Gold edges lower ahead of Fed rate decision

LONDON: Gold weakened yesterday, after its biggest jump in a month, ahead a Federal Reserve policy decision that has investors divided on whether it will hike US interest rates for the first time in nearly a decade. The US central bank started a two-day policy meeting on Wednesday, with a decision on interest rates expected at 1800 GMT on Thursday.

Spot gold was down 0.3 percent at $1,116.05 an ounce at 1154 GMT. The metal gained 1.3 percent on Wednesday in its biggest daily jump since Aug. 20, helped by data showing US consumer prices unexpectedly fell in August. Expectations that the Fed would hike rates at this week's meeting have been lowered due to concerns over slowing economic growth in China and volatility in financial markets. In a Reuters poll of 80 economists, 45 said the Fed would keep its benchmark interest rate between zero and 0.25 percent, while 35 expected a hike. "If the Fed doesn't make any announcement on raising rates then you could see a rally in gold because the dollar and yields will come off," Societe Generale analyst Robin Bhar said.

"However, gold would struggle above $1,140 or $1,150, as the first rate hike is not far away." The dollar fell 0.2 percent against a basket of leading currencies, while European shares retreated. Signs of a disinflationary trend reasserting itself in the United States contrast with a fairly healthy economy and a rapidly tightening labor market, and highlight the dilemma Fed officials face as they contemplate raising rates this year.

Higher interest rates would increase the opportunity cost of holding non-yielding bullion, while boosting the dollar. "If rates were to be raised, then it would be no surprise to see gold prices sink quite quickly to $1,077," said Howie Lee, an analyst at Phillip Futures.

On the other hand, if the Fed leaves rates unchanged, the upside for gold prices would be limited as the move would create more uncertainty over the timing of an eventual rate hike, traders said.

Silver was down 0.5 percent at $14.81, following a 3.5-percent jump in the previous session, its biggest one-day gain since May. Platinum fell 1.2 percent to $959 an ounce and palladium dropped 0.8 percent to $604.90. — Reuters

Premier Farnell slashes dividend, to sell unit

LONDON: British engineering supply group Premier Farnell Plc unveiled a slew of measures yesterday including cutting its dividend and the sale of a non-core unit to fight slowing sales growth. Shares in the company tumbled nearly 16 percent to a six-year low in morning trading. Premier Farnell forecast a fall in full-year adjusted operating profit and said it would sell its industrial products division Akron Brass in Ohio and stop direct operations in Brazil.

The company put in place a new global structure last year, combining its marketing and distribution businesses in the hope that it would boost performance. However, slowing sales growth continued to plague the maker of Raspberry Pi - the mini, low-cost computer created to help millions of people get online and learn to code - and it announced a review of its operations in July.

"Is it change? Yes it is change. Is it too much change? No." Interim CEO Mark Whiteling told Reuters. Its marketing and distribution business accounted for about 80 percent of turnover last year. The company, which started out as a radio parts seller in 1939, cut its interim dividend by almost 41 percent and said it expected full-year adjusted operating profit of 73 million pounds to 77 million pounds. It reported an adjusted operating profit of 88 million pounds last year. The Akron Brass business makes and sells high-performance fire-fighting equipment for fire truck manufacturers, public fire services and industrial facilities.

The unit, with a high market share in North America, accounted for about 7.5 percent of Premier's total revenue and about 15 percent of adjusted operating profit in the first half of this year.

Whiteling declined to put a price on the unit, but said the high-margin business would be an attractive fit for North American industrial companies and large strategic buyers.

He expects to close a deal by March. RBC Capital Markets estimated that at 10-12 times earnings before interest, taxes and amortization, the unit would be worth around 140-160 million pounds before costs. The brokerage indicated on Monday that there was a strong likelihood that Premier Farnell could be acquired. Whiteling said the board would continue to look at all options as part of a review of its operations. — Reuters

CHONGQING: A farmer working in her paddy fields in Chongqing. Agriculture is a vital industry in China, employing over 300 million farmers as China ranks first in worldwide farm output, primarily producing rice, wheat, potatoes, tomatoes, sorghum, peanuts, tea, millet, barley, cotton, oilseed and soybeans. — AFP

China govt hopes to stem rundown on forex reserves

China's forex reserves down 11 pct since June 2014

BEIJING: China's policymakers think they can stem a rapid rundown of their foreign exchange reserves and ease pressure on the currency by pump-priming the economy to meet this year's growth target, sources involved in policy discussions said.

