STRONG EURO | Page 10

ECB is open to cut rates if growth drops

Monday, June 10, 2019
Shawwal 7, 1440 AH

GULF TIMES
BUSINESS

US TARIFFS: Page 12

Trump says more details on Mexico deal to come at the right time

Qatar's gross external debt set to fall over medium term: IMF

By Santhosh V Perumal
Business Reporter

Qatar's gross external debt, which is "sizeable" under the baseline, is projected to fall over the medium term, according to the International Monetary Fund

Qatar's gross external debt, which is "sizeable" under the baseline, is projected to fall over the medium term, according to the International Monetary Fund (IMF).

In its recently released Article IV consultation report, the Bretton Woods institution said Qatar's gross external debt has increased in recent years, from below 60% of GDP (gross domestic product) in 2013 to above 100% of GDP in 2018, reflecting growth of the banking sector's external liabilities, public-sector borrowing in response to lower oil prices, and the significant fall in nominal GDP associated with reduced oil prices.

The "significant" external assets held by the Qatar Investment Authority (QIA) and the banking sector mitigates potential risks posed by gross external liabilities, it said.

"By 2024, gross external debt is projected to fall to nearly 75% of GDP," the IMF said.

The report also noted that Qatar's real effective exchange rate has depreciated broadly in line with the US dollar with some appreciation in the recent months.

"The Qatari riyal depreciated by 1% in 2017 and by 3.7% in 2018. Heavy reliance on hydrocarbon exports and an elastic supply of expatriate labour limit the impact of the exchange rate on the current account," the IMF said, adding the country's current account position strengthened in 2018 with higher hydrocarbon prices.

The current account surplus increased to 9.3% of GDP in 2018 (from 3.8% in 2017). The recovery in hydrocarbon prices allowed hydrocarbon exports to return to levels seen in 2015, according to the IMF.

Highlighting that the capital and financial account stabilised in 2018 following large outflows in 2017; it said with large financial outflows due to the diplomatic rift, the financial account was in a substantial deficit (15% of GDP) in 2017.

"With non-resident funding returning to commercial banks, a $12bn sovereign bond issuance in April, and some accumulation of assets abroad, the financial account is close to being balanced, at a deficit of 1% of GDP, in 2018," the report said.

As Qatar is a major hydrocarbon exporter, a consumption allocation rule approach is the preferred method to assess its current account position, the IMF suggested.

"This approach reflects the need for a country with non-renewable resources to target intergenerational equity. It estimates the current account balance at which the net present value (NPV) of future hydrocarbon and investment income matches the NPV of future imports net of non-hydrocarbon exports," it said.

A current account gap relative to this estimated level indicates sub-optimal saving of hydrocarbon revenues, the IMF said, adding for 2018, the current account is 4 percentage points of GDP below this estimated level and it reduces to close to 2% over the medium term.

Stressing that the estimated gap between the non-hydrocarbon primary balances derived from a consumption allocation rule framework for 2018 is about 5 percentage points of non-hydrocarbon GDP; the report said "continued fiscal consolidation will help to close the remaining fiscal gap in the medium term."

Finding that the Qatar Central Bank's (QCB) foreign exchange reserves have recovered from the impact of the diplomatic rift; IMF said reserves at the QCB recovered to $30bn, having declined to $15bn in 2017.

In 2018, foreign reserves were 20% as a proportion of broad money and covered five and a half months of imports of goods and services, it said.

"While QCB reserves only cover 44% of the fund's reserve metric, the large stock of assets at the QIA provides an additional buffer, with assets estimated to be above $300bn," the report said.

Bulls beware: The 2020 oil market is quickly turning ugly

Bloomberg
London

Oil bulls thought 2020 would be their year. After half a decade of lower spending on new projects, oil production growth was supposed to slow to a trickle just as demand was supercharged by a once-in-a-generation shake up in the shipping fuel market. Many market commentators predicted that if $100 a barrel-oil was going to make a comeback, it would happen in 2020.

Excitement is fading fast. The first official assessment of 2020 comes from the International Energy Agency on Friday, but a first look at forecasts from consultants and traders for supply and demand balances show persistent surpluses, not the deficit that was expected to underpin rising prices.

The culprits: rising shale production, a slowing global economy and the prospect of a deepening trade war.

"The balances for 2020 were already worrisome, and the downgrade in demand we are contemplating put them potentially in the ugly category," said Roger Diwan, an Opec watcher at consultant IHS Markit Ltd.

Consultants and oil traders have already taken a first stab, and their supply and demand results show, at best, a balanced market. Many forecast supply will exceed consumption, perhaps by a large margin.

The oil market, showing characteristics typical of an equity market, is already starting to reflect the potential for a surplus in 2020. Despite a tight physical market due to Russia's pipeline contamination crisis and US sanctions on Iran and Venezuela, oil prices briefly dipped below $60 last week, down more than 20 percent from a high above $75 in late April.

"The market is asking why it should bother going long for just three months when the future looks bleak," said Amrita Sen, chief oil analyst at Energy Aspects Ltd.

The bearish outlook for next year is a problem for the Opec+ alliance led by Saudi Arabia and Russia. If the 2020 forecast proves correct, the group may be forced to keep in place its output cut far longer than originally anticipated to prevent a surge in global oil inventories.

The Opec+ alliance is set to meet in the next few weeks in Vienna to discuss its production policy for the second half of 2019.

The bulls weren't completely wrong in their analysis for next year: The shipping fuel changes, known as IMO 2020, are all but certain to boost demand for diesel, perhaps pushing that particular corner of the petroleum market into a deficit. However, supply growth, fueled by a resilient US shale industry, continues to surprise to the upside.

"The dynamic of the market has changed because of shale," Ben van Beurden, the boss of Royal Dutch Shell Plc, said in a panel at the St Petersburg International Economic Forum last week.

What neither bulls nor bears could anticipate is US President Donald Trump and his erratic policies, throwing wrench after wrench into the gears of the global economy. Earlier this month, the International Monetary Fund cut its forecast for economic growth in China – the engine of demand for commodities – to 6% next year, the lowest since 1990 and less than half the peak of 14.2% in 2007. "There is growing evidence of a sharper-than-expected slowdown in demand," said Martijn Rats, oil analyst at Morgan Stanley in London.

World economy's guardians signal readiness to cushion trade risk

'Existential threat' to WTO ignored by G20 statement: European Union

A joint communique by trade ministers from the Group of 20 countries meeting in Japan this weekend doesn't reflect the "existential threat" that could face the World Trade Organisation, the European Union said, Bloomberg reported.
Trade ministers agreed in their statement following a meeting in Tsukuba, Japan, "to undertake necessary WTO reform with a sense of urgency." It will form the basis of discussions at a G20 leaders summit set to take place in Osaka at the end of June.
"It does not however reflect the scale or the urgency of the analysis expressed about the current state of the global trading system," the EU said in response to the talks. Neither did it recognise officials' "anxieties" about the global trade system, the EU said.

US-China trade war looms large over global growth, says IMF's Lagarde

The head of the International Monetary Fund reiterated her call for the US and China to de-escalate their trade war, which she warned is the biggest risk to global economic growth, according to Bloomberg.
The global economy remains "precarious" despite projections for continued growth and early signs of stabilisation since the slowdown, IMF managing director Christine Lagarde said in a statement at the end of two days of talks between finance ministers of the Group of 20 countries.
US President Donald Trump is rattling financial markets. He hiked tariffs on Chinese products after talks with Beijing broke down, and the IMF says those and retaliatory duties from China could reduce global gross domestic product by $455bn.

Bloomberg
Hong Kong

After days of wrangling over the wording of a communique, finance chiefs from the world's largest economies warned that escalating trade and geopolitical tensions pose the biggest risk to global growth.
Officials said that although growth appears to be stabilising, it "remains low and risks remain tilted to the downside," according to the statement. "Most importantly, trade and geopolitical tensions have intensified. We will continue to address these risks, and stand ready to take further action."
Trade issues dominated discussions as officials gathered in the port city of Fukuoka in southwestern Japan. The meeting opened with news of US President Donald Trump's reversal of plans for new tariffs on Mexico, offering a sliver of good news for officials facing a lengthening worry list.
The gathering also marked the first meeting of top US and Chinese officials since negotiations between both governments for a trade agreement collapsed last month. Treasury Secretary Steven Mnuchin wrote on Twitter that his talks with People's Bank of China Governor Yi Gang were constructive and candid.
Behind closed doors, G20 officials haggled over how to describe their assessment of key challenges including trade disputes, currencies and climate change.
A fifth draft of the communique seen by Bloomberg News on Saturday included a reference to a "pressing need to resolve trade tensions," which was omitted in the final statement.
The language also shifted on currencies. A paragraph that explicitly spelled out the need for countries to avoid competitive devaluations was dropped in preference for a single line reaffirming past commitments.
A reference to a report on climate-related financial disclosures was not included in the final statement.
While past G20 gatherings such as those in the wake of the global financial crisis led to unified action, fraying alliances and rising populism are making coordinated policy harder.
On the monetary front, there are signs of increasing urgency. In the build up to the meeting, Federal Reserve Governor Jerome Powell signalled a willingness to act if the economy needs it, European Central Bank Governor Mario Draghi vowed to support growth while the PBOC's Yi said he has "tremendous" policy options to stoke demand.
Australia, India and Chile all lowered interest rates in the past week. "Central banks are heroes," OECD secretary general Angel Gurria told Bloomberg Television in an interview during the meetings. "The question is how much armoury do they still have, how many bullets, particularly silver bullets?"
The G20 communique supported a push by Japan's finance minister Taro Aso for a policy response to ageing populations, spanning fiscal and monetary policy to measures on boosting labour force participation.

Japanese Finance Minister Taro Aso (front, second left) is welcomed by IMF managing Director Christine Lagarde (top, third left), US Treasury Secretary Steven Mnuchin (front, right), and other delegation members while arriving at a family photo session of the G20 finance ministers and central bank governors meeting in Fukuoka, Japan yesterday.

Profit booking pressure weighs on Qatar shares after initial gains

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange, which yesterday reopened after Eid holidays, witnessed a rollercoaster drive with its key index making quick gains in the first half to touch 10,400 levels, but profit booking pressure later drove it 24 points down to settle below the 10,300 level.

The day, which saw two of its constituents Commercial Bank and Qatar First Bank, implement the stock split, was witness to a 0.23% fall in the 20-stock Qatar Index to 10,295.78 points.

Foreign institutions were seen net profit takers in the market, which reported year-to-date losses of 0.03%.

Market capitalisation eroded 0.37%, or more than QR2bn, to QR565.59bn mainly owing to small and microcap segments.

Islamic equities were seen gaining vis-à-vis declines in the other indices in the market, where domestic institutions were seen bullish.

Trade turnover and volumes were on the decline in the bourse, where the realty, banking and industrials sectors together accounted for more than 84% of the total volume.

The Total Return Index declined 0.23% to 18,945.1 points and the All Share Index by 0.34% to 3,041.09 points, while the Al Rayan Islamic Index (Price) was up 0.19% to 2,364.31 points.

The realty index shrank 1.15%, transport (0.68%), insurance (0.56%), banks and financial services (0.47%) and industrials (0.42%); whereas consumer goods gained 2.11% and telecom 0.1%.

Major losers included Commercial Bank, QNB, Mannai Corporation, Ezdan, Barwa, Mazaya Qatar and Milaha; even as more than 51% of the traded constituents extended gains with prime movers being Qatar Islamic Bank, Ahlibank Qatar, Qatar First Bank, Islamic Holding Group, Qatar Oman Investment, Woqod, Al Khaleej Takaful and Doha Insurance.

Non-Qatari institutions turned net sellers to the tune of QR16.31mn against net buyers of QR164.9mn last Thursday.

The Gulf institutions' net buying declined noticeably to QR0.37mn compared to QR4.53mn the previous trading day.

Non-Qatari individual investors' net buying weakened marginally to QR0.72mn against QR1.06mn on June 3.

However, domestic institutions turned net buyers to the extent of QR14.57mn compared with net sellers of QR131.02mn last Thursday.

Local retail investors were also net buyers to the tune of QR0.22mn against net sellers of QR39.57mn the previous trading day.

The Gulf individual investors' net buying strengthened perceptibly to QR0.43mn compared to QR0.04mn on June 3.

Total trade volume fell 17% to 10.46mn shares, value by 56% to QR195.61mn and transactions by 25% to 6,918.

The telecom sector's trade volume plummeted 49% to 0.38mn equities, value by 56% to QR7.88mn and deals by 53% to 470.

There was a 36% plunge in the transport sector's trade volume to 0.16mn stocks, 43% in value to QR3.69mn and 72% in transactions to 68.

The insurance sector's trade volume tanked 34% to 0.23mn shares, value by 59% to QR4.81mn and deals by 35% to 152.

The real estate sector reported a 22% shrinkage in trade volume to 3.78mn equities, 34% in value to QR33.94mn and 14% in transactions to 3,146.

The industrials sector's trade volume shrank 20% to 2.03mn stocks, value by 55% to QR29.67mn and deals by 28% to 1,327.

The banks and financial services sector saw a 16% contraction in trade volume to 2.98mn shares, 69% in value to QR84.42mn and 37% in transactions to 1,198.

However, the consumer goods sector's trade volume tripled to 0.9mn equities and value more than doubled to QR31.2mn on an 83% growth in deals to 557.

In the debt market, there was no trading of treasury bills and sovereign bonds.

An oil tanker is seen at sunset anchored off the Fos-Lavera oil hub near Marseille, France (file). Supply risks, rising demand over the northern summer, light fund positioning and a tight physical market are some of the reasons cited by Citigroup for its optimism in a note by analysts including Ed Morse, global head of commodities research.

Forget the trade war; Citi sees Brent at $78 in three months

Bloomberg
Singapore

Forget the trade war and global growth pessimism. Citigroup Inc. is sticking to its target of Brent oil rising to $78 a barrel in three months.

Supply risks, rising demand over the northern summer, light fund positioning and a tight physical market are some of the reasons cited by the bank for its optimism in a note by analysts including Ed Morse, global head of commodities research. Citi's forecast implies a 28% increase from current levels.

"Underpinned by rising trade tensions, the global economic picture has clearly deteriorated since May," Morse wrote in the note released last week. "Yet this macro pessimism masks tangible bullish oil market fundamentals."

With the oil price rout of late 2018 still vivid in the minds of producers, and with Saudi Arabia committed to drawing down oil inventories, there's unlikely to be a rapid increase in production over the summer months, according to Citi. Also, with the forward curve for Brent in "particularly steep" backwardation, consumers will probably continue to buy to lock in volumes below spot prices on a deferred basis, the lender said.

A range of technical indicators also support Citi's bullishness. Brent's 14-day relative strength index has fallen to 23, well below the 30 threshold that suggests it's been oversold. The global crude benchmark has also breached its lower Bollinger band, an indicator that a rebound is coming.

Global refinery run rates should increase by up to 4mn barrels a day in the third quarter from the previous three month amid higher consumer demand, Citi said in the note. Meanwhile, central banks are already reacting to counter the slowdown in growth, the analysts said.

"Markets are said to have a short-term memory," they wrote. "But it is hard to forget that over the last few months, most of the developments in the oil markets have actually led to a tighter market."

Iran has no plans to leave Opec despite tensions, says oil minister

Reuters
Geneva

Iran has no plans to leave the Organisation of the Petroleum Exporting Countries despite being treated like an enemy by some fellow members, Oil Minister Bijan Zanganeh said in an interview published on Saturday.

"Iran has no plans to leave Opec…and regrets that some members of Opec have turned this organisation into a political forum for confronting two founding members of Opec, meaning Iran and Venezuela," Zanganeh told the Iranian parliament news site ICANA.

"And two regional countries are showing enmity towards us in this organisation. We are not their enemy but they are showing enmity towards us…and (they) use oil as a weapon against us in the global market and world."

Zanganeh did not name the two countries.

Tensions between Iran and Saudi Arabia and the UAE – both US allies – have spiked this year after the two said they would increase oil production to make up for Iranian crude cut off from the market by US sanctions.

On Friday, US President Donald Trump's administration added Iran's largest petrochemical holding group to its sanctions list, accusing it of indirectly supporting Tehran's Revolutionary Guards.

Washington said the move aimed to dry up revenues to the elite Iranian military force but analysts called it largely symbolic.

Zanganeh was also quoted by ICANA as saying the US had made it increasingly difficult for Iran to sidestep sanctions but it had come up with new ways to circumvent them.

Ship fuel change becomes refiner gamble as heavy crude dwindles

Bloomberg
Calgary

A change in ship fuel that seemed like a sure profit churner for sophisticated refiners a year ago isn't a clear winner now.

