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FRANKFURT: Journalists and visitors surround the Audi quattro electric drive concept car SUV at a press day of the 66th IAA auto show in Frankfurt am Main yesterday. — AFP (See also Page 23)

Carmakers curb China output as sales stall

FAW-VW cutting shifts; European car sales jump 11.5%

FRANKFURT/BEIJING: Volkswagen and other major carmakers have begun reining in Chinese output, wages and other costs, industry sources told Reuters, as executives at the Frankfurt auto show put a brave face on a sharp slowdown in the world's biggest vehicle market.

The German car giant's Chinese joint venture, FAW-VW, is cancelling staff bonuses and cutting shifts at its plants near Changchun, northeastern China, people with knowledge of the matter said. The bonuses being scrapped typically account for more than half of the assembly-line workers' take-home pay. Volkswagen's high-end Audi brand also said it had eased back output at its Chinese plants, trimming the working week to five days from seven in response to lower demand for models such as the A6 saloon.

And German rival BMW said on Tuesday it had reduced output of its locally produced 3 and 5 series models. "We reacted relatively fast," Chief Financial Officer Friedrich Eichiner told journalists. "We are not stockpiling." Car sales in China, until recently the profit engine for automakers around the world, have been hit by a cooling economy and a plunging stock market. Demand was flat in the first eight months of the year and could drop in 2015 for the first time since the market took off in the late 1990s.

At the opening day of the Frankfurt auto show yesterday, industry executives expressed confidence about the long-term growth potential of the Chinese market, and said any short-term hit could be offset by a strengthening recovery in Europe. Industry data showed European car sales jumped 11.5 percent year-on-year in August.

But some analysts said the Chinese slowdown was coming at a time when carmakers are still opening factories in the country-creating an excess of capacity that could weigh on profits.

Leading research group IHS Automotive expects carmakers' capacity utilisation rates in China to drop to 65 percent from last year's 70 percent, a key profitability threshold. French carmaker Renault also told Reuters the slowdown in China could drag global auto market growth below the 1 percent it had previously forecast for 2015.

It predicts a slight rebound in China next year, with global growth of 2-3 percent, but Europe slipping back from a stronger-than-expected 7-8 percent this year to just 2 percent in 2016.

"VERY DEPRESSED"

"The mood is very depressed at VW, BMW or GM," said Clemens Wasner of Austrian automotive consultancy EFS, which advises several German carmakers in Asia. China has accounted for more than half of VW's profit in recent years and about 40 percent at GM, which is pursuing a $14 billion expansion in China with its local partners. Both VW and GM have already begun trimming local production by around 5 percent in July-according to one China-based consultant.

GM President Dan Ammann told Reuters TV he had had "some sleepless nights but we feel like we're in a good position" in China, pointing out that the company was about to release several new sport-utility vehicles (SUVs) "right into the sweet spot where there's still strong growth".

GM China chief Matt Tsien said in May that GM was determined to keep operating margins as high as 9-10 percent by selling more SUVs and higher-end cars. It ruled out a significant review of its China plans as recently as July.

The US group could nonetheless put the brakes on planned capacity increases, a person close to the company said, and has room to trim costs at existing facilities by halting production for longer breaks, reducing shifts and cutting workers' bonuses. "They can immediately reduce extra months of salary payments which are very common in the good times," the source said.

VW CEO Martin Winterkorn told Reuters TV in Frankfurt he remained upbeat about China, but noted a shift in demand there. "The eastern part of China is rather stagnating, while the west is growing," he said. "Many people live in the west and we just built a factory there. We are looking to China with confidence and expect to keep growing."

Audi chief Rupert Stadler, meanwhile, told Reuters TV the brand expected "further growth in China over the medium term ... and will not change our investment plans."

BMW, the world's biggest luxury carmaker, warned last month its forecasts for this year could be at risk from any further deterioration in the Chinese market, where its sales are falling for the first time in a decade. Eichiner said yesterday he saw no reason for BMW to change its full-year targets, though it was too early to talk of a recovery in Chinese demand.

German rival Daimler said it had no plans to revise production in China and saw no risk of overcapacity at its plants there. However, PSA Peugeot Citroen's premium DS brand said it was helping its Chinese dealers to refinance and expected to fall short of its full-year sales network expansion target. — Reuters

Egypt extends rally, Saudi banks climb

MIDEAST STOCK MARKETS

DUBAI: Egypt's stock market rose for a third day in a row yesterday, supported by foreign inflows, while Gulf markets were mixed as oil prices remained volatile. The Cairo index edged up 0.2 percent as Commercial International Bank, the country's biggest listed lender, rose 1.0 percent to 51.00 pounds.

