BoJ cuts economic growth, inflation view

TOKYO: Japan's central bank yesterday cut its economic growth and inflation forecasts, as analysts warned over a disappointing second quarter that underscores the wobbly success of Tokyo's Abenomics growth project. Bank of Japan (BoJ) chief Haruhiko Kuroda, however, insisted that any downturn would be short-lived and that policymakers still expect to hit their inflation target by next year, a cornerstone of efforts to bolster the world's number three economy.

After a two-day policy meeting, the BoJ said the economy would expand 1.7 percent in the fiscal year to March 2016 while inflation would come in at 0.7 percent.

That was down from 2.0 percent and 0.8 percent, respectively, estimated earlier this year. While the bank kept up its view that Japan's economy was recovering "moderately", it acknowledged that a pick-up in exports and industrial production had seen "some fluctuations".

Hideo Kumano, senior economist at Dai-ichi Life Research Institute, said trimming the growth forecasts "probably means growth in the April-June quarter was not very good". Official second-quarter GDP data are due next month. BoJ policymakers have been scaling back their expectations and governor Haruhiko Kuroda has conceded that an ambitious 2.0 percent inflation target was still some way off.

But he told reporters after the meeting Wednesday that the BoJ was still on track to hit the price target by next year, and that the weakness in exports was due to a still-recovering US economy.

Growth would turn around by the third quarter, Kuroda said. "Prices will likely pick up at a significant pace some time during the end of this fiscal year" to March 2016, he said.

Japan's economy expanded 1.0 percent in January-March after limping out of recession in the last three months of 2014, and business confidence remains strong.

BoJ 'too optimistic'

But consumer spending has struggled after a sales tax rise last year and economists widely expect the BoJ to ramp up its easing program, likely later this year, to bring Japan closer to its inflation target.

On Wednesday, the BoJ stood pat on its record asset-purchase program, which is pumping about 80 trillion yen ($648 billion) into the financial system annually in a bid to jack up prices and kickstart growth.

TOKYO: Bank of Japan (BOJ) Governor Haruhiko Kuroda speaks during a press conference after a two-day policy meeting at the BOJ headquarters in Tokyo yesterday. — AFP

"The Bank's view on the economy remains too optimistic. Economic activity weakened sharply in the second quarter, and business surveys suggest that output will not rebound rapidly in coming months," Marcel Thieliant from Capital Economics said in a commentary.

"Price pressures are unlikely to strengthen as quickly as policymakers hope." While a weak yen has boosted the bottom line for many Japanese exporters, Tokyo's bid to resuscitate the economy has struggled as it tries to rid Japanese consumers of the idea that prices will not rise much.

Deflation may sound good for shoppers, but it means people tend to put off buying because they do not expect prices to rise and hope they might even get goods cheaper down the line.

That, in turn, hurts producers and holds back their expansion and hiring plans, which is bad news for the economy, a problem that has weighed on growth for years. The BoJ's easing plan, launched more than two years ago, is aimed at changing consumers' so-called deflationary mindset by forcing prices upward.

But still-tepid inflation puts the BoJ in a tricky position as it has already pushed back its two-year timeline for hitting its price target and more delays could dent the credibility of its easing measures, Thieliant said. "We think that policymakers will instead opt for an expansion of monetary stimulus, perhaps as early as late October," he added. — AFP

Ghana June consumer inflation rises to 17.1%

ACCRA: Ghana's annual consumer price inflation rose to 17.1 percent in June from 16.9 percent the previous month triggered by the depreciation of the cedi and higher transportation costs, the statistics office said yesterday.

The rise in inflation reflects fiscal problems facing the country, which is under a three-year aid program with the International Monetary Fund aimed at restoring economic stability. Ghana is also grappling with a prolonged energy crisis that has led to frequent blackouts and hindered economic growth. "Imported items have a higher inflation rate and that mainly is caused by the depreciation of the cedi and also partly due to high cost of transportation," government statistician Philomena Nyarko told a news conference in Accra.

The cedi, which declined nearly 22 percent in the first half of this year, has rallied to 3.3100 to the dollar as of Wednesday, its strongest since mid February, from a record low of 4.4100 in late June. The year-on-year non-food inflation rate for June was 23.6 percent compared with 23.4 percent in May, while the food inflation rate stood at 7.4 percent from 7.3 percent the previous month, Nyarko said.

The central bank is expected to announced its policy rate decision yesterday and markets expect it to remain unchanged at 22 percent due in part to the cedi's recent rebound. Last month, the IMF Forecast 2015 inflation at 13-14 percent, up from its previous target of 12.5 percent but said the country would likely meet its 2016 target of 8 percent. — Reuters

Bank of America profits jump as legal costs drop

NEW YORK: Bank of America's profits more than doubled in the second quarter, the bank said yesterday, helped by lower legal costs and improvements in some of the bank's debt holdings.