When the International Maritime Organisation imposed clean-fuel rules for ships starting in 2020, the popular outlook was that thicker, dirtier crude would plummet in price, as it yields more of the high-sulphur fuel oil that can't be burned unless ships have special equipment to scrub their emissions. Diesel prices would surge as vessel owners use it as a substitute.

But sanctions on Iran and Venezuela, supply cuts by Opec and its allies, contaminated oil from Russia and a lack of pipelines from Western Canada have combined to push up heavy crude prices just as refiners are gearing up to produce the cleaner fuel. That's slashed the margins for the refiners able to turn the dirtiest crude into clean fuel, who appeared to be in line for a big payday.

"It was not a good year for people betting on heavy oil production helping them get large margins from IMO," said Debnil Chowdhury, head of North American Refining for IHS Markit. "It's going to be a complicated pricing exercise by the market."

Heavy crude has surged this year relative to lighter grades. Mars, pumped from the Gulf of Mexico, and Western Canadian Select from Alberta reached the strongest levels versus benchmark futures in as many as five years. Gulf Coast high-sulphur fuel oil traded at a premium to crude for an extended period for the first time since 2013.

The IMO 2020 rule will reduce demand for 3.5% sulphur fuel by 1.3mn barrels a day in 2020, Richard Chatterton, an analyst at BloombergNEF, said in a May 29 report. Daily demand for distillate fuels such as diesel will increase by 1.75mn barrels.

While complex U.S. refiners such as Phillips 66, Valero Energy Corp and Marathon Petroleum Corp are poised to benefit from IMO 2020, the outlook for them isn't as rosy as it was a year or two ago, Fernando Valle, oil and gas analyst for Bloomberg Intelligence, said by phone.

"The amount of margin has probably contracted significantly mostly because of the loss of heavy barrels," he said.

In May, Marathon said it was cancelling plans to expand coking capacity at the Garyville, Louisiana, refinery, citing its long-term outlook for heavy crude amid lower production from Venezuela, slower Canadian pipeline development and Iran sanctions. While the expansion wasn't motivated by the IMO rule, the "IMO bump"

Marathon Petroleum's Garyville refinery stands in Garyville, Louisiana (file). A change in ship fuel that seemed like a sure profit churner for sophisticated refiners a year ago isn't a clear winner now.

expected in 2020, 2021 and 2022 laid "the economic basis" for the project, Raymond Brooks, executive vice president of refining, said in December.

Higher prices aren't stopping other projects. Globally, the oil industry is projected to add 1.9mn barrels a day of coking capacity by 2023, according to research firm GlobalData. Asia will lead the way, adding 775,000 barrels a day, according to Sumit Chaudhuri, the company's oil and gas analyst.

"Seems like a bad investment right now, but we do see them shifting back to favorable economics at the end 2019 and early 2020," said Chris Barber, head of refining and biofuels analysis at ESAI Energy.

On Thursday, Goldman Sachs Group Inc upgraded Valero's stock to "buy," saying the refiner is among beneficiaries from IMO 2020 rules due to its high distillate yield. Still, refiners would be wise to temper expectations, IHS's Chowdhury said. "If I was a refiner, I would probably be conservative. I would not like to set a market expectation of something that potentially wouldn't happen."

Sure to shake Eskom bondholders: It may be 'too big to save'

Bloomberg
Johannesburg

While South African President Cyril Ramaphosa says power utility Eskom Holdings SOC Ltd is considered too big to fail, S&P Global Ratings has a different view: It could be too big to support.

The government's commitment to provide Eskom 23bn rand ($1.5bn) annually for three years is insufficient on its own to improve the company's liquidity outlook and credit rating, Engineering News reported, citing S&P Global Ratings director Ravi Bhatia. That will act as a constraint on fiscal consolidation, raising the country's overall debt burden, it cited Bhatia as saying.

That may further rattle investors who have been steady sellers of the company's dollar bonds: yields on 2021 securities have been rising for nine straight days, the longest streak since October 2015, adding 95 basis points to a two-month high. At the same time, the cost of insuring South Africa's sovereign debt against default has climbed above 200 basis points as traders consider the potential effect of Eskom's crisis on state finances.

S&P's comments highlighted "the enormity and cost of the task of restructuring Eskom into a more financially viable entity," said Bronwyn Blood, a fixed-interest portfolio manager at Cape Town-based Granate Asset Management. "Eskom cannot continue in its current form, but the costs associated with restructuring it are enormous."

South Africa's state-owned power utility is straining under more than $30bn of debt, more than half of which is guaranteed by the government. It isn't selling enough electricity to cover its operating and borrowing costs. Yields on the company's 2021 dollar bonds – which do not carry a guarantee – climbed eight basis points on Friday to 6.54%.

Eskom's liquidity position is "exceptionally fragile," and this is unlikely to change in the foreseeable future, Engineering News reported, citing Omega Collocott, a corporate-ratings director at S&P. Further bail-out options were being considered and an option would be to use the government's 350bn-rand debt-guarantee framework to directly assume repayments on behalf of Eskom, Collocott was cited as saying.

"Support for Eskom puts pressure on the government's fiscal accounts," S&P's Bhatia said in an emailed response to questions from Bloomberg. "Directly assuming Eskom's payments will add to the government's already strained fiscal deficits, thereby likely worsening its fiscal metrics."

Eskom declined to comment.

In the midst of plans to restructure the business, Eskom's board also needs to find a CEO to replace Phakamani Hadebe, who said he will step down at the end of July due to health reasons. "This role comes with unimaginable demands," he said in a May 24 statement. In addition, a chief reorganisation officer has yet to be appointed for the restructuring of the business.

The utility, which is expecting a consecutive annual loss for the financial year ending in March, said it usually announces the much-anticipated annual results in July, but hasn't set a date.

The economy is why South African banks need quick Eskom fix

Bloomberg
Johannesburg

The fingerprints of South Africa's power utility are all over the economy's demise. But fixing Eskom Holdings SOC Ltd is giving President Cyril Ramaphosa a chance to switch course on issues from climate change to growth.

"It's really important to link Eskom's restructuring to where we want to be as a country," said Roger Jardine, the chairman of FirstRand Ltd, Africa's largest bank by market value. "It has to happen as soon as possible."

The utility has lost its 10th chief executive officer in as many years, relies on bailouts to fund operations and interest payments, and, can't keep ageing coal plants running, contributing to the biggest economic contraction in a decade in the first quarter. Despite Eskom having too many workers, labour unions oppose Ramaphosa's plan to split the company into three, while no visible progress has been made on reorganising its liabilities.

"Dealing with that debt has to be accompanied by a strong operational plan," Jardine said, adding restructuring the utility can also help lead a transition from coal, which provides about 90% of South Africa's power.

Revitalising the push away from coal is an opportunity "to reset the clock" and attract private investors to help increase electricity capacity, the chairman said.

One of the world's most successful renewable-power programmes – which drew more than 200bn rand ($13bn) in investments since starting in 2011 – stalled for about three years as ex-President Jacob Zuma and former Eskom officials pushed for nuclear energy before his 2018 ousting. The government is also no closer to completing an energy blueprint that has been years in the making.

Not only do banks stutter when the economy does, globally they're also under pressure over climate-change funding, and South Africa is no different. Standard Bank Group Ltd shareholders last week voted in favor of a proposal for Africa's biggest lender by assets to disclose its coal-financing policies.

"We have coal in our lending portfolio and over time we will look at how we divest from that," said Jardine, whose company owns investment bank Rand Merchant Bank and consumer lender First National Bank.

Nedbank Group Ltd has said it will no longer fund new coal-fired power plants, which led to remarks from the ruling African National Congress's economic policy head, Enoch Godongwana, that banks may be forced to lend to the industry.

"For anyone to say 'if banks won't fund coal we will force them to' is not sensible," Jardine said. "For anyone to say 'we won't fund coal tomorrow' is also not sensible because there is a whole ecosystem here that has to be carefully migrated."

Absa Group Ltd aims to develop a policy on coal funding by researching the 12 African markets it operates in, said chairwoman Wendy Lucas-Bull.

"Each country is in a different stage of dealing with it," she said, "and it will have different implications in terms of development."

Pylons carry electricity from a sub-station of state power utility Eskom outside Cape Town in this picture taken on March 20, 2016. Despite Eskom having too many workers, labour unions oppose the plan to split the company into three, while no visible progress has been made on reorganising its liabilities.

A Swiss International aircraft flies past the HSBC headquarters building in the Canary Wharf financial district in east London in this February 15, 2015 photo. The London-based company is planning to offer local-currency credit and brokerage services, but won't be getting back into retail banking in Brazil.

HSBC's Brazil comeback strategy: Open broker dealer, boost hiring

Bloomberg
Sao Paulo

HSBC Holdings Plc is plotting a comeback in Brazil three years after selling its unit there, saying the new government's slow start in reforming the economy won't hold up its plans.

"We are still optimistic," Alexandre Guiao, HSBC's chief executive officer for Brazil, said in an interview at the bank's Sao Paulo office. "We thought the process to approve the reforms would be quicker, that the economy would be at another level by now, but we still believe the approval will happen this year and growth will take off."

A non-compete period tied to the sale of the unit to Banco Bradesco SA ended in December, and HSBC's strategy is to become "relevant" again in Brazil corporate and investment banking, Guiao said. The London-based company is planning to offer local-currency credit and brokerage services, but won't be getting back into retail banking. That business is "too competitive, and we don't have enough scale," Guiao said.

The lender is applying this month for an upgrade of its licence to let it offer more services, such as cash management, instead of just investment banking.

"We are talking to the central bank, and already let them know we're going there again next year to apply for a broker-dealer license," Guiao said.

Local-currency lending will start in the second half, and HSBC also expects to participate as an underwriter on local bonds – a market where volume dropped 12% this year from the same period in 2018, to 58.4bn reais ($15bn), according to data compiled by Bloomberg.

The lender might also make loans to Brazil's troubled states, as long as they have a guarantee from the federal government, Guiao said.

While it's preparing to reopen a brokerage, HSBC will participate in equity sales, distributing them offshore and using BNP Paribas SA as a custodian. HSBC is also one of the banks hired for an initial public equity offering by power company Neoenergia SA.

President Jair Bolsonaro, who won the October elections, has made many positive moves since taking office, including "naming the right people for the finance and economic ministries," Guiao said.

Planned divestitures by state-owned banks and companies are also a plus, according to Guiao, as those firms sell subsidiaries and stakes in units to raise cash and improve fiscal accounts. The Neoenergia deal, for example, also stems from stake sales by a state-owned bank and its pension fund. HSBC hopes to participate as an adviser on many of those transactions, working for the buyer or the seller, Guiao said.

"There is also the infrastructure investment plan, where we see a lot of opportunity for a global and specialised bank like us," Guiao said, citing roads, railroads, airports and ports.

After selling its unit to Bradesco for $5.2bn, HSBC kept a small investment-banking subsidiary in the nation with about 45 people. It could only do offshore transactions, as well as related derivatives and foreign-exchange deals. It also kept a treasury desk that invested shareholders' equity of about 1 billion reais.

The bank approved an expansion plan at the end of last year and more than doubled the number of employees in Brazil to about 100, with a goal of reaching roughly 190 by the end of 2020. Most of the senior-management team is in place, including the recent hiring of Marco Siqueira as country head of global liquidity and cash management.

Total exposure to Brazilian risk increased 15% so far this year, Guiao said. The goal is to triple revenue and profit in five years, and increase the number of clients to 650 from 150.

"The government has all the willingness to do the right thing, and because of that we're keeping the pace of our new investment plan," Guiao said.

A common Brazil-Argentina currency? A 'distant mirage' for now

Bloomberg
Brasilia/Buenos Aires

President Jair Bolsonaro's suggestion that South America's two largest economies could have a single currency akin to the euro was greeted with scepticism in Brazil and Argentina.

After meeting his counterpart Mauricio Macri in Buenos Aires on Thursday, Bolsonaro said the nations were taking a "first step" toward "the dream of a single currency in the Mercosur area, the peso real." He doubled down on the suggestion on Friday at an event in Rio de Janeiro.

The idea was also discussed by Brazil's Economy Minister Paulo Guedes and business leaders in the Argentine capital, according to UOL website. Guedes, who was traveling with Bolsonaro, cited the example of Germany and said the nations would first need to make fiscal adjustments to reap the benefit of increased competitiveness from a common currency.

Brazil and Argentina are members of the Mercosur trade bloc along with Uruguay and Paraguay.

Economists and politicians in both countries, which share a history of financial instability and even hyperinflation, reacted with distrust.

In Brazil, lower house Speaker Rodrigo Maia suggested on Twitter the plans could cause the real to weaken and inflation to return.

In Argentina, Carlos Rodriguez, a former economic policy secretary and professor at UCEMA, referred to Bolsonaro and Macri as an "ignorant pair, speaking of topics they don't know to satisfy populist demands of people that don't understand."

Memes of the peso real currency quickly started circulating on social media.

Worried about possible noise caused by the discussion, Brazil's central bank issued a statement late at night on Thursday denying there are ongoing plans or even studies for a monetary union with Argentina.

While the idea isn't new – former Presidents Fernando Henrique Cardoso and Carlos Menem discussed it two decades ago – the notion now comes at a difficult moment for both countries.

Amid its second recession since Macri took office, Argentina's peso weakened more than 50% in 2018. Meanwhile, Brazil's economy has struggled to grow little more than 1% per year since emerging from its worst-ever recession in 2017.

To be sure, both Guedes and Argentina's Economy Minister Nicolas Dujovne said the initiative would take a long time to be implemented given the necessary convergence of fiscal policies, among several other factors.

"A common currency would be unfeasible without some dramatic reforms in both countries and the timeframe for actual implementation would probably span several administrations," said Pablo Waldman, chief of strategy of INTL FCstone Argentina. "At this point, it's really no more than a distant mirage at best."

Brazilian reais and Argentine pesos are displayed for a photograph in Buenos Aires (file). While, the peso weakened more than 50% in 2018, Brazil's economy has struggled to grow little more than 1% per year since emerging from its worst-ever recession in 2017.

A building, which houses the SoftBank Group Corp headquarters, stands in Tokyo. Investors who buy into SoftBank now can get a portfolio of listed shares worth roughly 70% more than the face value of its stock, according to Sanford C Bernstein & Co analyst Chris Lane.

How Son made 62% return on SoftBank's $64bn in tech deals

Bloomberg
Tokyo

Masayoshi Son isn't one to shy away from risk. The Japanese billionaire of course established the $100bn Vision Fund to make big bets on tech startups like Uber Technologies Inc and WeWork Cos.

Less well-known is that Son leveraged his stake in the fund to boost returns if things go well – with outsized losses if things go poorly. That explains how Son has made eye-popping 62% returns so far.

The little-understood Vision Fund is one reason Son's SoftBank Group Corp trades at a steep discount to the value of its assets, according to an in-depth research report from Sanford C Bernstein & Co analyst Chris Lane. He estimates the current fund's net present value is $14bn to $24bn, assuming returns of 15% to 20%.

Lane figures that buying SoftBank today would give investors a portfolio of assets worth at least 40% more than the stock price.

"This makes no sense unless you see the Vision Fund as a value destroying entity. We don't," he wrote in the 24-page report released Thursday. "In fact, we see a huge opportunity for long-term value creation.

While SoftBank announced the Vision Fund in 2016, it only recently disclosed how the whole thing works. Limited partners, including Saudi Arabia and Abu Dhabi's Mubadala, contribute capital that is split between preference and common shares.

The former make a fixed 7% return, while the latter share in profits from the fund's investments minus certain fees.

As the Vision Fund's general partner, SoftBank holds about half the common equity and makes commensurate profits. It also gets a management fee and a performance fee of 20% on returns above 7%. That allowed SoftBank to report a 62% return after making 71 investments for a total of $64.2bn.

Limited partners made 45% on their common shares and a blended return of 29% including the preference shares. Lane, in his report, breaks down the investments so far in terms of geography and sector. The fund has put 46% of its money in the Americas, 40% in Asia and 14% in Europe, the Middle East and Africa.

Some 44% of the money has gone into transportation and logistics, including ride-hailing giants Uber and Didi Chuxing. The next biggest sectors are 'frontier' tech, consumer and real estate/construction.

Lane estimates that investors who buy into SoftBank now can get a portfolio of listed shares worth roughly 70% more than the face value of its stock.

While SoftBank traded around ¥9,900 in Tokyo on Thursday, the portfolio, which would include SoftBank's domestic telecom unit and Alibaba Group Holding Ltd, would cost ¥17,000.

