

"It is hard to avoid the conclusion that the industrial sector is being dragged down by overseas developments," analysts John Ryding and Conrad DeQuadros of RDQ Economics said.

Their analysis highlighted "the impact of tariffs on supply chains, and the effects of uncertainty about these policies may have had in subduing capital spending." Although Trump has made boosting manufacturing a central focus of his economic policies, this sector makes up a dwindling share of the US economy.

Even before Trump gave retailers an early Christmas bonus by delaying tariffs on more than half the $300 billion in Chinese goods targeted for new 10 percent punitive duties, Americans' spending habits were buoying the economy. That trend continued in July, the first month of the third quarter, as retail sales jumped 0.7 percent, far more than expected, driven by e-commerce and Amazon's 48-hour prime "day," according to new data from the Commerce Department.


REUTERS/FILE
Shoppers carry bags of purchased merchandise at shopping mall in Pennsylvania, US.

"The United States is now, by far, the Biggest, Strongest and Most Powerful Economy in the World, it is not even close!" Trump tweeted. "As others falter, we will only get stronger. Consumers are in the best shape ever, plenty of cash." Walmart -- which has been beefing up its online presence to compete with Amazon -- added to the good retail news, reporting better than expected profits in the latest quarter and boosting its forecast for the year.

"Households are in good shape with spending and that should continue as long as the labor market remains healthy," National Retail Federation chief economist Jack Kleinhenz said.

But he warned that financial market volatility and "increased trade tensions in recent weeks may put a wind of caution in consumer spending as we move forward in 2019." Trump told reporters Thursday that talks with China set for September are "still on" -- less than a week after he said they might be canceled -- and trade negotiators also have been in contact by phone.

"We're talking and they're offering things that are very good," he said, but warned that the US still has at its disposal "the ultimate form of retaliation." And in a speech to supporters late Thursday, Trump said China had no option but to cut a deal with US.

"I never said China was gonna be easy, but it's not tough and they wanna make a deal," he said.

"We just spoke to 'em yesterday, they wanna make a deal, they wanna make a deal. They have to make a deal." By December 15 all goods imported from China will face stiff US tariffs, and markets are watching anxiously for signs of progress in the dispute.

China, which has been gradually reducing its holdings of US Treasury debt, for the first time since May 2017 is no longer the biggest US creditor, according to data released Thursday. Japan retook the top spot.

Dollar recovers as strong US data soothes market nerves

REUTERS, *New York*

The dollar recovered from early weakness against the safe-haven yen as better-than-expected US retail sales data on Thursday eased fears that the US economy could be headed for a recession.

The Japanese yen, which tends to benefit during geopolitical or financial stress as Japan is the world's biggest creditor nation, has strengthened about 0.3 percent against the dollar this week as investors reached for safety.

The yen started the day strong against the dollar as investors fretted over this week's economic data from China and Germany that revealed the extent of the damage the China-US trade dispute is causing to the world economy.

The Japanese currency advanced sharply against the greenback on Wednesday after the first inversion in the US Treasury yield curve in 12 years sparked heightened fears of an imminent end to the longest economic expansion in US history. However, the yen retreated against the greenback on Thursday after data showed US retail sales surged in July, helping assuage financial markets' fears that the US economy was heading into recession.

"With the rest of the world sliding into the abyss, the July retail sales figures show a resurgent US consumer riding to the rescue once again," Michael Pearce, Senior US Economist at Capital Economics said in a note.

US retail sales rose in July as consumers bought a range of goods even as they cut back on motor vehicle purchases, which could help ease financial markets' fears that the economy was heading into recession.

The dollar was up 0.27 percent against the yen.

The dollar index, which tracks the greenback versus the euro, yen, sterling and three other currencies, was up 0.18 percent at 98.166, close to a two-week high.

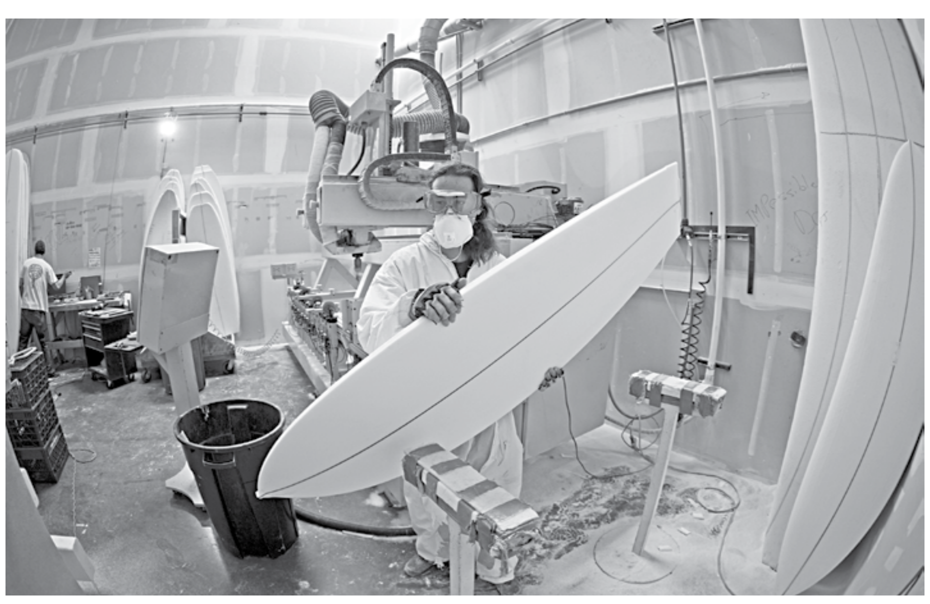
Elsewhere, Norway's crown weakened after its central bank, the Norges Bank, said its policy outlook was now more uncertain, raising doubts about whether it would raise rates later in 2019. The crown slipped to a near 18-year low against the US dollar.