The consumer banking giant earned $4.99 billion after payments to preferred shareholders, up from $2.04 billion a year earlier. The bank earned 45 cents per share, compared with 19 cents per share a year earlier. BofA's consumer banking division, its largest business by revenue and profits, had net income of $1.7 billion in the quarter, up modestly from $1.63 billion a year earlier. The bank said an increase in deposits, lower expenses and an improving balance sheet helped offset a decline in revenue in the division. Financial analysts surveyed by FactSet expected 36 cents per share, which typically exclude one-time items. Net revenue at the bank totaled $22.1 billion, compared with $21.75 billion in the same period a year earlier. The biggest drop in BofA's expenses came in its legal costs, which plummeted from $4 billion to $175 million, and were a big reason why the bank's profits jumped from last year. The bank reached a $13 billion legal settlement last year with state and federal regulators regarding its role in the 2008 financial crisis, which weighed heavily on its 2014 results. Shares of Bank of America rose 3.3 percent to $17.71 in pre-market trading. — AP

NEW YORK: Customers use ATMs at a branch office of Bank of America in New York. The bank reports quarterly earnings yesterday. — AP

Ex-HSBC boss regrets mistakes made with Swiss, Mexican deals

LONDON: HSBC should have made deeper checks before buying a Swiss private bank that allegedly allowed customers to dodge taxes and a Mexican business that breached anti-money laundering rules, its former chairman said. "With the benefit of hindsight, it would have been better to have drilled into the detail much earlier. We didn't get everything right," Stephen Green told British lawmakers yesterday. These scandals have damaged the image of Europe's biggest bank and the reputation of Green, who served as the bank's chief executive between 2003 and 2006 and as its chairman between 2006 and 2010. Green and HSBC had managed to come through the 2007-9 financial crisis relatively untainted.

"We had that reputation sullied by things we didn't get right in a couple of different places," Green told the House of Lords Economic Affairs Committee, which was conducting a one-off session on banking culture.

In 2012, HSBC had to pay a record $1.9 billion fine after US authorities said it had become the preferred financial institution for drug traffickers and money launderers between 2006 and 2010.

"I'm not going to say we covered ourselves in glory because it's not true ... since then they have very substantially reinforced the compliance function and it's clear we needed to do that," Green said. HSBC's Swiss business has been in the spotlight ever since a former IT employee Herve Falciani fled Geneva in 2008 with files which were alleged to show evidence of tax evasion by its clients. The bank has admitted past failings in compliance and control at its Swiss bank following the allegations.

Green was also asked how he felt about the high levels of pay in the banking industry. "It certainly kept me awake. [There was] no possible way on moral grounds of justifying it," he told the committee.

The bank's current chief executive Stuart Gulliver, is among the highest paid bankers in Europe with a pay packet last year amounting to 7.6 million pounds ($11.8 million). Win Bischoff, former chairman of Lloyds Banking Group, was asked by the panel about the rationale behind the bank's acquisition of struggling HBOS in 2008. This acquisition has been blamed for forcing Lloyds to seek a 20.5 billion government bailout. The bank's then chairman Victor Blank said he had been told by then-prime minister Gordon Brown that the deal would not be subject to a competition probe but Bischoff said the decision was not entirely down to political influence. "It was not done purely because the prime minister encouraged the board of the bank (Lloyds). There had been discussions that this might suit Lloyds very well," Bischoff said. — Reuters

HUAIBEI: Chinese women work at a garment factory in Huaibei in central China's Anhui province yesterday. China's economic growth in the latest quarter held steady at 7 percent, its weakest performance since the global crisis. — AP

China Q2 GDP expands 7.0%, beats analysts' expectations

Months of CB stimulus policy kicks in

BEIJING: China's GDP expanded 7.0 percent year-on-year in the second quarter, official data showed yesterday, beating expectations as months of central bank policy stimulus helped support the world's second-largest economy. The gross domestic product figure announced by the National Bureau of Statistics (NBS) matched the 7.0 percent expansion in the first three months of this year, and exceeded the median forecast of 6.9 percent in an AFP survey of 14 economists. The figure was in line with the government's official target for GDP growth this year of "about 7.0 percent". The better-than-predicted GDP result encouraged some economists to nudge their full-year forecasts higher. China's economy, a key driver of world growth, expanded 7.4 percent last year, slower than the 7.7 percent in 2013, and its weakest annual growth since 3.8 percent in 1990. The slowdown has been a major factor in a global fall in commodity prices, and so far the economy has largely failed to pick up momentum this year.

"The domestic and external economic conditions are still complicated," NBS spokesman Sheng Laiyun said. "The global economic recovery is slow and tortuous and the foundation for the stabilization of China's economy needs to be further consolidated." But in more bullish remarks he added that the figures showed growth had "stabilised" and was "ready to pick up". "It's very likely economic growth in the second half will be better than the first half," he added, citing positive factors including policy support and a recovery in the property market.

Chinese authorities are looking to diversify growth away from big-ticket projects-that helped drive years of double-digit GDP expansion-to consumer demand, which is seen as more sustainable. But too fast a deceleration in investment can be harmful to overall growth.

They have been taking more aggressive preemptive steps with the People's Bank of China (PBoC), the central bank, cutting benchmark interest rates four times since November and reducing bank reserve requirements in a bid to boost lending. Such measures can take time to affect growth.