The total value of the conglomerate's publicly-traded shareholdings is around ¥20tn. SoftBank's market cap is ¥10.8tn. By the company's own estimation, there is a discount of about 50%. Even adjusting for likely capital gains taxes, the premium could be as much as 25%-45%, Lane wrote.

SoftBank's share of Vision Fund's investments together with unrealised gains and performance fees is worth ¥2.7tn ($24.9bn).

The Vision Fund, which has already deployed two thirds of its capital, has come under criticism that it's pushing up valuations in subsequent funding rounds to book unrealised gains. But out of the 71 investments so far and 28 follow-on rounds, over 120 other investors took part at the same valuation, Lane wrote.

Son has also said that he is planning a second Vision Fund of about the same size. SoftBank could use its stake in ARM or the proceeds from the listing of its domestic telco to pay for its share.

"Small investors are able to access a huge portfolio of some of the most impressive new companies on the planet without having to pay fees for the privilege," Lane wrote. "This is the biggest advantage of the Vision fund."

Pakistan prepares to deal with situation in case of no IMF waiver

Internews
Islamabad

The government of Pakistan is all set to present budget 2019-2020 on June 11 based on unrealistic revenue target of Rs5.5tn ($37.41bn), which will be prone to slippages from performance criteria on every quarter review by the IMF.

In case of no waiver from the IMF, the government will come up with a mini-budget after every review to avoid default on the revenue target with more measures on taxation making the PTI government most unpopular.

If the government does not come up with a mini-budget to avoid the masses wrath, then the IMF programme loan of $6bn will stand suspended multiplying the economic miseries of the country.

However, the IMF that seems highly influenced by the Trump administration will extend the waiver only when Pakistan will totally show readiness to cooperate on non-economic issues such as cooperation on issues related to Afghanistan and terrorism up to the satisfaction of the US.

In case of no waiver, there's going to be a danger for the country of being declared a defaulter. So the government is left with no option but to achieve the revenue target.

In order to avoid the slippages from the target and waiver from the IMF as well, Pakistan will have to increase the GST from 17% to 20% in the mini-budget if it fails to achieve the target after the first quarter.

1% GST means the revenue of Rs80bn and 3% means accumulation of Rs240bn more in revenue. According to eminent economist Dr Hafeez Pasha, the government also needs to have a contingency plan if it defaults on achieving targets in every quarter.

He suggested that under this scenario the government had to come up with a contingency plan for increase in GST up to 20% and increase import duty from 2 to 5%.

"This will immediately give the required relief to the government on the revenue side to keep the default away," he said.

However, Dr Pasha said during the PTI government rule so far, about 10,00,000 people had lost jobs and in the next budgetary year 10,00,000 more will get unemployed while 45,00,000 people will go blew the poverty line, as the economy of $313bn has shrunk to $280bn which will further reduce to $260bn in the next budgetary year.

Mentioning the revenue target, he suggested that the government to do away with all tax exemptions available to the affluent class.

He mentioned that two years back the income tax limit was up to those having Rs4, 00,000 annual income, but later on the limit was increased to those having Rs12,00,000 income. Dr Pasha asked the government to impose income tax by reducing the annual income limit to 6,50,000 from Rs12,00,000.

He also opposed the government's decision to end zero rating for the export industry, including the textile industry, saying export industry was the lifeline of Pakistan's economy and through export industry Pakistan could only earn US dollars.

Dr Pasha also suggested that the government should avoid imposing any tax on investment and export industry, as these were the areas which could bail Pakistan out of the economic morass.

Pakistan government misses all key economic targets

Internews
Islamabad

Pakistan's economic growth in the financial year ending on June 30 is expected to hit 3.3%, well below the target of 6.3% set by the previous government, as the government has failed to meet targets in nearly all sectors, according to the Economic Survey.

The Economic Survey of 2018-19 is scheduled to be officially released a day before the next year's budget on June 11, but some of its details were learnt from reliable sources.

It indicates that livestock is the only sector whose growth went slightly above the official target while all other sectors performed below expectation.

A sharp decline was witnessed in the industrial sector that registered a growth of 1.4% against the target of 7.6% despite the fact that power generation witnessed an increase as several power plants and other power sector projects were completed.

Also, the manufacturing sector slid by 0.3% and the large scale manufacturing (LSM) showed a negative growth of 2% against the target 8.1%. The service sector grew by 4.7% against the target of 6.5%, while the construction sector achieved the growth of 7.6% against a 10% target.

Delays in making key policy decisions by the government, including the one about going to the International Monetary Fund (IMF) for a bailout package and those related to the construction and industrial sectors, created confusions among investors, experts believed.

The only achievement made by the government during this period was in the livestock sector that grew by 4% against the target of 3.8% though policies of the previous government at centre and in the provinces played a key role in this regard.

An official of the national food security ministry said extensive efforts were made to control foot and mouth disease (FMD) and the Food and Agriculture Organisation (FAO) had recognised Pakistan's success.

"This has increased their survival rate and the number of livestock has improved across the country, besides the 'livestock loans insurance scheme', launched in 2013, too, encouraged more people to raise farm animals," the official added.

Bloomberg QuickTake Q&A

Understanding 'unreliable entities' blacklist in China

James Mayger
Beijing

US President Donald Trump has made the economic confrontation with China about much more than tariffs, with a move to cut off US supplies from its biggest telecommunications company, Huawei Technologies Co China appears to have responded in kind: With the establishment of a list of what it calls "unreliable entities," the government says it will act against foreign companies that damage their Chinese counterparts. The announcement raises more questions than answers.

1. What is an 'unreliable entity'?

It's a foreign company, organisation or person which China says has "severely damaged the legitimate interests" of Chinese firms by not obeying market rules, violating contracts or blocking or cutting off supply for non-commercial reasons. "Necessary measures will be taken" against those on the list, Ministry of Commerce spokesman Gao Feng said when he announced it May 31.

2. Who's on the list?

So far, no one outside China's government knows. However, the broad definition of "unreliable entities" opens the possibility that a great swath of the global technology industry could be targeted, including US giants such as Alphabet Inc's Google, Qualcomm Inc and Intel Corp, as well as non-American suppliers that have cut off Huawei like Toshiba Corp and SoftBank Group Corp's ARM Holdings.

The commerce ministry has promised more details "soon."

3. How might this play out?

That's unclear, too, but there may be a pointer from China's recent announcement that it was investigating FedEx Corp for miss-routing some parcels sent by Huawei. While there's been no official link to the "unreliable entities" list, state media framed the probe of the American shipping company as a warning to the US after its actions against Huawei. Days later, China fined Ford Motor Co's main joint venture in the country for what it said were antitrust violations.

4. So the blacklist is a trade war play?

That's how it looks, given the timing. Chinese Vice Commerce Minister Wang Shouwen played down concern that the "unreliable entities" list would be used to target foreign companies as a retaliation tool in the trade war, saying that might be an "over-interpretation." He also said "there's no grounds to blame China" for starting an investigation into FedEx. Meantime, China is also gearing up to use its dominance of rare earths as a counter in the trade war, according to a salvo of media reports in China.

5. Are all foreign companies vulnerable?

The director of research at the China Society for World Trade Organisation Studies, a think-tank affiliated with the Ministry of Commerce, said companies that are investing and producing in China could be spared the "unreliable entity" designation. The list is more likely to target logistics firms and companies that export to China, according to the researcher, Cui Fan.

Pimco likes China and Indonesia bonds, turns away from India

Bloomberg
Mumbai

Pacific Investment Management Co is turning away from Indian bonds in favour of Chinese and Indonesian debt, saying their valuations have become more attractive and slower growth will spur policy easing.

Securities denominated in the yuan and rupiah have also become more enticing due to contained domestic inflation, according to Roland Mieth, emerging-markets portfolio manager in Singapore at Pimco, which oversees about $1.8tn globally.

"We see Indian bonds as more neutral compared to other duration markets in Asia, including countries like China and Indonesia where we expect rates to provide a positive return proposition," Mieth said. "Rates easing, inflation remaining stable and growth either slowing down or remaining stable" enhance the appeal of yuan and rupiah bonds, he said.

Speculation the Federal Reserve will ease policy is shaping the narrative for bond investors across Asia, as funds calculate a US interest-rate cut will pave the way for other central banks to follow suit.

Aviva Investors and Principal Global Investors are also favouring Chinese bonds on speculation the central bank will adopt an accommodative stance. The yield on the nation's 10-year debt has fallen almost 20 basis points from this year's high to 3.25%.

The offices of Pacific Investment Management Co in Newport Beach, California. Pimco is turning away from Indian bonds in favour of Chinese and Indonesian debt, saying their valuations have become more attractive and slower growth will spur policy easing.

Indonesian bonds may lure greater inflows after the central bank indicated last month it may be open to an easing if conditions warrant.

Rupiah sovereign debt has returned almost 5% this year, according to Bloomberg Barclays indexes.

The Reserve Bank of India may lower interest rates again, but Pimco would like to see more details on the new government's fiscal policies before boosting its holdings of rupee debt, according to Mieth.

Pound may fall to 2-year low if new PM backs no-deal Brexit

Bloomberg
London

The pound may slide to a two-year low if a hardline euro-sceptic takes over as UK prime minister, according to a Bloomberg survey of analysts.

Sterling could drop more than 2% to $1.24 in the event a Brexiteer who supports a no-deal split from the European Union replaces Theresa May after the contest to replace her starts formally in the coming week, according to the poll.

While the survey sees such an outcome as the most likely scenario with a 70% probability, analysts expect lawmakers to provide a barrier against a no-deal exit and prevent a bigger drop in the currency.

The pound's fortunes have ebbed and flowed since the 2016 EU referendum along with the chances of a Brexit deal. With May stepping down after failing to get her agreement with Brussels through a divided Parliament, some of her leadership rivals are trying to put a no-deal exit back on the table as they seek support from a euro-sceptic Conservative Party.

"A PM who supports hard Brexit does not necessarily mean a hard Brexit being materialised," said Petr Krpata, chief EMEA currency strategist at ING Group NV.

"There appears no majority in the Parliament for hard Brexit and also the PM, when elected, may loosen his or her current hard Brexit stance."

Candidates including former Foreign Secretary Boris Johnson – the current favourite – and former Brexit Secretary Dominic Raab have said they would be prepared to allow a no-deal Brexit in order to make sure Britain leaves the EU by the deadline of October 31. Conservative lawmakers will whittle down the field of 11 hopefuls this month to a final pair voted on by party members.

Other candidates such as Environment Secretary Michael Gove and Foreign Secretary Jeremy Hunt would be open to extending the deadline to leave the bloc again. That scenario was also seen as likely by the 12 in the poll, with a two-thirds probability, and would drive the pound up to $1.30.

The other currency-positive scenario would be for a Tory leader with a softer approach to Brexit, which is seen as less likely at a 30% probability and would also lift the pound to $1.30. The pound has slumped nearly 3% in the past month to trade around $1.27 after a strong start to the year, and saw a record string of losses against the euro in May.

"We now see a rising chance that the UK will be compelled to ask the EU for a further delay to Brexit," said Mark Haefele, global chief investment officer at UBS Wealth Management, predicting that would see the pound trade in a range of $1.28-$1.34.

"This would, in turn, raise the probability of a snap general election or second Brexit referendum." While most candidates are keen to avoid the Brexit impasse leading to an election, following a drubbing for the Conservatives in last month's European parliamentary vote, an election victory for the opposition Labour Party is seen as the worst scenario for the pound, driving sterling down to $1.20.

Labour unexpectedly won a by-election on Thursday, after bookmakers had predicted a win for Nigel Farage's pro-Brexit movement. The result came as a further blow to the Tories, who were relegated to third place, having lost votes to Farage's party.

With the politics already weighing on sterling, the currency will have to contend with a battery of UK economic data this week, including an expected drop in factory production. Recent manufacturing and construction survey data have already signalled the economy is close to stagnation, while retail sales saw the biggest tumble since 1995.

Whoever takes over from May will first have to deal with Brussels, which does not want to reopen the divorce talks, with an unchanged parliamentary arithmetic, and the issue of the Irish border that has been an obstacle to lawmakers' support. These factors are keeping many investors in UK assets on the sidelines, and are reflected in the survey seeing the pound anywhere between $1.15 and $1.40.

"The new prime minister will be facing similar problems," said Jeremy Stretch, head of Group-of-10 currency strategy at Canadian Imperial Bank of Commerce. "The range of expectations and outcomes are pretty broad and wide ranging so it makes it remarkably difficult to predict the pound."

A man holds a selection of pound sterling banknotes in an arranged photograph in London. The pound may slide to a two-year low if a hardline euro-sceptic takes over as UK prime minister, according to a Bloomberg survey of analysts.

Russia's Sibur eyes Moscow IPO no earlier than 2020, says CEO

Reuters
Moscow

Russia's largest petrochemicals company, Sibur, may carry out a long-planned initial public offering (IPO) no earlier than 2020 and eyes Moscow as the main venue for the listing, Sibur's chief executive Dmitry Konov said.

Sibur had previously said it would be better placed for an IPO, which it last year estimated at as much as $3 bn, after its huge new plant in western Siberia, ZapSibNefteKhim, is launched.

Konov told Reuters that Sibur has completed construction of the plant but said he would rather not predict when the plant will start working at full pace.

"We will launch production this year, there will be output.

But the exact timing of reaching the projected capacity depends on many factors," Konov said.

Speaking on the sidelines of an economic forum in St Petersburg, Konov said Sibur would prefer listing on the Moscow Exchange to having shares also traded on a bourse abroad.

He declined to comment on a possible IPO price. Speaking about the trade row between the United States and China, Konov warned this could have a negative impact in the long term, while it could provide some opportunities in the near future.

China in May decided to levy an additional tariff of 25% on some US goods including liquefied natural gas, soy oil, peanut oil, petrochemicals, frozen vegetables and cosmetics.

Washington promised to retaliate. This week, US President Donald Trump threatened to hit China with tariffs on "at least" another $300bn worth of Chinese goods, a move that crowned trade tensions that have risen sharply since talks aimed at ending a festering trade war broke down in early May.

"Any trade wars and a decline in the international trade entail lower economic growth, which is bad. In the near term, some could make money on changes in (trade) flows," Konov said.

"But that's a win in the short term and a loss in the long term." Amid global trade issues, Sibur and China Petroleum & Chemical Corp (Sinopec) signed a number of cooperation agreements earlier this week to join forces, particularly in processing natural gas into petrochemicals in Russia and China.

The deals were signed on the day that Chinese President Xi Jinping met his Russian counterpart Vladimir Putin in Moscow and called him his "best friend".

The two leaders are also set to speak at the same panel at the St Petersburg forum on Friday.

Sibur and Sinopec have also signed a distribution agreement to supply polyethylene to China from Sibur's ZapSibNeftekhim site, the plant that plays the milestone role in its IPO plans.

"This agreement hedges us against the way we are doing on other priority markets," Konov said, referring to the polyethylene deal without giving details on how it will affect Sibur's production figures.

Trump's currency war plan puts Treasury, Commerce at odds

Bloomberg
Washington

President Donald Trump is poised to turn the $5.1tn-a-day global currency market into the next battlefield in his trade war with a proposal that has set two US government agencies on a collision course.

A Commerce Department proposal to impose countervailing tariffs on countries that it determines have devalued their currencies has alarmed officials at the Treasury Department, according to four people familiar with the matter. They are wary of market disruptions and a politicisation of foreign-exchange policy, among other concerns, the people said.

An initial draft of the plan included what some officials considered misguided economic assumptions and was too blunt an approach to the issue, the people said. Part of Treasury's job is to monitor US trade partners for currency manipulation.

The proposal is part of a dramatic escalation of Trump's trade war. Last week, the president said he'd impose escalating tariffs on all Mexican goods unless the country curbs illegal migration to the US. On May 10, Trump raised tariffs on another $200bn in Chinese goods after he said Beijing reneged on provisions of a tentative trade deal.

"The Trump administration has clearly signalled that currency conflicts are the next front in the trade war against countries with whom the US runs large trade deficits,'' said Eswar Prasad, an economics professor at Cornell University.

China has blamed the US for the impasse in trade talks and has vowed to retaliate for the increased tariffs. Mexican officials are in Washington this week to try to stave off tariffs that Trump said will be imposed today.

The Commerce Department proposal risks adding uncertainty to an already volatile US trade policy, with additional repercussions for the dollar. Historically, presidents and their administrations have promoted the mantra of a strong dollar being in the nation's interest in part to bolster foreign demand for US debt.

Yet pressuring trade partners who are seen as devaluing their currencies could have the effect of weakening the greenback.