Beijing will channel funds mainly into infrastructure projects, including railways, roads and airports, and the central bank will cut interest rates and bank reserve requirements, policy insiders say, reigniting fears of reverting to an old stimulus playbook at odds with an official drive to reform the economy. "If we can stabilize growth, yuan depreciation expectations could be changed," said an influential economist who advises the government.

"We need to stabilize growth by stepping up fiscal policy support," he said. The Ministry of Finance did not immediately respond to a request for comment. But meeting an arbitrary growth target might not satisfy global markets, who are increasingly worried that imbalances in the economy are not being addressed.

Beijing, mindful of the lessons learned in 2008-09 when a massive stimulus package saddled the economy with debt, may assess spending plans more carefully this time and make sure projects are financially sound, policy insiders say. A report by Citi economists said policymakers risked a deeper "recession", which they defined as a significant increase in unemployment and excess capacity, if stimulus favoured investment rather than encouraged a shift to consumption-driven growth.

The economists said they feared that "even if a timely fiscal stimulus is implemented, its composition is likely to be such that excess capacity in the traditional industries and sectors is enhanced, thus avoiding an early recession only by raising the risk of a later but deeper and longer recession".

The signals are that spending will be directed to traditional engines. China's top planning agency, the National Development and Reform Commission (NDRC), has approved about 800 billion yuan ($126 billion) of railway, port and highway projects so far this year.

Government spending jumped 26 percent in August from a year earlier as Beijing tries to re-energise flagging growth. "Investment faces big downward pressure, and it's difficult to boost exports, while there is more room to manoeuvre on fiscal policy," said an economist at a well-connected think-tank. The world's second-largest economy, which is heading for its slowest growth in 25 years, grew at an annualised 7 percent over the first half of 2015, stronger than many expected, but data suggests it has lost momentum in the third quarter.

FOREX WORRIES

The central bank has been using its foreign exchange reserves since mid-2014 to support the yuan, but pressure on the currency has intensified since a surprise devaluation on Aug. 11.

In the face of a surge in capital outflows, the central bank sold down its forex reserves by a record $94 billion in August, taking the cumulative drop to $436 billion, or 11 percent, since a June 2014 peak of $3.99 trillion. The yuan-buying intervention has also tightened liquidity conditions, forcing Beijing to cut reserve requirement ratios for banks, to release funds into the market. "It will be troublesome if market expectations (for the yuan) become one-sided," said a senior economist at a top government think-tank.

Premier Li Keqiang has repeatedly said the yuan will be held basically stable and there was no basis for more depreciation. "He is obviously worried," said the think-tank economist.

China may see further declines in its reserves, which are still the world's largest, if pressure on the yuan and capital outflows persist because of domestic weakness or external factors such as a US rate rise. Analysts differ on the minimum reserves needed to ensure sufficient cover for imports and debt, with some government economists putting it at $2 trillion.

China will conduct checks on firms' foreign exchange buying to prevent speculation and step up a crackdown on illegal cross-border money transactions, an official at the country's foreign exchange regulator said yesterday.

"We should strengthen supervision on FX outflows, but it's far from reaching a stage that we employ real capital controls," said the influential economist who advises the government.

The credibility of Beijing's economic forecasting could be critical to stemming the outflows, especially as top leaders meet in October to determine the next five-year plan for 2016-2020. Sources have said the plan is likely to maintain a growth target of about 7 percent, driven by a previous goal to double GDP in the 10 years to 2020. "Their determination to safeguard this year's growth target is great" said a government economist. "So is the difficulty," he added. — Reuters