Pharos Capital yesterday raised its target price for the stock by 4 percent to 61.14 pounds, citing income tax rate cuts announced last month. Qalaa Holdings rose 1.9 percent, extending a leg up initiated on Monday after Saudi Arabia's Halwani Brothers made an offer to buy one of Qalaa's subsidiaries. Beltone Financial Holding, one of the largest investment banks in Egypt, surged 4.2 percent after announcing it had completed a capital increase worth 200 million pounds ($25.5 million).

According to stock exchange data, non-Arab institutions and Arab retail investors were both net buyers yesterday. Foreigners were also net buyers in the previous session.

GULF

Markets in United Arab Emirates rose as local telecommunications company Etisalat climbed 1.8 percent in its highest daily trading volume on record, having opened up to foreign and institutional investors. The Abu Dhabi stock exchange, where Etisalat is listed, edged up 0.4 percent. As the biggest listed company in the UAE, Etisalat is now very likely to secure a place in emerging market indexes, attracting global funds. Previously, only local retail investors could buy the stock.

Dubai's benchmark stock index rose 0.7 percent, supported by a rebound in a number of stocks after several days of declines. Property developer DAMAC jumped 3.5 percent ahead of a shareholder meeting later in the day which will vote on the firm's first cash dividend since it listed in Dubai in January. Saudi Arabia's main index was nearly flat as banks offset losses in other sectors. National Commercial Bank and Al Rajhi climbed 1.4 percent each and were the main support for the market ahead of this week's meeting of the US Federal Reserve, which could result in a rise in interest rates.

The Saudi riyal is pegged to the dollar, so Riyadh is very likely to adjust interest rates as well, boosting banks' margins. Other Gulf markets were soft. Qatar edged down 0.3 percent, Kuwait fell 0.6 percent and Oman was down 0.4 percent. — Reuters

Emerging economies plea for end to US rates agony

PARIS: Some of the world's biggest emerging economies are pleading for the United States to end their drawn-out agony and raise interest rates now. Already hit by a commodities crash sparked by the slowing of China's once-booming economy, the mere prospect of the US Federal Reserve raising interest rates-perhaps as soon as tomorrow-has battered the emerging giants that were once the world's top performers. Lured by the promise of bigger returns when the Federal Reserve eventually begins raising interest rates, investors are already moving their money to safer, yet profitable, US destinations.

In August alone, panicky investors dumped equities held in emerging economies to the tune of $8.7 billion, according to the Institute of International Finance. The dollar meanwhile, has climbed.

The International Monetary Fund warned this month against a "premature" increase in US interest rates as the slowdown in Chinese growth and the ensuing commodities price collapse ripples through the world economy, and emerging economies in particular. Some key emerging economies, however, would rather bring a swift end to the painful wait. The Fed's decision is "probably the most anticipated event in the last century," Peru central bank chief Julio Valarde told the Nikkei Asian Review on a visit to Tokyo last week.

"What is surprising is how many central bankers with whom I talk prefer the hike to come as soon as possible," Valarde said, arguing that the uncertainty of the wait was more damaging than the interest rate increase itself.

Indian central bank governor Raghuram Rajan agreed. "It's preferable to have a move early on and an advertised, slow move up rather than the Fed be forced to tighten more significantly down the line," he told the Wall Street Journal at the Jackson Hole, Wyoming, central bankers' meeting last month.

'Uncertainty created the turmoil'

For Indonesia's central bank, too, the doubts are of the greatest concern. "We think US monetary policymakers have got confused about what to do. The uncertainty has created the turmoil," Mirza Adityaswara, deputy governor at Indonesia's central bank, told the Financial Times.

"The situation will recover the sooner the Fed makes a decision and then gives expectation to the market that they increase one or two times and then stop," he said. Financial markets have not forgotten the precedent of mid-2013 when then Federal Reserve governor Ben Bernanke evoked the possibility of a future increase in interest rates and sparked a flight of capital from emerging markets.

Hopes for an end to the agony may be dashed even if the Fed pulls the benchmark US federal funds rate up from zero percent, where it has been frozen since the financial crisis of 2008, analysts said.

Mixed figures on US employment and uncertainty over Chinese economic growth could prompt Federal Reserve chairwoman Janet Yellen to wait a little longer, analysts said.

Even if she acts, the speculation will live on, warned Philippe Waechter, economist at French investment bank Natixis Asset Management. Emerging markets "think that if the US moves, the question of capital flight will be resolved and they can turn the page", he said.

"But I am not so sure."

Waechter said the Fed was unlikely to tighten in a series of small steps at every meeting. "If they raise on Thursday, then on Friday we will be asking when the next one comes." — AFP