"The US is implicitly moving towards a weak dollar policy with its unwillingness to condone other currencies' weakness against the dollar,'' said Prasad, author of The Dollar Trap.

In a report to clients on Thursday, Morgan Stanley analysts said this week's meeting in Japan of Group of 20 finance chiefs "could see the dollar coming under early selling pressure."

Commerce says that the purpose of its proposal is to "provide relief'' to American workers, farmers and businesses "injured by unfairly subsidised imports,'' according to the regulatory filing in which it was announced. It doesn't expect that this type of countervailing duty, or CVD, would deter trade with any country, according to the proposal.

But current and former Treasury officials aren't so sure.

While there is value in the US addressing harmful currency practices, tactics such as tariffs "could disrupt global trade and capital flows, create currency wars and damage the international monetary and financial system,'' said Mark Sobel, a former Treasury official.

"The harm would only worsen if others retaliate in kind,'' he said.

Sobel was a senior-level civil servant at Treasury in 2007 when Congress unsuccessfully pressured the George W Bush administration to impose a similar countervailing duty, with China a key target.

Treasury and Commerce Treasury representatives didn't respond to requests for comment on the conflict between the two departments. A spokeswoman for Commerce declined to comment. Commerce's proposal doesn't identify any individual country as a target. It would allow American companies to seek anti-subsidy tariffs on products from countries considered to be engaging in competitive devaluation. The US government could also initiate an investigation, according the May 23 regulatory filing.

The regulation, if implemented, would be administered by the enforcement and compliance unit inside of the Commerce's International Trade Administration, an agency spokesman said.

A decision to apply a countervailing duty on exports would rely on a framework for analysis to be developed by Treasury, the proposal said. Criteria for the framework would be decided after a public comment period closes on June 27, a senior Treasury official said in a briefing with reporters before Treasury Secretary Steven Mnuchin left for the G-20 gathering in Japan.

Treasury aims to make the framework public and keep it consistent with its semi-annual foreign-exchange report to Congress, according to the official, who spoke on the condition of anonymity. The US government has used that report to signal action against countries suspected of manipulating their currencies.

But in deciding whether to impose countervailing tariffs, Commerce could disregard Treasury's analysis if it "has good reason to disagree,'' according to the proposal. Treasury officials fought to include language in the proposal that would require Commerce's currency assessments become part of the public record, people familiar with the matter said.

Publicly pitting two US agencies against each other is "highly unusual'' and risks leaving the administration in an "awkward position,'' said Doug Jacobson, a trade lawyer at Jacobson Burton Kelley in Washington.

If Commerce overrides Treasury's assessment of a country's currency practices, that paper trail could land the US government in court with companies seeking to avoid tariffs, Jacobson said.

Currency traders, meanwhile, say they're wary of any kind of government intervention in the market – especially by the largest and most important economy in the world.

"We would much prefer currencies to trade based on fundamentals of monetary policy and economic data than tweets'' and other kinds of political intervention, said John Doyle, a currency strategist at Tempus.

Trump has an unlikely ally in suggesting an aggressive currency policy to achieve economic goals: Democratic presidential candidate Elizabeth Warren. In a plan released earlier this week, she called for "actively managing'' the dollar to bolster US jobs and growth Warren, a Massachusetts senator, blames foreign investors and central banks for having "driven up the value of our currency for their own benefit.

Bond traders see little on radar to derail Fed rate cut bets

Bloomberg
New York

There's little ahead to quash the bond market's confidence that the Federal Reserve will cut rates as soon as July, as the backdrop of weakening growth and tepid inflation may outweigh any potential easing of trade tensions in the coming days.

The focus now for traders – who see a quarter-point rate cut by the end of July as a lock – comes on Monday or even earlier, ahead of a US deadline for tariffs on Mexican goods.

US President Donald Trump said on Friday there's "a good chance" of a deal with Mexico, but improvement on that front may not move the needle much as negotiations with China are still looming.

Data next week could also confirm that inflation remains tame, and with Fed officials entering a blackout period before their June 18-19 policy meeting, they'll have no opportunity to push back against the market's prevailing narrative.

Traders' conviction that easing is inevitable only grew after Friday's jobs report for May showed that US employers added the fewest workers in three months as wage gains cooled.

"The deadline for Mexico's tariffs is top on our mind now, yet even if they are delayed the market will likely still price in about a 50-50 chance for a Fed rate cut in July," said John Briggs, head of strategy for the Americas at NatWest Markets.

"That's because the inflation backdrop remains benign.

And the hurdle for getting the Fed to reduce rates may be lower now given growth concerns are increasing."

Ten-year yields touched 2.05% on Friday, the lowest since September 2017. They're about 20 basis points below three-month rates, a worrisome sign for some investors because this kind of inversion has heralded recessions in the past.

Traders expect about 70 basis points of easing by the end of 2019, which would mean potentially unwinding three of last year's four rate hikes.

NatWest's Briggs sees the 10-year yield ending the year at 1.85%.

The bank's economists forecast that the Fed will lower rates by a quarter-point in both September and October.

Most Fed watchers' base case is that the central bank stands pat in June before more likely cutting in July.

Chairman Jerome Powell opened the door to a possible rate cut this week when he said the Fed "will act as appropriate to sustain the expansion."

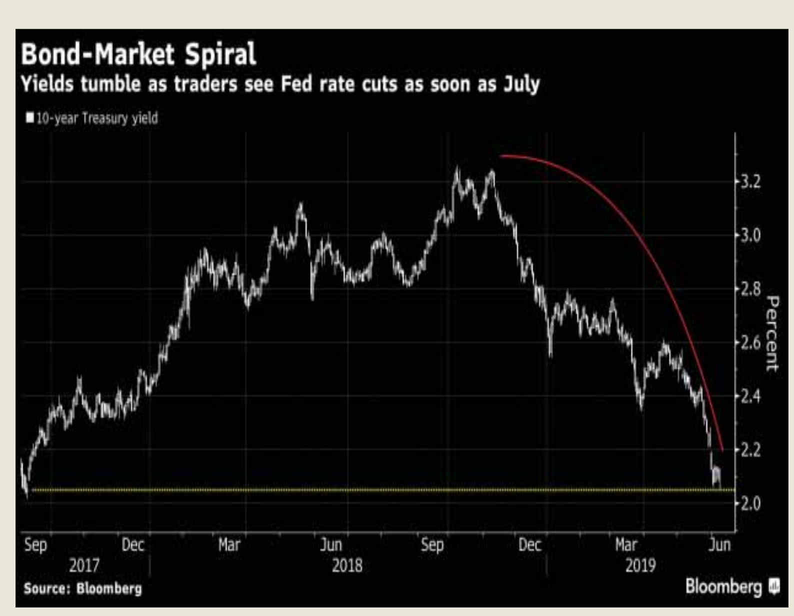
A June 12 update on consumer prices is expected to show that inflation remains subdued. The consensus forecast is for an annual increase of 1.9% in May, down from 2% in April.

While Friday's data were downbeat, it wasn't all doom and gloom this week: A measure of service industries beat almost all estimates.

The market's confidence in rate cuts does raise the risk of volatility if traders have to re-evaluate their outlook, said Nancy Davis, founder of Quadratic Capital Management LLC, which specializes in options-based macro strategies.

Bank of America Corp's MOVE Index, a measure of anticipated price swings in Treasuries, surged this week to its highest since January 2017.

"The rates market is forcing the Fed's hand," Davis said. "But I don't think the Fed at its next meeting is going to be as dovish as people are expecting, as overall the data isn't that bad."



US fund 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% after rising as high as 2.55% 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-tn sector produced a total return of 2.35% 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% 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% over the next year "would not be out of the question."

The core consumer price index increased at an annual rate of 1.6% in April, well below the Fed's target rate of 2%. Fed chairman Jerome Powell said on Tuesday that the central bank is watching the fallout from the ongoing trade war between the US and China and will react as "appropriate."

Bob Miller, a portfolio manager and head of US multi-sector fixed income at BlackRock, said he expects the Fed to cut interest rates by 50 basis points by the end of this year because of slowing global economic growth.

"The challenge is that the rest of the world is doing worse than expectations from six months ago, with Europe being particularly soggy over the last year.

With the rest of the world proving disappointing and US growth already decelerating, I think you will see the Fed respond," he said.

As a result, Miller said he still sees value in the benchmark 10-year Treasury, as well as intermediate notes that mature in three to seven years.

If the Fed does cut rates, that could lead to opportunities in higher-quality emerging market debt in countries with good structural fundamentals, he said. A prolonged rally in bonds could mean the end of the bull market in equities, which had sent the benchmark S&P 500 index up as much as 16% for the year-to-date in April and continued to push Treasury yields lower.

"The growth backdrop is deteriorating.

The US economy was expected to slow, but the risk is that it will slow more than previously expected," and eat into corporate earnings, Miller said. After its strong start for the year, the S&P 500 is down nearly 4% since the start of May as the United States and China remain at an impasse over trade and tariffs.

Further declines in the US equity market could bring more waves of buyers into the bond market, further pushing yields lower, said Terri Spath, chief investment officer at Sierra Investment Management.

"There's a perception with US stocks that they can go quickly from flawless to hopeless, and since May 1 it's been more hopeless for stocks," she said.

Spath said she is continuing to put assets into long-term Treasury bonds and has zero of her portfolio in cash, after having as much as 80% in cash during the steep selloffs in both the equity and fixed-income markets in November.

"I'm not hiding under my desk yet because of a fear of a recession," she said, "but I think there's room for yields to go even lower."

Funds boost gold bet by most since 2007 as trade war toll mounts

Bloomberg
New York

Trade wars are proving food for gold. Hedge funds boosted their long position in bullion by the most in almost 12 years. That's paying off, as gold futures surged to a 13-month high Friday on revived demand for the metal as a haven asset.

Funds are returning to gold as the US-China trade war, geopolitical tensions and signs of a swoon in global manufacturing dominate investors' attention.

Reduced forecasts from the IMF and World Bank underscored rising concern over the global economy, helping bullion shake off its fits-and-starts pattern to rallies seen through much of 2019. Gains in exchange-traded funds and mining stocks rounded out the rally.

"The macro environment has changed for gold and the wind is at its back," said Maria Smirnova, a Toronto-based portfolio manager at Sprott Asset Management, which oversees C$10.6bn ($7.98bn). "We've been seen signs of weakness in the economy for several months now."

Gold futures for August delivery advanced 0.3% to settle at $1,346.10 an ounce Friday on the Comex in New York. That marked an eight straight daily increase, the longest run for a most-active contract since January 2018. The metal posted its biggest weekly gain in more than a year.

Hedge funds increased their long position in US gold futures and options by 38% to 174,233 contracts in the week ended June 4, Commodity Futures Trading Commission data showed on Friday. The net-long position more than tripled, while short-only wagers fell.

To counter heightened geopolitical and economic uncertainty, governments around the world including those in Russia and China have been on a bullion-buying spree in a bid to diversify reserves, according to the World Gold Council.

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The metal, which doesn't offer a yield, is also getting a boost from declining interest rates amid increased expectations that the Federal Reserve will ease monetary policy this year.

Anticipation of lower rates, which make gold more competitive against assets that offer interest, got a further boost on Friday on a US report that showed hiring and wage gains cooling in May and downward revisions to payrolls in prior months.

"The world economy is slowing, inflation is below target, and now the slowing US economy with today's no-jobs report is the final straw to break the camel's back for the Federal Reserve sitting on the sidelines," Chris Rupkey, chief financial economist at MUFG Union Bank NA, said in an emailed report on Friday.

"Rate cuts are coming. Bet on it.'' JP-Morgan Chase & Co said the probability of a US recession in the second half of this year rose to 40% from 25% a month earlier.

Working against the case for a durable gold rally is a still-strong dollar and low inflation, according to Rob Haworth, senior investment strategist at US Bank Wealth Management in Seattle, which oversees $159bn. Gold is often used as a hedge against inflation.

"You are not getting reflation and that's one of the headwinds for gold," Haworth said by phone. "In the long run, we're still seeing a strong dollar. We're not seeing that trend reverse yet, and if that does reverse I think gold and foreign assets start to look a little more interesting."

Mnuchin says forex tariff push isn't shift to weak dollar policy

Bloomberg
Washington

US Treasury Secretary Steven Mnuchin says currency policy can be an important tool to address trade imbalances, and that a recent proposal to tariff countries that engage in competitive devaluation doesn't represent a preference for a weak dollar.

The Trump administration last month signalled intent to turn the $5.1tn-a-day global currency market into the next battlefield of his trade war with a Commerce Department plan that would allow the US to apply countervailing tariffs on nations seen to be actively driving down their currencies to boost exports.

Rebutting the view that such a regulation would signal the Trump administration's shift towards a weak dollar policy, Mnuchin described it as "another important tool in the toolkit to make sure that we have fair and balanced trade." He spoke in an interview on Saturday in Fukuoka, Japan, where he's meeting counterparts from the Group of 20 gathering of the world's major economies.

"Currency is now one of the issues we can look at in terms of subsidy," Mnuchin said, noting that the administration acknowledges the difference between monetary and currency policy. "You can intervene and support your currency – that's not manipulation."

The preference for a more active currency stance is gaining momentum as US policy makers grapple with a wave of economic populism that brought President Donald Trump into office. His election in November 2016 highlighted an overlooked part of the electorate frustrated with trade-related job losses.

Elizabeth Warren, a Massachusetts senator, has called for "actively managing" the dollar in an effort to appeal to manufacturers, saying it would bolster US jobs and growth. The move would break from a long-standing currency agreement among the world's 20 major economies to allow markets to determine foreign-exchange rates.

A Federal Reserve gauge tracking the greenback against 26 of the largest trading partners is close to its 2002 record high. The steady strengthening of the buck has the Trump administration calling for foreign-exchange clauses as a backstop in every new trade deal it strikes. Canada and Mexico signed on to foreign-exchange provisions, and China and Japan are expected to do so too if they manage to reach agreements with Trump.

America's long-held currency doctrine – that a strong dollar is in the nation's best interest - is facing a rethink amid the greenback rally and trade tensions. Already under Trump, Treasury has expanded the number of countries whose currencies are scrutinised to 21 from 12, with nine of those on a watch list - including China.

The Commerce Department is suggesting the US take an even more detailed view of currencies through a new countervailing duty rule. It says that the purpose of its proposal is to "provide relief'' to American workers, farmers and businesses "injured by unfairly subsidised imports." Commerce's proposal doesn't identify any individual country as a target. It would allow American companies to seek anti-subsidy tariffs on products from countries considered to be engaging in competitive devaluation.

A decision to apply a countervailing duty on exports would rely on a framework for analysis to be developed by Treasury, the proposal said.

Mnuchin downplayed the Commerce proposal as a technical issue, rather than marking a significant new policy development.

The goal is to "address when a country is using their currency for competitive purposes and devalues their currency for the purposes of trade."

SPOTLIGHT ON COMMODITIES

Markets look to Fed for support amid recession risks

By Ole Hansen

Global commodity markets have seen their fair share of turmoil in recent weeks. The potential twin disruptive impact of trade war and upcoming recession helped sent energy and industrial metals sharply lower during May while continued weather related disruptions to the US planting season saw grain prices surge higher.

These developments, which hurt global stocks, eventually helped trigger a dramatic rally in US bonds with the 10-year yield dropping to a 21-month low. The biggest and eventually market-supportive development has been the significant drop in the future US Fed funds expectations.

The rally in Fed funds futures during May has seen rate cut expectations over the next 12 months double from 0.5% to 1%. This development has been the main reason behind the latest recovery in gold and silver, but also one that now poses its biggest short-term challenge should economic data improve. This with reference to the Federal Open Market Committee, led by chair Powell which, at least for now, is not signalling a willingness to adopt the recent aggressive change in market expectations. Despite Europe having their own and potential bigger economic problems, the prospect of lower US rates, something the ECB will struggle to do with rates already on the floor, has supported some profit taking and for commodities supportive dollar weakness.

Precious metals traded higher for a second week before gold once again struggled ahead of the hitherto impenetrable area of resistance between $1,365 and $1,390/oz. The monthly US job report provided an additional layer of support after missing all estimates with US employers adding the fewest workers in three months while wage gains cooled.

Crude oil began the week on the defensive with continued focus on the risk to global growth and demand which drove the recent 10-dollar slump. In addition, the weekly US stock report proved challenging following another big jump in US crude oil stocks. In fact, the 22.5mn-barrel weekly rise in crude and product stocks was the biggest since records began in 1990.