The Australian dollar was up 0.44 percent to $0.6777 after data showed the Australian economy had added a forecast-busting 41,100 new jobs in July.

However, as the Sino-US trade war raises fears of a global recession, businesses run the risk of being caught in a self-fulfilling vicious cycle, a top Australian central banker warned on Thursday.

Meanwhile, sterling rose 0.46 percent against the dollar, helped by better-than-expected retail sales and news that Britain's opposition Labour Party has begun its bid to bring down Prime Minister Boris Johnson and stop him from taking Britain out of the European Union without a deal.

US surfboard makers not so stoked about China tariffs


REUTERS/FILE
A man works at the INT surfboard factory in California, US.

REUTERS, *Los Angeles*

US President Donald Trump's decision to slap 10 percent tariffs on imported surfboards convinced surf executive Sue Bowers to move factory jobs out of China - but not back to the United States, which was one goal of Trump's tariffs.

Strict environmental rules and steep labor costs have sent scores of Southern California surfboard manufacturers to China. Now, the tariffs have Bowers and other executives searching for factories in places such as Thailand and Vietnam.

"This was Surf City," said Bowers, general manager of Southern California Sports Industries in Orange County.

"I would like to have our production back here," said Bowers, whose office/warehouse is decorated with surf legend Mike Doyle's artwork and filled with surfboards bearing his name.

Instead, Bowers - not a surfer herself but who learned the ins-and-outs of surfboard construction from Doyle - is joining the growing list of US manufacturers and retailers reconfiguring supply chains in the wake of the Trump's bitter trade war with China.

She was among a half dozen US surf company executives who told Reuters they support using trade policy to shelter their homegrown industry from a daunting wave of international competition.

They are skeptical, however, about the President's latest round of tariffs, which on Sept. 1 will levy the first US import taxes on surfboards.

"There are way too many things that need to change before we can bring jobs back," said Bowers, referring to US labor costs and anti-pollution rules governing the use of materials to make surfboards.

Trump delayed putting the 10 percent duty on cellphones, laptops and other consumer goods in hopes of blunting their impact on US holiday sales. But surfboards and many other products did not win a reprieve.

Southern California was surfing's epicenter in the late 1950s and early 1960s, spawning a billion-dollar international business around surfing's relaxed, sun-soaked lifestyle.

The forces of globalization that have eroded the industry were well underway by the turn of the century and the continuing manufacturing exodus threatens to wipe out domestic production.

"If something doesn't happen over the next 10 years (the industry) could cease to be here," said Shea Weber, chief executive of Dewey Weber International, a surfboard company started by his father - a famous long board "hot-dogger" who appeared in the classic surf documentary "Endless Summer." Dewey Weber still has a factory in San Clemente, California's "surfboard alley."

2018 surfboard imports hit 916,246, up from 102,850 in 2004, when the US Census Bureau started collecting that trade data. Those imported surfboards now account for upwards of 90 percent of sales in the small and slow-growing domestic market, experts said.

China accounted for 67 percent of the surfboards that hit US shores last year. Critics of Trump's tariffs say that focusing on just one country encourages manufacturers to move jobs to other Asian countries.

Countries like Thailand and Vietnam were already carving out niches on the high and low ends of the market with hourly factory wages that, according to Euromonitor International data, are roughly half that of China and as much as 19 times lower than in the United States.

California-based Firewire, backed by surf superstar Kelly Slater, moved production of its $500 to $1,000-plus surfboards to Thailand after shuttering US manufacturing in 2008.

Global rate cuts mark broadest policy shift since crisis: Fitch

REUTERS, *Washington*

A flurry of interest rate cuts by the US Federal Reserve and a host of other central banks marks the broadest shift in global monetary policy since the depths of the financial crisis in 2009, analysts at Fitch Ratings said in a report on Friday.

Led by the Fed's policy pivot, which took rate hikes off the table in December and then cut borrowing costs last month, Fitch said its geographic "diffusion index" of central bank policy plummeted from a strong bias towards tightening to what is now a marked tendency toward easing, or cutting rates.