'Upside risk'

The NBS also said industrial output, which measures production at factories, workshops and mines, rose 6.8 percent year-on-year in June, accelerating from May's 6.1 percent. It was ahead of a median forecast for 6.0 percent expansion in a survey of economists by Bloomberg News.

Retail sales, a key indicator of consumer spending, increased 10.6 percent last month from the year before, the NBS said, a faster pace than May's 10.1 percent. It also beat a Bloomberg News survey's median 10.2 percent. And fixed asset investment, a measure of government spending on

infrastructure, expanded 11.4 percent in January-June year-on-year, the same as for the first five months of the year and remaining at its lowest since 2000. In light of the figures Nomura lifted its annual GDP forecast from 6.8 percent to 6.9 percent. But it cautioned in a note that "headwinds from property investment and overcapacity remain" and authorities were likely to further ease monetary policy this year. Chaotic trading on the country's key stock markets in recent weeks has added to uncertainty. However, Julian Evans-Pritchard, China economist at capital Economics, said in a note that GDP benefitted temporarily during the second quarter as a whole from the "unsustainable surge in financial sector activity".

"Looking ahead, the support to growth from the financial sector should soon fade," he said.

"But the recent step-up in policy support will limit the downside risks," he added. Despite the positive GDP figure, China's benchmark stock index closed down 3.03 percent as investors questioned whether there would be more stimulus measures. "The GDP numbers are really good," Bernard Aw, a Singapore-based strategist at IG Asia told Bloomberg News. "The better-than-expected GDP reading suggested that Beijing may take its foot off the pedal on more stimulus measures for the time being. This will affect sentiment in the stock market."

China's total trade declined in the first half of this year, official data showed Monday, falling well short of the government's targets, and posing a significant weight on growth. Manufacturing has also languished with official and private surveys showing it hovering near the borderline between expansion and contraction. "The resilience of retail sales in June is a further encouraging sign that downside risk, while not negligible, is receding, despite recent equity-market volatility," Andrew Colquhoun, head of Asia-Pacific Sovereigns at Fitch Ratings, wrote in reaction to the data.

"Nonetheless, the longer-term outlook remains one of structural slowdown as the economy works through a painful process of adjustment and deleveraging." — AFP

Mexico, foreign firms set for landmark oil auction

MEXICO CITY: Mexico holds yesterday the first oil auction of a historic energy reform that reopens the industry to foreign investors, with US, European and Asian firms jostling for contracts.

Nearly 80 years after kicking foreign energy companies out of the country, the government is offering 14 blocks in shallow waters of the Gulf of Mexico worth an estimated $17 billion in total.

The auction is the climax of President Enrique Pena Nieto's top economic reform, which was enacted last year after a heated debate in Congress, with leftist parties warning against giving up a symbol of national sovereignty. The daylong event could give Pena Nieto's administration a brief break from the embarrassing fallout of the weekend jailbreak of the country's most powerful drug lord, Joaquin "El Chapo" Guzman, his second escape in 14 years.

While foreign firms have eagerly-awaited this moment, the government has played down expectations of a big sale, predicting that between a third and half of the 14 blocks will be awarded. Energy Minister Pedro Joaquin Coldwell said the estimate was in line with international experience. "We won't squander the nation's oil resources," he said.

First foothold in Mexico

Analysts say the sharp drop in global oil prices in the past year have affected the plans of energy companies. Raymundo Tenorio Aguilar, an energy expert at the Monterrey Institute of

Technology, said Iran's nuclear deal Tuesday with world powers could also affect the auction. The accord will lift sanctions on Iran's oil export, adding 1.5 million barrels of crude per day in the market, causing prices to fall further, Tenorio said. "This weakens Mexico's ability to negotiate," he told AFP. "If only half of the bids are awarded, it would be a success given the current environment."

But David Shields, an industry analyst and director of the magazine Energia a Debate, said he expected a bigger bonanza. "I think that there will be interest from many companies that want to be the first to have a foothold in Mexico," Shields said. Seven consortiums and 18 individual companies have qualified for the auction. US giants ExxonMobil and Chevron, Anglo-Australian firm BHP Billiton, India's state-run ONGC Videsh Ltd, Russia's Lukoil, France's Total and Chinese-owned Nexen are among the firms bidding individually.

Some of the consortiums include Italy's ENI, Thailand's Petronas Carigali and new Mexican firms.

The legislation breaks the monopoly on drilling held by state-run firm Pemex since the industry's 1938 nationalization. While Pemex qualified for the auction, it will sit out this time.

Pena Nieto hopes the reform will reverse years of declining production-from 3.5 million barrels per day in 2004 to 2.3 million now-and give a boost to the economy. Oil auctions are a new thing for Mexico and officials said they wanted to make them the most transparent in the world. The event will be shown on a live Internet broadcast.

The companies will bid without knowing beforehand the minimum percentage that the government will want to earn for each project. Analysts say the government made an effort to create a transparent system to ease any concerns over the country's poor track record when it comes to corruption. — AFP