A pickup in global equities as sentiment recovered together with technical and psychological support at $50/b on WTI and $60/b on Brent, however, proved strong enough to attract fresh buying.

The short-term focus will move to monthly oil market reports from the EIA on June 11, Opec on June 13 and the IEA on June 14. The market will scrutinise these reports for any change in the demand outlook from these major forecasters.

Gold: Two weeks of steep gains with the latest providing the best return in two months have left the yellow metal in need of consolidation, especially given its continued struggle to mount a challenge at the above-mentioned area of resistance between $1,365 and $1,390/oz. We maintain the view that global growth momentum is slowing and likely to worsen further before renewed policy panic from global central banks will help to stabilise the outlook. On that basis, we believe that gold will continue to act as a late-cycle hedge which eventually will see it challenge resistance. From a technical perspective a breakout of the range that has prevailed since 2014 could initially trigger a $100 extension towards $1,480/oz, the 50% correction of the 2011-15 sell-off.

Silver: Silver's recent rally following the breakout from its downward sloping wedge has so far met resistance at $15/oz. In a recent update, we highlighted the potential for silver to outperform gold due to the risk of short-covering from funds holding a near record net-short in COMEX silver. On that basis we maintain a focus on the XAUXAG ratio which has so far seen three failed attempts to break above 90 (ounces of silver to one ounce of gold), a move that would signal additional relative silver weakness.

Copper: HG copper continued to signal a challenging macro-economic outlook as it headed towards its eight consecutive weekly drop with continued focus on the trend-line, currently at $2.6/lb, dating back to early 2017. Technical traders see this support as being the neckline of a major head-and-shoulder formation which on a break could signal further losses.

Some support was found in response to the general improvement in risk sentiment and more specifically for copper the prospect of additional Chinese stimulus and comments from Codelco, the world's largest producer that demand remains good.

The chief commercial officer even warned that the latest price deterioration could deter much-needed investments and further negatively impact future supply outlook which is already tightening.

Crude oil: The difficulty in navigating a market with several and major opposing forces was laid bare recently when following a period of rangebound trading Brent crude oil collapsed. The 10-dollar slump towards key support at $60/barrel was triggered by President Trump's decision to add tariffs on Mexican imports in order to force a reduction in the flow of migrants from Central America.

The temporary break below occurred this past week following the mentioned counter seasonal jump in US crude stocks.

The recession themed sell-off has in our opinion potentially run its course for now after Brent crude found support around $60/b. A sustained break below could signal a return to the December low which current fundamentals just simply don't support, at least not while the structure of the Brent forward curve continues to scream tightness. The prompt contract of August currently trades close to $3/b above the price for delivery in six months' time, a near five-year high.

Arabica coffee: The fragile state of the coffee market was once again put on display this week when Arabica coffee futures in in New York dropped by 7.3%, their worst one-day drop since 2010. The sell-off came after the market had rallied by 19% since mid-May.

The initial rally last month was led by frost fears and a stronger Brazilian real; these developments helped trigger short covering from hedge funds while also attracting renewed buying from traders looking for the price of beans to bounce from a 14-year low.

The heightened volatility could indicate an emerging battle ground between buyers and short sellers who for many months have been benefiting holding and rolling short futures positions.

■ *Ole Hansen is head of commodity strategy at Saxo Bank.*

QATAR

Company Name	Lt Price	% Chg	Volume
Zad Holding Co	123.00	0.00	1,128
Widam Food Co	58.00	-0.46	8,723
Vodafone Qatar	7.04	-0.14	284,945
United Development Co	13.85	0.36	367,637
Salam International Investme	4.30	4.62	249,343
Qatar & Oman Investment Co	5.65	3.29	41,652
Qatar Navigation	62.71	-2.02	4,119
Qatar National Cement Co	65.60	0.15	13,581
Qatar National Bank	184.05	-1.05	110,200
Qatar Islamic Insurance	57.50	0.00	1,235
Qatar Industrial Manufactur	37.81	-1.79	9,169
Qatar International Islamic	73.39	-0.74	195,393
Qatari Investors Group	22.04	1.05	2,975
Qatar Islamic Bank	172.00	1.18	101,109
Qatar Gas Transport(Nakilat)	21.50	-0.09	159,702
Qatar General Insurance & Re	41.80	2.98	350
Qatar German Co For Medical	5.59	9.82	431,561
Qatar Fuel Qsc	213.00	3.40	101,149
Qatar First Bank	4.29	2.14	1,596,257
Qatar Electricity & Water Co	165.01	-0.81	15,406
Qatar Exchange Index Etf	101.54	-0.23	202
Qatar Cinema & Film Distrib	19.90	0.00	-
Al Rayan Qatar Etf	23.59	-0.30	42
Qatar Insurance Co	34.61	-1.26	36,775
Qatar Aluminum Manufacturing	9.96	-0.90	443,079
Ooredoo Qpsc	64.16	0.25	91,413
National Leasing	7.72	0.65	35,116
Mazaya Qatar Real Estate Dev	7.40	-1.73	303,495
Mesaieed Petrochemical Holdi	25.93	-0.27	166,537
Al Meera Consumer Goods Co	140.55	-0.31	12,470
Medicare Group	59.76	0.45	10,677
Mannai Corporation Qsc	38.90	-2.51	80,866
Masraf Al Rayan	37.12	0.27	383,946
Al Khalij Commercial Bank	11.59	0.78	517
Industries Qatar	112.16	-0.79	62,171
Islamic Holding Group	21.22	4.07	20,257
Investment Holding Group	5.75	3.23	819,458
Gulf Warehousing Company	49.00	0.00	680
Gulf International Services	19.89	1.22	118,554
Ezdan Holding Group	7.34	-1.36	2,961,824
Doha Insurance Co	11.80	6.31	2,811
Doha Bank Qpsc	22.88	-0.87	300,849
Dlala Holding	9.25	2.44	155,709
Commercial Bank Pqsc	47.40	-2.07	38,339
Barwa Real Estate Co	35.12	-1.35	146,453
Al Khaleej Takaful Group	17.90	8.68	192,348
Al Ahli Bank	7.95	0.63	379,087

KUWAIT

Company Name	Lt Price	% Chg	Volume
Sultan Center Food Products	48.00	1.27	249,800
Kuwait Foundry Co Sak	242.00	0.00	-
Kuwait Financial Centre Sak	89.90	0.45	3,045
Ajial Real Estate Entmt	131.00	0.77	87,000
Kuwait Finance & Investment	36.50	1.39	108,020
National Industries Co Ksc	188.00	4.44	77,250
Kuwait Real Estate Holding C	29.00	0.00	1,105
Securities House/The	48.10	-3.80	1,320,103
Boubyan Petrochemicals Co	948.00	-0.11	98,997
Al Ahli Bank Of Kuwait	315.00	1.94	84,083
Ahli United Bank (Almutahed)	309.00	1.31	746,782
National Bank Of Kuwait	987.00	1.33	5,825,605
Commercial Bank Of Kuwait	519.00	0.00	40
Kuwait International Bank	288.00	1.77	4,134,445
Gulf Bank	315.00	0.96	3,841,079
Al-Massaleh Real Estate Co	37.00	5.71	50
Al Arabiya Real Estate Co	31.40	2.61	738,660
Kuwait Remal Real Estate Co	31.90	4.59	2,577,005
Alkout Industrial Projects C	840.00	0.00	-
A'ayan Real Estate Co Sak	56.90	5.37	71,050
Investors Holding Group Co.K	10.10	1.00	3,324,677
Al-Mazaya Holding Co	59.40	0.85	3,652,303

KUWAIT

Company Name	Lt Price	% Chg	Volume
Al-Madar Finance & Invt Co	137.00	-4.86	560,731
Gulf Petroleum Investment	23.50	2.17	91,000
Mabanee Co Sakc	710.00	2.16	2,053,824
Inovest Co Bsc	73.00	0.00	92,200
Al-Deera Holding Co	13.70	0.74	104,963
Mena Real Estate Co	36.30	3.71	1,774,951
Amar Finance & Leasing Co	27.80	0.00	-
United Projects For Aviation	445.00	0.00	-
National Consumer Holding Co	30.00	0.00	-
Amwal International Investme	55.60	0.00	-
Equipment Holding Co K.S.C.C	23.00	-0.43	477,702
Arkan Al Kuwait Real Estate	76.00	0.00	-
Gfh Financial Group Bsc	69.60	1.46	539,269
Energy House Holding Co Kscp	27.00	2.27	2,690
Kuwait Co For Process Plant	215.00	0.00	10,019
Al Maidan Dental Clinic Co K	1,220.00	0.00	-
National Shooting Company	12.00	0.00	2,375,079
Al-Ahleia Insurance Co Sakp	430.00	-3.37	250
Wethaq Takaful Insurance Co	27.00	0.00	-
Salbookh Trading Co Kscp	46.00	-2.95	305,550
Aqar Real Estate Investments	65.00	10.17	37,500
Hayat Communications	45.00	-8.16	52,000
Soor Fuel Marketing Co Ksc	119.00	0.85	136,064
Tamkeen Holding Co	11.30	0.00	-
Alargan International Real	176.00	0.00	-
Burgan Co For Well Drilling	99.00	0.00	-
Kuwait Resorts Co Kscc	52.10	0.00	45,300
Oula Fuel Marketing Co	120.00	-1.64	13,592
Palms Agro Production Co	75.00	0.00	-
Mubarrad Holding Co Ksc	59.00	0.51	97,180
Shuaiba Industrial Co	165.00	0.00	-
Aan Digital Services Co	11.00	0.00	468,764
First Takaful Insurance Co	43.50	0.00	-
Kuwaiti Syrian Holding Co	39.00	-6.92	194,611
National Cleaning Company	64.40	-3.01	55,861
United Real Estate Company	57.50	2.68	1,287
Agility	738.00	1.23	1,460,539
Kuwait & Middle East Fin Inv	36.00	-4.00	71,100
Fujairah Cement Industries	53.80	-1.28	3,000
Livestock Transport & Tradng	201.00	0.00	-
International Resorts Co	17.70	7.93	162,100
National Industries Grp Hold	225.00	2.74	9,592,778
Warba Insurance Co	70.00	1.45	17,897
First Dubai Real Estate Deve	31.30	5.03	209,280
Al Arabi Group Holding Co	79.00	-3.66	80,000
Kuwait Hotels Sak	100.00	0.00	-
Mobile Telecommunications Co	559.00	2.01	10,695,245
Effect Real Estate Co	20.00	0.00	-
Tamdeen Real Estate Co Ksc	390.00	0.00	-
Al Mudon Intl Real Estate Co	18.40	2.79	110,000
Kuwait Cement Co Ksc	300.00	0.00	1,660
Sharjah Cement & Indus Devel	76.90	0.00	-
Kuwait Portland Cement Co	1,221.00	-2.32	51,101
Educational Holding Group	320.00	0.00	-
Bahrain Kuwait Insurance	200.00	0.00	-
Asiya Capital Investments Co	34.00	0.29	29,216
Kuwait Investment Co	122.00	1.67	710,500
Burgan Bank	325.00	2.52	1,531,933
Kuwait Projects Co Holdings	218.00	1.40	1,045,400
Al Madina For Finance And In	20.40	2.51	4,322,055
Kuwait Insurance Co	360.00	9.09	699,541
Al Masaken Intl Real Estate	70.00	0.00	-
Intl Financial Advisors	23.00	0.00	-
First Investment Co Kscc	38.00	2.43	3,866,669
Al Mal Investment Company	17.20	3.61	511,606
Bayan Investment Co Kscc	39.00	2.63	121,500
Egypt Kuwait Holding Co Sae	455.00	0.00	-
Coast Investment Development	38.00	5.56	391,048
Privatization Holding Compan	58.60	-0.68	668,859
Injazzat Real State Company	84.00	5.00	100
Kuwait Cable Vision Sak	25.00	0.00	-
Sanam Real Estate Co Kscc	49.50	0.00	-
Ithmaar Holding Bsc	22.30	0.00	-
Aviation Lease And Finance C	232.00	0.87	2,101,678
Arzan Financial Group For Fi	31.90	0.31	490,393
Ajwan Gulf Real Estate Co	14.80	14.73	4,733,074
Kuwait Business Town Real Es	40.90	2.25	424,794
Future Kid Entertainment And	90.00	-7.69	41,181
Specialities Group Holding C	72.20	3.14	180,200
Abyaar Real Eastate Developm	12.70	1.60	1,037,788
Dar Al Thuraya Real Estate C	179.00	0.00	-
Kgl Logistics Company Kscc	42.40	1.44	3,977,901
Combined Group Contracting	198.00	-1.00	123,346
Jiyad Holding Co Ksc	54.40	2.64	553,302
Warba Capital Holding Co	85.00	-2.19	75,900
Gulf Investment House Ksc	56.50	0.53	170,780
Boubyan Bank K.S.C	575.00	1.41	1,214,555
Ahli United Bank B.S.C	259.00	2.37	21,527,761
Osos Holding Group Co	104.00	0.00	31,850

KUWAIT

Company Name	Lt Price	% Chg	Volume
Al-Eid Food Ksc	53.00	17.78	20,500
Qurain Petrochemical Industr	377.00	1.07	445,535
Advanced Technology Co	1,000.00	0.00	-
Ekttitab Holding Co Sak	17.00	-0.58	70,455
Real Estate Trade Centers Co	24.20	0.83	109,204
Acico Industries Co Kscc	136.00	0.00	-
Kipco Asset Management Co	74.20	-1.07	20,166
National Petroleum Services	970.00	-3.00	500
Alimtiaz Investment Group	131.00	0.00	493,771
Ras Al Khaimah White Cement	61.50	4.24	10,000
Kuwait Reinsurance Co Ksc	155.00	0.00	-
Kuwait & Gulf Link Transport	78.00	-6.02	365,025
Humansoft Holding Co Ksc	3,430.00	0.88	52,541
Automated Systems Co Kscc	96.40	0.00	-
Metal & Recycling Co	70.00	0.00	30
Gulf Franchising Holding Co	51.00	0.00	-
Al-Enma'a Real Estate Co	37.00	1.65	690,510
National Mobile Telecommuni	661.00	-2.79	1,316
Sanad Holding Co Kscc	110.00	0.00	-
Unicap Investment And Financ	51.20	-0.58	356,889
Al Salam Group Holding Co	34.50	3.29	742,300
Al Aman Investment Company	59.90	-3.39	120,000
Mashaer Holding Co Ksc	70.00	-2.10	79,000
Manazel Holding	23.00	4.55	82,227
Tijara And Real Estate Inves	48.20	0.00	-
Jazeera Airways Co Ksc	930.00	-0.53	97,643
Commercial Real Estate Co	93.00	1.64	10
National International Co	74.90	0.00	10,100
Taameer Real Estate Invest C	30.50	6.27	1,123,800
Gulf Cement Co	64.40	-0.16	5,000
Heavy Engineering And Ship B	382.00	-0.52	353,007
National Real Estate Co	74.00	1.37	398,129
Al Safat Energy Holding Comp	21.90	0.00	32,500
Kuwait National Cinema Co	910.00	0.00	-
Danah Alsafat Foodstuff Co	27.50	3.77	627,749
Independent Petroleum Group	415.00	-1.19	6,000
Kuwait Real Estate Co Ksc	76.00	4.11	45,002,375
Salhia Real Estate Co Ksc	339.00	1.19	61,200
Gulf Cable & Electrical Ind	389.00	4.57	760,685
Kuwait Finance House	689.00	1.32	11,774,495
Gulf North Africa Holding Co	53.50	0.00	-
Hilal Cement Co	122.00	0.00	-
Osoul Investment Kscc	63.90	0.00	15,000
Gulf Insurance Group Ksc	625.00	0.00	-
Umm Al Qaiwain General Inves	90.00	-1.10	1,300
Aayan Leasing & Investment	42.50	-0.47	3,460,539
Alrai Media Group Co Ksc	40.00	0.00	2,750
National Investments Co	118.00	1.72	1,751,824
Commercial Facilities Co	200.00	0.00	-
Yiaco Medical Co. K.S.C.C	66.50	0.00	-
Dulaqan Real Estate Co	350.00	0.00	-
Real Estate Asset Management	171.00	0.00	-