It's the type of coordinated change that characterized how central banks responded to the financial crisis with across-the-board rate cuts, dollar swap lines extended by the US central bank to other countries, and a series of other exceptional steps to keep the world economy afloat.

Macroeconomic conditions are nowhere near as bad now, Fitch analysts said in an interview, and the policy shift in the last few months has been much less extensive.

But the geographic spread of actions, from the central banking capitals of Washington and Frankfurt, to financial centers like London, and a host of emerging markets, shows how the world's central banks have become more closely tethered to one another, with the Fed as the dominant player. "In terms of how swift the change has been, it is quite striking," said Brian Coulton, chief economist for Fitch Ratings. The Fed and 19 other central banks have cut rates in recent months.

Coulton said they were responding both to the Fed's policy change - evidence that the broad use of the dollar in world trade and corporate finance had linked the world economy ever closer to what happens in Washington - and the sense of growing risk from the US-China trade war.

The trade battle "affects the two biggest economies in the world. That is a risk every central bank will have to take into account. That is a common shock," he said.

But he feels the shift runs deeper. Emerging market economies, where monetary policy had more closely tracked commodity prices and resulting inflation, now seemed tied instead to the Fed, he said.

That could, the Fitch analysis concluded, be one of the "profound" consequences of a decade of cheap money and Fed "quantitative easing" that allowed countries and overseas companies to borrow more in dollars, only to face refinancing risks and other stresses when the Fed began raising rates.

When the US central bank reversed course "the pressure that had been placed on other central banks was released," Coulton said.

The Fitch diffusion index rates the stance of global central bank policy, treating each bank as equal. A rating above 50 indicates a bias towards raising rates, while below 50 indicates looser policy.

Opec sees bearish oil outlook for rest of 2019, points to 2020 surplus

REUTERS, *London*

Opec delivered a downbeat oil market outlook for the rest of 2019 on Friday as economic growth slows and highlighted challenges in 2020 as rivals pump more, building a case to keep up an Opec-led pact to curb supply.

In a monthly report, the Organization of the Petroleum Exporting Countries cut its forecast for global oil demand growth in 2019 by 40,000 barrels per day (bpd) to 1.10 million bpd and indicated the market will be in slight surplus in 2020.

The bearish outlook due to slowing economies amid the US-China trade dispute and Brexit could press the case for Opec and allies including Russia to maintain a policy of cutting output to support prices. Already, a Saudi official has hinted at further steps to support the market.

"While the outlook for market fundamentals seems somewhat bearish for the rest of the year, given softening economic growth, ongoing global trade issues and slowing oil demand growth, it remains critical to closely monitor the supply/demand balance and assist market stability in the months ahead," Opec said in the report.

It is rare for Opec to give a bearish forward view on the market outlook and oil LCOc1 pared an earlier gain after it was released to trade below $59 a barrel.

Despite the Opec-led cut, oil has tumbled from April's 2019 peak above $75 pressured by trade concerns and an economic slowdown.

Opec, Russia and other producers have since Jan. 1 implemented a deal to cut output by 1.2 million bpd. The alliance, known as OPEC+, in July renewed the pact until March 2020 to avoid a build-up of inventories that could hit prices.

Opec left its forecast for 2020 oil demand growth at 1.14 million bpd, up slightly from this year. But Opec added that its forecast for 2020 economic growth faced downside risk.

"The risk to global economic growth remains skewed to the downside," the report said.

"Especially trade-related developments will need to be thoroughly reviewed in the coming weeks with some likelihood of a further downward revision in September."

Opec trimmed its global economic growth forecast to 3.1 percent from 3.2 percent and, for now, kept its 2020 forecast at 3.2 percent.

The report also said oil inventories in developed economies rose in June, suggesting a trend that could raise Opec concern over a possible oil glut.


REUTERS/FILE
The logo of the Organization of the Petroleum Exporting Countries is seen inside its headquarters in Vienna, Austria.

Stocks in June exceeded the five-year average - a yardstick Opec watches closely - by 67 million barrels.

This is despite the supply cuts of Opec+ and additional involuntary losses in Iran and Venezuela, two Opec members which are under US sanctions.

Opec deepened its cuts in July, the report showed. According to figures OPEC collects from secondary sources, output from all 14 members fell by 246,000 bpd from June to 29.61 million bpd as Saudi Arabia cut supply further.

Opec and its partners have been limiting supply since 2017, helping to clear a supply glut that built up in 2014-2016 when producers pumped at will, and revive prices.

The policy has been giving a sustained boost to US shale and other rival supply, and the report suggests the world will need significantly less Opec crude next year.

The demand for Opec crude will average 29.41 million bpd next year, Opec said, down 1.3 million bpd from this year. Still, the 2020 forecast was raised 140,000 bpd from last month's forecast.

The report suggests there will be a 2020 supply surplus of 200,000 bpd if Opec keeps pumping at July's rate and other things remain equal. Last month's report had implied a larger surplus of over 500,000 bpd.