OMAN

Company Name	Lt Price	% Chg	Volume
Voltamp Energy Saog	0.17	0.00	-
Vision Insurance Saoc	0.11	0.00	-
United Power/Energy Co- Pref	1.00	0.00	-
United Power Co Saog	2.68	0.00	-
United Finance Co	0.07	0.00	-
Ubar Hotels & Resorts	0.13	0.00	-
Takaful Oman	0.13	0.00	-
Taageer Finance	0.10	0.00	-
Sweets Of Oman	0.55	0.00	-
Sohar Power Co	0.11	0.00	-
Sohar International Bank	0.11	0.90	37,356
Smn Power Holding Saog	0.09	0.00	-
Shell Oman Marketing - Pref	1.05	0.00	-
Shell Oman Marketing	1.07	0.00	-
Sharqiyah Desalination Co Sa	0.30	0.00	-
Sembcorp Salalah Power & Wat	0.11	0.00	-
Salalah Port Services	0.60	0.00	-
Salalah Mills Co	0.56	0.00	-
Salalah Beach Resort Saog	1.38	0.00	-
Sahara Hospitality	3.09	0.00	-
Renaissance Services Saog	0.48	0.00	-
Raysut Cement Co	0.35	0.57	73,771
Phoenix Power Co Saoc	0.08	0.00	10,548
Packaging Co Ltd	2.21	0.00	-
Ooredoo	0.49	-0.41	11,200
Ominvest	0.32	0.00	76,691
Oman United Insurance Co	0.18	0.00	-
Oman Telecommunications Co	0.59	2.07	82,733
Oman Refreshment Co	1.58	0.00	-
Oman Qatar Insurance Co	0.09	0.00	-

OMAN

Company Name	Lt Price	% Chg	Volume
Oman Packaging	0.27	0.00	-
Oman Oil Marketing Company	1.07	0.00	-
Oman National Engineering An	0.15	0.00	-
Oman Investment & Finance	0.09	1.16	388,757
Oman Intl Marketing	0.52	0.00	-
Oman Flour Mills	0.62	0.00	-
Oman Fisheries Co	0.06	3.23	698,404
Oman Europe Foods Industries	1.00	0.00	-
Oman Education & Training In	0.23	0.00	-
Oman Chromite	3.64	0.00	-
Oman Chlorine	0.40	0.00	-
Oman Ceramic Company	0.42	0.00	-
Oman Cement Co	0.23	0.00	99,807
Oman Cables Industry	0.90	0.00	-
Oman & Emirates Inv(Om)50%	0.07	0.00	27,000
Natl Aluminium Products	0.31	0.00	-
National Real Estate Develop	5.00	0.00	-
National Mineral Water	0.09	0.00	-
National Life & General Insu	0.31	0.00	-
National Gas Co	0.17	0.00	-
National Finance Co	0.14	0.00	-
National Detergent Co Saog	0.70	0.00	-
National Biscuit Industries	3.92	0.00	-
National Bank Of Oman Saog	0.17	0.00	2,034
Muscat Thread Mills Co	0.08	0.00	-
Muscat Insurance Co Saog	0.84	0.00	-
Muscat Gases Company Saog	0.16	0.00	-
Muscat Finance	0.07	-1.52	61,704
Muscat City Desalination Co	0.11	0.00	-
Majan Glass Company	0.18	0.00	-
Majan College	0.18	0.00	-
Hsbc Bank Oman	0.12	0.00	141
Hotels Management Co Interna	1.25	0.00	-
Gulf Stone	0.12	0.00	-
Gulf Mushroom Company	0.31	0.00	-
Gulf Investments Services	0.06	0.00	3,509
Gulf Invest. Serv. Pref-Shar	0.11	0.00	-
Gulf International Chemicals	0.14	0.00	-
Gulf Hotels (Oman) Co Ltd	9.50	0.00	-
Global Fin Investment	0.08	0.00	-
Galfar Engineering&Contract	0.09	2.41	4,702,196
Galfar Engineering -Prefer	0.39	0.00	-
Financial Services Co.	0.18	0.00	-
Financial Corp/The	0.10	0.00	-
Dhofar Tourism	0.49	0.00	-
Dhofar Poultry	0.18	0.00	-
Dhofar Intl Development	0.30	0.00	-
Dhofar Insurance	0.17	0.00	-
Dhofar Generating Co Saoc	0.19	0.00	-
Dhofar Fisheries & Food Indu	1.28	0.00	-
Dhofar Cattlefeed	0.10	0.00	-
Dhofar Beverages Co	0.26	0.00	-
Construction Materials Ind	0.03	0.00	-
Computer Stationery Inds	0.26	0.00	-
Bankmuscat Saog	0.42	0.00	217,945
Bank Nizwa	0.09	0.00	1,500
Bank Dhofar Saog	0.14	0.00	169,477
Arabia Falcon Insurance Co	0.11	0.00	-
Aloula Co	0.53	0.00	-
Al-Omaniya Financial Service	0.11	-8.26	27,682
Al-Hassan Engineering Co	0.02	0.00	-
Al-Fajar Al-Alamia Co	0.75	0.00	-
Al-Anwar Ceramic Tiles Co	0.11	3.96	270,000
Al Suwadi Power	0.08	0.00	-
Al Sharqiya Invest Holding	0.07	0.00	-
Al Maha Petroleum Products M	0.81	0.00	-
Al Maha Ceramics Co Saoc	0.19	0.00	-
Al Madina Takaful Co Saoc	0.08	2.44	4,629,212
Al Madina Investment Co	0.02	-4.17	21,464
Al Kamil Power Co	0.38	0.00	-
Al Jazerah Services -Pfd	0.55	0.00	-
Al Jazeera Steel Products Co	0.27	0.00	-
Al Jazeera Services	0.11	0.00	1,471
Al Izz Islamic Bank	0.08	0.00	190,000
Al Buraimi Hotel	0.88	0.00	-
Al Batinah Power	0.08	0.00	31,906
Al Batinah Hotels	1.13	0.00	-
Al Batinah Dev & Inv	0.08	0.00	-
Al Anwar Holdings Saog	0.09	-3.33	80,025
Al Ahlia Insurance Co Saoc	0.36	0.00	-
Ahli Bank	0.12	0.00	-
Acwa Power Barka Saog	0.66	0.00	-
Abrasives Manufacturing Co S	0.05	0.00	-
A'saffa Foods Saog	0.60	0.00	-
0Man Oil Marketing Co-Pref	0.25	0.00	-
#N/A Invalid Security	0.00	0.00	-
#N/A Invalid Security	0.00	0.00	-

LATEST MARKET CLOSING FIGURES

Two epic bull markets are duelling over the fate of global growth

Bloomberg
London

For all the shine and sophistication, for all the jargon, algos, robots and quants, financial markets are still only this: Buyers buying and sellers selling, times a billion.

Behind every trade – perhaps far behind – there is an actual human person. Two, in fact. And because humans disagree a lot, markets do too.

And do they ever disagree just now. The front line pits risky assets like stocks against the safest securities, namely bonds, and it's there that the war is being fought now. The S&P 500 just had its best week since November. Yet in fixed income, Treasury yields are near the lowest levels in almost two years.

In the simplest terms, bonds investors are screaming recession, while equity and credit traders refuse to hear it. The contrast mirrors the macro outlook, which is caught between the prospects of a prolonged trade war derailing already fragile global growth, a sudden breakthrough that ends tariffs and dovish central bankers riding to the rescue.

"If you have been compressing equity prices with fear driven by a trade war, now you douse the trade wars with some nice cooling Fed-rate-cut water, then you can probably see a bounce on the other side of that and that's a short-term story," said Thomas Thygesen, head of cross-asset strategy at SEB AB.

"The longer-term risks haven't been settled." At first glance, it would be easy to say stock markets look overconfident. Every US recession in the past 60 years was preceded by an inverted yield curve, and three-month Treasury bills currently yield more than 10-year notes.

Pedestrians walk past the New York Stock Exchange (file). The S&P 500 remains within striking distance from its all-time high in its longest-ever bull market, but the gauge has slumped during recent slowdowns.

The S&P 500 remains within striking distance from its all-time high in its longest-ever bull market, but the gauge has slumped during recent slowdowns.

For Nuveen Asset Management's Bob Doll, the relative robustness of the benchmark US equity gauge isn't so illogical. Speaking to Bloomberg TV on Thursday, he noted that underlying growth and earnings data in the world's biggest economy is still OK.

"It's not great, but it's good enough," the chief equity strategist said. "Sustained moves down only happen when you have a big economic problem. I think this choppy frustrating market is going to be around for a while." How long the data remain "good enough" is key.

Bloomberg's economic surprise indicator for the US, which had been trending upward since March, took another turn in the past few weeks. So far it hasn't been enough to roil equities, and cyclical sectors have held up well against their defensive counterparts.

But the negative data surprises could continue. Non-farm payrolls on Friday missed all estimates in a Bloomberg survey, with employers adding 75,000 workers versus expectations for 175,000. It wasn't bad enough to reverse the week's stock rally, but it is suggestive of creeping pressure on the economy.

"We still see many markets overpricing global growth prospects," James Bateman, the chief investment officer for multi-asset at Fidelity International, wrote in a note. "If trade wars or fundamental data deteriorate, we could see a sell-off."

The one market not overpricing growth prospects is bonds. The yield on 10-year Treasuries has dropped in the past five days, after the biggest monthly decline since 2015. Europe's benchmark, 10-year German bunds, closed at minus 0.257% on Friday, the lowest on record. US bonds are in their own multi-decade bull market, and recent angst over the resilience of the world's economy has helped give it a new lease of life.

Strategists at JPMorgan Chase & Co said this week that the drop in yield for five-year US notes since November pointed to a 53% probability of a recession in America. They put the odds implied by stocks and junk debt at 17% and 1%, respectively.

But there are a couple of reasons these divergences may not be as irreconcilable as it seems.

One thing the rates market also suggests is that there's little ahead to quash traders' confidence that the Federal Reserve will cut rates as soon as in July, with Fed funds futures showing a quarter-point reduction almost fully priced in for next month.

A lurch to dovishness can support risk assets, as it helps growth and makes their returns relatively more appealing. In places like Europe, policy makers are seen as having little room to cut rates, so the word "stimulus" is once again appearing – another fillip to many assets.

Second, the dash into the safest debt – some $17.5bn flowed into bond funds in the week through June 5, the second largest inflow on record – has dramatically driven up the world's stockpile of negative-yielding securities, which topped $11.5tn this week. That sends some investors in search of returns, which supports demand for riskier assets.

In the credit markets, for example, investment-grade funds recorded a record inflow of $12.3bn through June 5. For all the angst about the economy, the average spread of junk-rated US bonds remains well below the 2016 high as well as the five-year average.

Yet once again, the messages are mixed. Outflows from the high-yield portion of the market continued for a fifth week, and a key gauge of trading conditions in riskier bonds is close to reprising levels seen in the December rout.

Small wonder gold had its best week since April 2016 – the bears are digging in. Meanwhile, swap markets show inflation expectations falling in the US toward the lowest in more than two years and in Europe to below levels seen in the crisis. That suggests bonds can keep rallying. Commerzbank AG said on Thursday it's forecasting the benchmark US yield will fall to 1.25% by year-end, a record low.

For some analysts, the gloom is too extreme. Bank of America said that, combined with dovish central bankers, it could all mean another stocks record is on the way.

"The market is a bit split, a bit unsure actually where we are," said Caroline Simmons, deputy head of the U.K. investment office at UBS Wealth Management. "Our view is that we are in the early parts of the late stage of the cycle, which is the environment that actually tends to do relatively OK for equities because you've usually got growth that's still good, which it still is although patchy, and you usually have supportive monetary policy."

Europe's 5G to cost $62bn more if Chinese vendors banned, say telecom firms

Estimate part of a review by telco lobbying group GSMA; ban would delay 5G deployment by 18 months in Europe; Huawei and ZTE have combined market share of 40% in the EU

Reuters
Paris

A ban on buying telecoms equipment from Chinese firms would add about €55bn ($62bn) to the cost of 5G networks in Europe and delay the technology by about 18 months, according to an industry analysis seen by Reuters.

The United States added Huawei Technologies, the world's biggest telecoms equipment maker, to a trade blacklist in May, prompting global tech giants to cut ties with the Chinese company and putting pressure on European countries to follow suit.

Washington alleges Huawei's equipment can be used by Beijing for spying, something the company has repeatedly denied.

The move by US President Donald Trump's administration comes as telecoms operators worldwide are gearing up for the arrival of the next generation of mobile technology, or 5G, which promises ultra-fast mobile internet for those able to make the heavy investment needed in networks and equipment.

The estimate is part of a report by telecoms lobby group GSMA, which represents the interests of 750 mobile operators. GSMA has already voiced concerns about the consequences of a full ban on Huawei, whose products are widely purchased and used by operators in Europe.

Huawei is one of the key supporters of the lobby group, several industry sources said. The €55bn estimate reflects the total additional costs implied by a full ban on purchases from Huawei and Chinese peer ZTE for the roll out of 5G networks in Europe.

The two Chinese vendors have a combined market share in the European Union of more than 40%.

"Half of this (additional cost) would be due to European operators being impacted by higher input costs following significant loss of competition in the mobile equipment market," the report said.

"Additionally, operators would need to replace existing infrastructure before implementing 5G upgrades."

Finnish telecoms equipment maker Nokia said that was not true.

"We offer a technical solution whereby we can overlay our 5G equipment on top of another vendor's 4G gear. This solution could reduce the cost and complexity of vendor changes," spokesman Eric Mangan said.

Nokia said this week it had moved ahead of Huawei in total 5G orders and had seen increased interest in its 5G offering from European countries that have been debating the role of Chinese vendors in their networks.

According to the report, a ban would also delay the deployment by 18 months of 5G technology, which will be used in areas ranging from self-driving cars to health and logistics.

"Such a delay would widen the gap in 5G penetration between the EU and the US by more than 15 percentage points by 2025," according to the report.

This delay would result from delivery challenges for other major equipment makers, such as Ericsson, Nokia and Samsung, in the event of a sudden surge in demand.

It would also follow from the need for telecoms operators to transition from one set of equipment to another.

IMF managing director Christine Lagarde speaks with ECB president Mario Draghi during the Group of 20 (G20) finance ministers and central bank governors meeting in Fukuoka, Japan, on Saturday. The ECB said on Thursday that its interest rates would stay "at their present levels" until mid-2020 but Draghi added rate setters had started a discussion about a possible cut or fresh bond purchases to stimulate inflation.

ECB policymakers open to cut rates if growth weakens, say sources

Policymakers say rate can be cut if growth weakens; emphasise need to cap euro appreciation; $1.15-$1.20 seen as key levels; case for more QE less clear

Reuters
Fukuoka/Frankfurt

European Central Bank policymakers are open to cutting the ECB's policy rate again if economic growth weakens in the rest of the year and a strong euro hurts a bloc already bearing the brunt of a global trade war, two sources said.

The ECB said on Thursday that its interest rates would stay "at their present levels" until mid-2020 but President Mario Draghi added rate setters had started a discussion about a possible cut or fresh bond purchases to stimulate inflation.

The apparently mixed message failed to convince some investors, who saw it as too tenuous a commitment to more stimulus.

This sent the euro rallying to a 2-1/2 month high of $1.1347 against the US dollar.

But two sources familiar with the ECB's policy discussions said a rate cut was firmly in play if the bloc's economy was to stagnate again after expanding by 0.4% in the first quarter of the year.

"If inflation and growth slow, then a rate cut is warranted," said one of the sources, who requested anonymity because the ECB's deliberations are confidential.

An ECB spokesman declined to comment.

The ECB's deposit rate is already 40 basis points below zero and the bloc's top-rated governments, such as Germany's, can borrow at negative rates for up to a decade.

In this context, countering the euro's strength, rather than lowering already rock-bottom borrowing costs, would be the main reason for a further cut to that deposit rate, one of the sources said.

"I'll give you five reasons for a rate cut," the source said before repeating "exchange rate" five times. The ECB doesn't formally target an exchange rate but Draghi noted the euro's appreciation in his news conference on Thursday and has long highlighted the currency as a crucial determinant of financing conditions.

The source said a euro at $1.15 would still be tolerable for some but $1.20 would be a critical level to watch. The single currency has risen by 2% against the dollar in just over a week as the Federal Reserve signalled its willingness to cut its interest rates if needed.

This was seen by some analysts as a sign the US central bank was bowing to pressure from the White House to keep the dollar weak and strengthen the administration's hand in its trade negotiations.

Italian central bank governor Ignazio Visco also blamed the euro's surge after the ECB's latest decision on "interactions with US interest rates". The argument for more quantitative easing (QE) from the ECB was less clear to some policymakers, however, the sources said.

One of the sources said more QE could help soothe stock markets if these were spooked by an escalation in the trade war, although there would be a risk for the ECB in appearing to kowtow to equity investors.

The other said the main benefit of QE was compressing the difference between short- and long-term borrowing costs, making access to finance easier for companies and households, but this so-called term premium was already low.

Blackstone plans $6.8bn European warehouse unit

Bloomberg
London

Blackstone Group LP plans to pool €6bn ($6.8bn) of its smaller European warehouse investments in a new company that will ultimately be publicly listed or sold.

The private-equity giant is in the process of hiring an executive to run the company, which will manage its holdings of logistics properties close to towns and cities, according to people with knowledge of the matter. Blackstone has led a wave of investment into urban warehouses, betting that demand from online retailers such as Amazon.com Inc will continue to push up rents and values.

Any sale or public offering of the new company is probably several years away, the people said, asking not to be identified as the plan is private. The last-mile logistics facilities, so called because of their proximity to population centres, are currently overseen by M7 Real Estate in a venture with Blackstone, they said.

A spokesman for Blackstone declined to comment.

Earlier this month, Blackstone agreed to buy $18.7bn of US urban warehouses from Singapore's GLP Pte. In both the US and Europe, online retailers that began by building up huge regional distribution centres near major transport arteries are shifting their focus to local hubs in a bid to reduce delivery times.

The relative scarcity of urban warehouses has also attracted investors including Cerberus Capital Management LP, which has established a €750mn ($849mn) portfolio in Spain. The appeal of existing facilities is enhanced by the fierce competition for land in many major cities, where politicians are under pressure to release more industrial land for housing developments.

The plan for a last-mile warehouse unit in Europe echoes the strategy the private equity firm pursued with Logicor, which it sold to China's sovereign wealth fund for about €12bn in 2017. Logicor was set up by Blackstone in 2012 to buy, develop and manage larger warehouses across Europe and proved to be one of the firm's most successful real estate bets of recent years, anticipating the shift in investors' allocations towards industrial property and away from retail as sales migrated to the Internet.

Large holdings of smaller warehouses have historically proved challenging to assemble due to the intensive management required and the fact that many such properties across Europe are owned by small private investors. Blackstone accelerated its move into the sector with a €1.3bn deal for the continental European assets of Hansteen Holdings Plc in 2017 and has worked closely with M7 to scour the continent for opportunities, the people said.

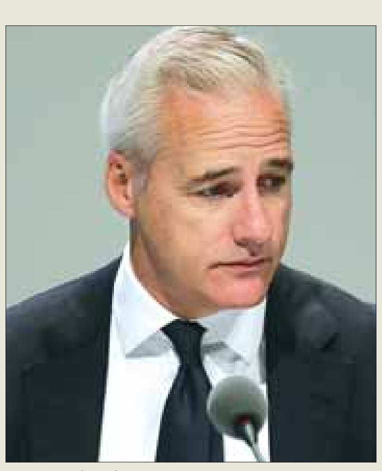
Blackstone Group is in the process of hiring an executive to run the new company, which will manage its holdings of logistics properties close to towns and cities, according to sources.

Deutsche Bank's Ritchie, ex-CEO Jain ensnared in widening probe

Bloomberg
New York

Deutsche Bank AG investment-banking head Garth Ritchie and former co-chief executive officer Anshu Jain were swept into a widening German probe on dividend tax payments, adding to strain on top leadership as the shares hover near record lows.

Ritchie and Jain joined a growing list of potential targets for prosecutors investigating the so-called Cum-ex tax scandal that's rocked Germany's financial industry, people familiar with the matter said. Ritchie is already contending with the lowest shareholder backing among top management and the prospect of massive cuts to his division. Ex-CEO Josef Ackermann also faces scrutiny, German media reported.



Ritchie (left) and Jain: Potential targets for prosecutors.

Deutsche Bank confirmed on Thursday that prosecutors in Cologne widened the investigation to include a list of current and former staff and some members of the management board. The decision to expand the inquiry was prompted "purely" by a statute of limitations, and Deutsche Bank doesn't assume the prosecutor's assessment of the facts has changed, it said in a statement that didn't name Ritchie or Jain.

A call to Ritchie's office was referred to the company's press office, where a spokesman declined to comment. A spokesman for Jain also declined to comment.

Prosecutors have been conducting a criminal probe into some of the biggest names in European and US finance, looking at the roles banks, law firms and others played in so-called cum-ex trades. The Latin phrase, meaning "with-without," refers to a strategy that made dividend payments appear to vanish, potentially costing Germany's coffers billions of euros in taxes.

The widening investigation includes banks that didn't initiate deals for clients themselves but may have provided services that helped to carry them out. Sueddeutsche Zeitung reported on Thursday that about 70 current and former employees at Deutsche Bank are facing scrutiny, though it has yet to be seen whether investigators' suspicions will be borne out. Among the names mentioned by the paper was ex-CEO Ackermann. At least two big US banks also are being examined.

Eberhard Kempf, a lawyer who's represented Ackermann in the past, didn't reply to a message from Bloomberg seeking comment.

The bank said at its annual shareholder meeting last month that an internal review found Ritchie was among recipients of an e-mail in 2007 that explained how trades could take advantage of German tax laws, and that a meeting to discuss cum-ex transactions was once held in Ritchie's office.

Deals being reviewed by Cologne prosecutors took place roughly between 2007 and 2012, overlapping the period when Jain was responsible for the investment-banking arm of the German lender. Ritchie now heads the division, which has been at the centre of many of the lender's woes.

He and fellow management board member Sylvie Matherat received the lowest approval votes at the AGM. That has fuelled speculation the two might be among the management board members that may get replaced when Chief Executive Officer Christian Sewing unveils a new restructuring plan, which is expected to happen by the end of next month, people familiar with the matter have said.

The widening of the years-long inquiry "is a common practice and the prosecutor has proceeded in the same way with other banks," Deutsche Bank said in its statement on Thursday. "The bank does not assume that this procedural measure is based on a changed assessment of the facts by the public prosecutor."

The company said it didn't "participate in an organised cum/ex market, neither as short seller nor as Cum/Ex purchaser."

Cum-ex transactions took advantage of a now abandoned German practice for tax refunds on dividends. At the time, a Corp paying dividends automatically withheld the tax but the tax payment was certified by the shareholder's bank.

Cum-ex deals were set up around dividend day in a way that enabled a buyer in a short sale and the actual stock owner to both get a certificate stating that the dividend tax was paid. While the tax was paid only once, both could use the certificates to claim full refunds. The practice ended in 2012 when Germany revised its rules, and lawmakers estimate the government may have lost out on at least €10bn ($11.3bn) in tax revenues.

Cologne prosecutors filed their first indictment in the criminal probe in April, in which they charged two former investment bankers. The document lists several cases in which Deutsche Bank acted as a prime broker for cum-ex traders, providing them with loans and other services around the transactions, people familiar with the case have said. The lender also acted as a custodian bank and issued tax certificates which were crucial for the deals.

Deutsche Bank was the prime broker for several funds which invested in cum-ex deals, according to an internal investigation commissioned by the bank and handed over to prosecutors. The lender also worked closely with Ballance Group, a company that was key in orchestrating cum-ex deals, according to people familiar with the case.

Contract bike staff say Facebook isn't protecting their rights

Bloomberg
Washington

Contract staff who maintain and service ride-share bikes for Facebook Inc employees are trying to unionise, and they say the social media giant isn't protecting their organising rights.

Facebook provides nearly 1,000 bikes for employees to get around its Menlo Park, California, campus. The bikes are managed by about 50 employees of Bikes Make Life Better, a firm that provides consulting and support for bike-share programs at companies like Walmart Inc, Apple Inc and Microsoft Corp.

In April, BMLB staff working at Facebook started organising with the Transport Workers Union, seeking to improve their pay and their safety — some were concerned about risks involved when they had to leave the campus to track down bikes that had been stolen or left in town.

The union claims BMLB management has responded with intimidation tactics, including holding mandatory anti-union meetings in which they tell workers that they can't talk about organising at work, and if they become unionised, they could lose their contract with Facebook and therefore their jobs. TWU said it repeatedly e-mailed Facebook to ask that the company intervene to get its vendor to respect workers' rights and recognise the union, but the company didn't respond.

"Facebook could make all of that go away with one phone call," said TWU's international president John Samuelsen. He said that the social media giant is responsible for these workers. "They have a convenient underclass of workers that are effectively Facebook workers regardless of who signs their paycheck."

"Facebook as a whole respects the right of our vendor employees to organise," said Anthony Harrison, Facebook spokesperson. "We believe that it is also important that the vendors we work with do not oppose or inhibit the right of their employees to unionise." Facebook said it communicated that to the companies it contracts with, but did not specify when.

Amy Harcourt, a director at BMLB, said in an e-mail that the company denies the union's allegations. "We respect our employees' rights under the law to organise, if they so choose," she said. In a flier viewed by Bloomberg, BMLB told employees that it respects their rights but "we have serious concerns about how a union such as the TWU could affect the work environment we have all worked hard to build."

The flier warns staff that if they unionise they would have to pay union dues even before securing a collective bargaining agreement, a claim TWU says is false.

One BMLB employee said he was told by BMLB managers that talking about the union at work was making co-workers feel uncomfortable, that he had to stop doing it, and that the organising effort was endangering the company's contract with Facebook. The worker asked not to be named because of concerns about retaliation.

According to the union, BMLB has also changed where workers are assigned to work in order to make it harder for them to discuss unionisation.

The union filed in late May for a National Labor Relations Board election to represent the roughly 50 BMLB staff at Facebook. In addition to maintaining the shared bikes, BMLB workers make repairs on Facebook workers' personal bikes.

Workers say they have to frequently track down shared bikes after Facebook employees drive them off campus and leave them in town.

There are tens of thousands of subcontracted workers around the world who provide Facebook services from security to content moderation, but are legally employed by outside firms. The treatment of contractors has become a hot-button issue in Silicon Valley, with some engineers joining contract workers in calling for large tech companies to take greater responsibility.

Facebook has required for years that its vendors provide staff with paid time off, and announced last month that it would require that subcontracted staff in the Bay Area, New York City and Washington be paid at least $20 an hour. After sparring with Facebook in the past, unions in recent years have praised Facebook's handling of organising drives among its subcontracted service staff.

Facebook has said that in 2017, when Facebook cafeteria workers employed by Flagship Facility Services sought to unionise, it made clear to Flagship that it was neutral on the effort, and that if the union prevailed, Facebook would not punish Flagship.

FedEx trims Amazon ties as retailer flexes delivery muscles

Bloomberg
Dallas

FedEx Corp said it wouldn't renew its US air-delivery contract with Amazon.com Inc, paring a key customer relationship as the largest online retailer deepens its foray into freight transportation.

The new focus will be on "serving the broader e-commerce market," with US package volume from online shopping expected to double by 2026, FedEx said in a statement on Friday. The Amazon contract with the Express air division expires at the end of this month, and doesn't cover international operations or other services such as FedEx's ground deliveries.

FedEx's surprise move signals that the No 2 US courier will bank on e-commerce customers that lack Amazon's bargaining power for big volume discounts. Amazon's emergence as a logistics powerhouse is piling pressure on FedEx and United Parcel Service Inc for cheaper and speedier deliveries, as the e-commerce leader builds its own aircraft fleet and delivery capabilities.

A FedEx delivery truck is driven past a Kinko's copy centre in Frisco, Texas. The Amazon contract with the Express air division expires at the end of this month, and doesn't cover international operations or other services such as FedEx's ground deliveries.

"FedEx is ripping the Band-Aid off," said Kevin Sterling, a Seaport Global Holdings analyst. "You could see the Express business eventually fading out and FedEx made the decision to go ahead and exit that side of the business with Amazon."

The shares rose 1% to $158.48 at 3pm in New York. FedEx erased gains on the company's announcement about Amazon before recovering some of the lost ground. Amazon held steady, trading 2.6% higher at $1,799.72.

"We respect FedEx's decision and thank them for their role serving Amazon customers over the years," the Seattle-based retailer said in a statement.

FedEx said Amazon isn't its largest customer, representing 1.3% of sales last year. Shipping consultant Satish Jindel estimated that FedEx's domestic air-parcel business with Amazon is probably "a few hundred mllion a year, at the best," and poised to decline.

"They know their Amazon business is going to continue to shrink," said Jindel, founder of SJ Consulting Group, referring to FedEx. "Why have your capacity be used up by a customer that's going to continue to chip away? They'd rather use that capacity for other customers."

FedEx said it would focus on customers such as Walmart Inc, Target Corp and Walgreens Boots Alliance Inc.

"There is significant demand and opportunity for growth in e-commerce, which is expected to grow from 50mn to 100mn packages a day in the US by 2026," the Memphis, Tennessee-based courier said in the statement. "FedEx has already built out the network and capacity to serve thousands of retailers in the e-commerce space."

XPO Logistics Inc, another transportation provider, had to cut its 2019 profit forecast after Amazon abruptly took away business in December. That left XPO with $600mn in lost sales.

"FedEx didn't want to be caught off guard and come in one morning to Amazon saying we're no longer doing express business with you," Seaport's Sterling said.

Amazon has been beefing up its own freight-hauling ability for several years. In 2013, an internal report proposed an aggressive global expansion of the Fulfillment By Amazon service, which provides storage, packing and shipping for independent merchants selling products on the company's website.

Three years ago, the online retailer struck deals with air-freight companies Atlas Air Worldwide Holdings Inc and Air Transport Services Group Inc to bolster the fleet of cargo planes dedicated to hauling Amazon packages.

Atlas Air and Air Transport operated a combined 40 air freighters for Amazon at the end of 2018, with agreements to add more over the next two years. In both cases, Amazon holds warrants that allow it to acquire increasing stakes in the air cargo carriers as its aircraft commitments grow.

Amazon had already been reducing its business with FedEx Express over the past 14 months, said Lee Klaskow, an analyst at Bloomberg Intelligence. Dropping Amazon will allow FedEx to carry "more desirable freight" than Amazon's business from a profitability standpoint.

"This is just a fact of Amazon using less of FedEx over the last year or so given that they're building out their own air fleet, combined with the fact their volume probably didn't warrant the kind of discounts they were getting," Klaskow said. "FedEx would like to grow with a long-term partner versus somebody who is taking transportation functions in-house."

France plays down selling Renault stake after Japan visit

Bloomberg
Paris

France is open to cutting its 15% stake in Renault SA to mend its partnership with Nissan Motor Co after the French automaker's talks with Fiat Chrysler NV abruptly collapsed earlier this month — but it isn't looking to do it anytime soon.

A day after saying that France was prepared to consider reducing its holding in Renault, French Finance Minister Bruno Le Maire added that this was a long-term plan, and that his priority is reinforcing the Renault-Nissan alliance and protecting jobs and sites in France.

"On the agenda, there is: strengthening the alliance and protecting jobs, industrial and research sites," Le Maire said yesterday during the Group of 20 finance ministers and central bank governors meeting in Fukuoka, Japan. "The second step will be consolidation — only if all parties are on board."

The comments follow the collapse of discussions between Fiat and Renault to form a global car manufacturing powerhouse. The talks ended abruptly earlier this month when Fiat withdrew its offer after France asked for more time to seal the deal as it tried to get the backing of Nissan.

France's holding in Renault has long been the source of complaint by the Japanese automaker. Nissan has been seeking more sway in its two-decade partnership with Renault since Carlos Ghosn, who led both companies, was arrested in Japan over alleged financial crimes. Ghosn has denied the charges.

Nissan would prefer a full exit because the state's activism has generated tension within the alliance and it's not clear that a reduction of the French stake would change that, according to a person familiar with the matter.

Yesterday, French newspaper *Journal du Dimanche* reported that Fiat managers informed French authorities on their interest in Renault during the Christmas holidays. The finance ministry then worked with Fiat for two months, before getting into more substantial discussions with Renault, JDD reported, citing anonymous sources. A spokesman for the French finance ministry declined to comment on the report.

Le Maire also sought to take a step back by insisting that it was up to the management at Renault and Nissan to determine how to reinforce their relationship, and that it wasn't his role to meet with Nissan's CEO during his trip to Japan.

"All options are on the table," he said, adding that "the second step will be industrial consolidation" amid pressure to build more electric and autonomous cars. "To reach success, we have to do this together — Renault and Nissan, France and Japan."

France's Finance Minister Bruno Le Maire pauses during a news conference at the G20 finance ministers and central bank governors meeting in Fukuoka, Japan, yesterday. Le Maire said his priority is reinforcing the Renault-Nissan alliance and protecting jobs and sites in France.

Trump's Mexico tariff threat has clear penalty but vague demands

Bloomberg
Washington

President Donald Trump made clear that he's prepared to impose tariffs on Mexico over a surge of migrants at the southern US border. What he didn't specify was what he wants Mexico to do to avoid the penalties.

Those details will be the centrepiece of talks next week in Washington, where Mexican Foreign Minister Marcelo Ebrard plans to meet with Secretary of State Michael Pompeo to try to resolve the trade dispute.

Yet so far, the Trump administration has given only broad-stroke explanations of what would satisfy the president's concerns. White House Press Secretary Sarah Huckabee Sanders said last week that "one of the biggest things they can do is the repatriation of the thousands of people coming from Central America," and "stop these massive caravans from coming through their country into ours."

Acting Homeland Security Secretary Kevin McAleenan told reporters that Mexico needed to "step up their security efforts on their southern border," align better with the US on asylum seekers, and "crack down" on transnational criminal organisations operating within the country.

The lack of specifics gives the administration broad leeway to decide whether Mexico's efforts are measuring up. For one, Ebrard will likely have to defend his government's decision to slash spending at its agency in charge of detaining undocumented immigrants at Mexico's southern border.

Ebrard tweeted that he'd just spoken with Jared Kushner, a presidential adviser and Trump's son-in-law, and Secretary of State Michael Pompeo, and that he was flying to Washington to speak with American officials. In an earlier tweet, he said that Mexico wasn't responsible for the flow of Central American migration to the US, or for high drug consumption in that country. He called the treatment of his country "unfair" and that it "makes no economic sense to anyone."

Jesus Seade, Mexico's undersecretary of foreign relations for North America, said that he had no idea that the tariff threat was coming, and that his government hadn't been warned by the US Embassy before Trump's tweet announcing his decision.

Trump is determined to impose the 5% tariff set to kick in on June 10, people familiar with the matter said. He sees it as a way to help pay for construction of the a wall on the border that he promised during his 2016 campaign, and to claim that Mexico paid for it, according to the people.

While Trump has repeatedly argued that the countries he penalises bear the cost of tariffs, it's US importers that pay the duties and some of that gets passed to consumers in the form of higher prices.

The administration's know-it-when-you-see-it definition of action by the Mexican government has left outsiders grasping to interpret the president's intentions — and sincerity. And there's reason to believe Trump could be deterred.

In late March, the president said he would shut down the southern border, only to abandon the threat after Mexico took modest actions to return some migrants to their home countries. And hollow threats of economic disruption date to the earliest days of the Trump administration, when then-White House press secretary Sean Spicer announced during Trump's first Air Force One trip his intent to seek a 20% tax on Mexican imports, only to retreat hours later.

White House officials are declining to say what metrics they'd use to decide whether to proceed with the tariff — or additional increases the president has threatened at a series of checkpoints over the summer, culminating in a 25% tax on all goods by October 1.

The White House is "going to handle this on an ad hoc basis" and is judging success simply by border crossings into the US decreasing by "a significant and substantial number," Acting Chief of Staff Mick Mulvaney told reporters.

"We did not set a specific percentage, did not set a specific number," Mulvaney said. "It's a very fluid situation."

Officials within the administration — including US Trade Representative Robert Lighthizer — opposed the tariff decision, worrying that it could poison the prospects of Trump's proposed trade deal to replace Nafta in both the Mexican legislature and among Democrats in the US House who will be central to approving the pact. Lighthizer's office said in a statement he supported the president's move.

Trump made the decision to publicly threaten the tariffs on a day that he was travelling to Colorado with only a small cadre of lower-level aides.

Allies on Capitol Hill and in the business community have expressed concern.

A diverse group of Republican senators, including Arizona's Martha McSally, Ohio's Rob Portman, Iowa's Joni Ernst, and Pennsylvania's Pat Toomey issued statements criticising the proposal. National Association of Manufacturers President Jay Timmons, a frequent Trump cheerleader, warned in a statement that the "proposed tariffs would have devastating consequences on manufacturers in America and on American consumers" and said he had taken his concerns to the "highest levels of the administration."

Seade warned of a forceful response if Trump goes forward with the tariffs. That could mean retaliatory steps that would amplify the effect of the levies on US citizens, who are already likely to bear the brunt of the costs.

The big question now is how long Mexico can continue with a policy of no confrontation.

Asked about the tariffs, Seade said: "I'm not saying we'll sit on our hands and do nothing until June 10 to see if it's real or not, but I trust that it's not something that will be put into action because it would be very serious. If it happens, in my opinion we need to respond in a strong way."

Trump seemed to leave himself a little wiggle room in a tweet, saying of tariffs that "if they start rising" it could push companies to move back to the US.

Nevertheless, there's a sense among some White House aides that he's not bluffing. He cast the tariffs as a way to drive manufacturing back to the US. An action that he can depict as both tough on immigration and a boon to blue collar workers has a visceral appeal to the president, who sees the two themes as driving his re-election chances in 2020. "Anybody in this country or frankly in the world that says that they're surprised by this has been living under a rock and not paying attention," Sanders said.

"The president's been crystal clear that we have to have to take action."

Britain's smaller banks wallow in giants' shadow

AFP
London

Computer meltdowns.
Unexplained holes in accounting.
Personnel management scandals.
For smaller banks that want to compete with historic giants of global fame, UK finance has proven to be a minefield.
When visiting their local branch or going online, Britons have struggled to break their habit of relying on a big bank with an established name.
Britain's Big Five — Barclays, HSBC, Lloyds, Royal Bank of Scotland and Santander UK — hold a commanding 63% share of the retail banking market, according to the Centre for Economics and Business Research.
This dominance remains despite years of hardship that followed the 2008 financial crisis, which saw interest rates fall to historic lows and consumers finding little point in keeping money parked in savings accounts.
"The last 20 years have seen significant consolidation in the UK retail banking market," Stephen Jones, chief executive of the UK Finance banking trade association, wrote in a report.
"The structure of UK retail and commercial banking is relatively concentrated, with a notable absence of mid-tier competitors of scale."
Paradoxically, this market grip was cemented by the very same crisis that tarnished the big banks' reputations a decade ago.
The Big Five, along with mortgage-specialist Nationwide, together have about £1.8tn ($2.3tn, €2.0tn) in retail banking assets.
Their competitors have a combined total of £360bn.
While relatively small, the field of also-rans is crowded with names such as Metro Bank, TSB (a subsidiary of Spain's Banco Sabadell) and CYBG, which has just merged with Richard Branson's Virgin Money.
They each have millions of clients and are joined by "fintechs" such as Revolut and Monzo — two digital banks with big ambitions that want to expand beyond their young, city-dwelling consumer base.
— Costly mistakes — The upstarts have little in common beyond a shared experience of suffering scandals that make newspaper headlines.
The most recent involved Metro Bank, which has been losing its lustre after a bright launch in 2010 by the US banker Vernon Hill, perhaps best known for calling his clients "fans". Hill has been busy trying to reassure his 1.7mn fans that Metro Bank is still standing, after raising funds, seeing a drop in profits, and coming under the scrutiny of regulators for classifying unsavoury real estate loans as "low risk". Metro Bank's troubles came a few months after TSB suffered a comprehensive computer failure caused by a software update, which saw millions of clients lose access to the bank's site and app.
The breakdown forced TSB to part ways with its general manager and cost nearly $300mn — a hefty sum for a bank that broke away from the Lloyds Banking Group to try its own luck in 2013.
Britain's digital banking sector has not been spared either, as it rides the wave of changing consumer habits.
Perhaps none experienced more damage than Revolut, which had to take a stern look at its personnel management after a whistle-blower accused it of forcing job applicants to work for free.
Revolut's Russian-born boss and founder Nikolay Storonsky now wants to evolve to a more consumer-friendly business model.
Beyond these individual problems, which companies in other fields know just as well, smaller banks have to overcome more regulator hurdles, which carry an especially high cost.
They must further be financially strong enough to convince investors to follow them — a task complicated by the gloom of the seemingly endless Brexit crisis.
A decade of low interest rates has even forced behemoths such as Goldman Sachs to venture past their established niches and into the digital space.
Goldman's new Marcus online savings account offers higher interest rates than established competitors and is partnering with Apple to launch a credit card.
Marcus has attracted more than $35bn in online consumer deposits in the past years, a result that Goldman views as a success.
Industry watchers see benefits in the added competition, which creates more options as brick-and-mortar branches disappear.
But a report by parliament's Treasury committee cautions that branch closures are making the elderly feel cut off from their cash.

More details on Mexico deal to come at right time: Trump

Bloomberg
Mexico City

President Donald Trump hinted at additional measures between the US and Mexico, a day after he vowed that Mexico would soon make "large" agricultural purchases from the US as part of a deal on border security and illegal immigration that allowed Mexico to avoid US tariffs.

"Some things not mentioned in yesterday's press release, one in particular, were agreed on. That will be announced at the appropriate time," Trump said yesterday in a series of four tweets about Mexico, the media and other matters.

Three Mexican officials said on Saturday they were not aware of any side accord in the works, and that agricultural trade hadn't been discussed during three days of negotiations in Washington that culminated in a joint communique late on Friday.

The president also took issue with the contention in a New York Times article that most of the key elements agreed to between the US and Mexico on Friday had been in the works for months.

On Saturday Trump told his 61mn Twitter followers in an all-caps message that Mexico had agreed to "immediately begin buying large quantities of agricultural product from our great patriot farmers" following the border security deal. He retweeted the message overnight.

The State Department communique issued late Friday — entitled the US-Mexico Joint Declaration — also made no mention of agricultural trade as part of the agreement.

The State Department didn't respond to an inquiry made through its press department. The White House declined to comment or offer proof to back up Trump's tweet. The Mexican foreign ministry's press office declined to comment.

President Andres Manuel Lopez Obrador said at a rally in Tijuana near the US border that Mexico should celebrate the "important deal" with the US that removed the threat of tariffs as it was preparing to retaliate. He also didn't mention agriculture in a speech attended by leading political figures in the country.

If tariffs "had been applied it would've caused significant damage to both economies," he said. "We were being put in a very difficult and uncomfortable position to have to apply the same measures that were going to be placed on Mexican exports."

Earlier in the week, the Mexican president said that "a mixing of migration with commercial matters" was "unfortunate."

Mexico is already a large buyer of US farm goods, including corn, soybeans, pork and dairy products. It had given no indication of attempting to find alternative suppliers during the standoff over Trump's proposed steep tariffs on Mexican goods.

The US Department of Agriculture in May forecast US agricultural exports to Mexico in the current fiscal year at $19.7bn, about 14% of total US farm exports and up from $18.8bn in fiscal 2018. Mexico is second only to Canada as a market for US farm goods.

Increasing Mexico's purchases from the US beyond current levels wasn't discussed during the Washington talks, said the three people with knowledge of the deliberations who weren't authorised to speak publicly.

Mexico has no state-owned agricultural conglomerate to buy food products or handle distribution, or a government program that could buy farm equipment for delivery to producers.

Trump earlier on Friday suggested the talks were covering trade in agriculture, and not just border security issues as members of his administration had said — and that the State Department communique listed. If a deal was made, Trump said at the time, "they will begin purchasing Farm & Agricultural products at very high levels."

"If we are able to make the deal with Mexico, & there is a good chance that we will, they will begin purchasing Farm & Agricultural products at very high levels, starting immediately. If we are unable to make the deal, Mexico will begin paying Tariffs at the 5% level on Monday!," Trump's tweet read.

Trump on Saturday was fund-raising on the back of the Mexican agreement. His campaign sent out a "donate now" email that read in part, "Art of the Deal! Mexico has agreed to help END ILLEGAL IMMIGRATION. Promises Made. Promises Kept."

Farm states, among the strongest of Trump's supporters, have been hit hard by the president's trade war against China, and the threat of additional action against Mexico had some farm-state senators up in arms. The president is expected to travel to the heartland to hold a private fund-raiser in West Des Moines tomorrow.

US President Donald Trump speaks to members of the media in Washington, DC. The president took issue with the contention in a *New York Times* article that most of the key elements agreed to between the US and Mexico on Friday had been in the works for months.

Apple to buy Drive.ai in bid for more autonomous vehicle talent

Bloomberg
San Francisco

Apple Inc is preparing to buy startup Drive.ai in a small deal that will bring more engineers with experience in autonomous vehicle technology to the iPhone maker, according to people familiar with the matter.
It's unclear how much Apple is paying. Drive.ai has raised about $77mn in funding since it was founded in 2015, and was valued at about $200mn in 2017, according to Pitchbook data.
The deal is a so-called acqui-hire, where larger technology companies buy small startups to gain talent. Apple is planning to pick which Drive.ai staff it wants to keep, and the tech giant won't be using any intellectual property from the startup, the people said. They asked not to be identified discussing private matters. The Information reported on the deal earlier this week. Apple and Drive.ai didn't respond to requests for comment.
"We believe the potential acquisition price would be below their last $200M valuation," Gene Munster, a veteran Apple analyst at Loup Ventures, wrote in a research note.
Drive.ai has been for sale for a while and the startup has struggled to gain traction, according to a person familiar with the firm. It has a limited number of pilot tests. One contract with Frisco, Texas, was not renewed after the city cited high costs, VentureBeat reported in March. There may only be a handful specialists from the startup who can help Apple because the tech giant's driverless vehicle technology is already way ahead of Drive.ai's, the person added. They asked not to be identified discussing private matters.
Apple has been working on autonomous driving technology for several years. The project has had its ups and downs. The company cut about 200 workers from the initiative recently, but it also said it is committed to the area.

Uber operating, marketing chiefs leaving in leadership shake-up

Bloomberg
San Francisco

Harford (left) and Messina: Parting ways.

After a tumultuous stock debut, Uber Technologies Inc chief executive officer Dara Khosrowshahi is parting ways with two top lieutenants in a major leadership overhaul. Barney Harford, the chief operating officer; and Rebecca Messina, the chief marketing officer; are both leaving the company, Uber said.
Uber had largely shielded Harford from the public spotlight after he was the subject of an internal review over what some employees described as racially insensitive remarks by the operating chief last year. The investigation was closed last year and found no evidence of discrimination, the company said. Behind the scenes, Harford led much of Uber's business, though he remained a divisive figure. Some Uber executives, particularly female leaders, bristled at working with Harford, who had a brusque management style, people familiar with the matter said. Rachel Holt, an influential executive, was among those who had issues with Harford's leadership, said the people, who asked not to be identified discussing private matters. Meghan Joyce, a senior leader in the ride-hailing group under Harford, left Uber earlier this year. Andrew Macdonald, who had long operated with a high degree of independence, and who has been tapped to help oversee operations, regularly talked directly with Khosrowshahi instead of Harford, his immediate boss.
Holt declined to comment. Harford, Joyce and Macdonald did not respond to requests for comment.
In a letter to Uber staff on Friday, Harford thanked employees and outlined a few of the company's signature accomplishments. "While I will greatly miss working with this incredible team on a day-to-day basis," he wrote,
"I'm also looking forward to being in Seattle a bit more, where my wife and two young kids are based."
Khosrowshahi will now oversee the company's core business, after spending much of the past two years travelling the world, meeting with government leaders and pitching prospective investors ahead of what became the biggest initial public offering on a US exchange in five years. He also promoted two longtime Uber executives to help fill the void.
Uber has under-performed in its first month as a public company, as investors question its ability to someday turn a profit. In its first quarterly financial report last week, Uber posted a $1.01bn loss. The stock closed on Friday below the IPO price of $45 a share. Shares fell as much as 2.29% in extended trading after Bloomberg reported the executive departures.
"Over the years, I've learned that at every critical milestone, it's important to step back and think about how best to organise for the future. Given that we're a month past the IPO, now is one of those times," Khosrowshahi wrote in an e-mail Friday to employees.
"I now have the ability to be even more involved in the day-to-day operations of our biggest businesses, the core platform of Rides and Eats, and have decided they should report directly to me."
Uber's board selected Khosrowshahi, then the CEO of Expedia Group Inc, to lead the company after a string of embarrassing public scandals in 2017. Internal investigations that year led to the dismissal of more than 20 employees. Harford, who had led travel site Orbitz Worldwide Inc, joined Khosrowshahi to help prep Uber for the IPO.
The two executives who will take over some responsibilities from the outgoing chiefs helped Uber navigate through the period of turmoil.
Macdonald, who will lead operations, started at Uber in 2012 as a general manager in Toronto. Jill Hazelbaker, who runs policy and communications, will add the marketing department to her portfolio. Both were hired by Uber co-founder Travis Kalanick and became trusted allies of Khosrowshahi.
Messina's tenure at Uber lasted just nine months. She had climbed the ranks at Coca-Cola Co and at Uber, was designated one of Khosrowshahi's top executive recruits. Part of the reason for the change, Khosrowshahi wrote to staff, is that "marketing is so important to our business, and our brand continues to be challenged."