

## DEUTSCHE BANK SETTLEMENT OVERSHADOWS US EQUITIES

**NEW YORK:** Deutsche Bank will likely cast a pall over equity markets next week as the largest German lender navigates a possible multi-billion dollar settlement with the US Department of Justice over the sale of mortgage-backed bonds.

Deutsche shares traded in the United States hit a record low, falling as much as 24 percent since the DOJ asked the bank to pay \$14 billion to settle charges related to its sale of toxic mortgage bonds before the financial crisis.

But the stock had its best day in five years Friday, on record volume, after news agency AFP reported that Deutsche was nearing a much-lower \$5.4 billion settlement with the DOJ.

Analysts at Morgan Stanley estimated Deutsche could pay about \$6 billion to settle with the DOJ. Stocks on Wall Street broadly tracked Deutsche over the past few days and will likely continue to do so, analysts say. "While it is in the headlines, it is an overhang," said Art Hogan, chief market strategist at Wunderlich Securities in New York.

### US WALL ST WEEK AHEAD

"Once they come to some resolution on the difference between what they are charged, \$14 billion, and what they are going to pay, call it \$5 or \$6 billion, the market is going to be afraid there is a problem," Hogan said.

Deutsche's market capitalization of near \$18 billion makes it much smaller than its U.S. peers like Bank of America, at \$155 billion, or Citi, at \$133 billion.

However its trading relationships with the world's largest financial institutions make a potential breakdown at Deutsche a bigger risk to the wider financial system than any other global bank, the International Monetary Fund said in June.

"Its world print and eurocentric role are unrivaled, so it is going to drive the narrative next week," said Peter Kenny, senior market strategist at Global Markets Advisory Group in New York.

"My sense is we're not really going to have the kind of clarity that investors like to have ... for probably weeks," AFP reported, citing a person familiar with the matter, the settlement could be announced in the next couple of days.

Analysts stopped short of comparing the present turmoil at Deutsche to the bankruptcy of U.S. investment bank Lehman Brothers in 2008, part of a financial crisis that triggered the deepest recession in decades for the US economy.

"Deutsche Bank is not Lehman and does not threaten a 2008-like 'sudden stop' to the global economy," said Mohamed El-Erian, chief economic adviser at Allianz.

The concern, he said, lies in this being "a reminder of the fragility of some European banks" and an additional headwind to European growth.

The S&P 500 rose for the week but the index's

banks, suffered big losses, as a group, on Monday and Thursday because of the turmoil surrounding Deutsche Bank. Separately, the grilling of Wells Fargo's chief executive in Congress over fraudulent business practices also weighed on bank shares.

Frankfurt's stock exchange will be closed tomorrow for the Day of German Unity. Equity investors will also focus next week on the 10 speeches by top US Federal Reserve officials, with the highlight from Vice Chair Stanley Fischer on Friday, and clues to monetary policy. Key economic data, including September's employment report on Friday, will keep traders on tenterhooks.

"We got our own troubles here with the economy slowing down, next week we'll know if (week data) was a blip or a trend," said Phil Orlando, chief equity strategist at Federated Investors in New York.

He added: "The market has to have a healthy respect for the downside in the event the DOJ and Deutsche don't find a reasonable agreement." — Reuters

## IRAQ'S ECONOMIC RECOVERY PLANS TIED UP BY US BUDGET TUSSE

**DUBAI/WASHINGTON:** Iraq's plans to raise \$2 billion on international debt markets to help fill a budget gap caused by low oil prices were thwarted this week by the US Congress' refusal to guarantee half the bonds' value.

As part of a 2017 budget endorsed by the International Monetary Fund, Baghdad said it would seek to issue a \$1 billion bond fully guaranteed by the United States in order to lower borrowing costs before issuing another \$1 billion.

Those funds would complement a three-year \$5.34 billion standby loan, which the IMF approved in July in exchange for economic reforms. Baghdad hopes the IMF deal will unlock more than \$12 billion in additional aid from sources such as the World Bank and the Group of Seven leading industrialised nations.

Western allies have acknowledged the need to guard major OPEC producer Iraq's fragile economy from a collapse that would risk undermining military gains against Islamic State by a US-led coalition and local forces that are looking to retake the militant stronghold of Mosul later this month.

While the Obama administration requested the guarantee be included in a "continuing resolution" - stopgap legislation that keeps the US government running while more permanent spending decisions are agreed - it did not end up in the final version passed by Congress on Wednesday.

Lawmakers said they had tried to keep side issues out of the spending bill in order to ensure it would go into effect before the

new fiscal year began on Oct. 1.

Iraqi Prime Minister Haider al-Abadi's financial advisor, Mudher Salih, who has worked closely on the bond issue, and a source familiar with the matter told Reuters the guarantee had been held up by Republicans in Congress, without providing details.

Republicans have majorities in both the House and Senate, but it was unclear if they had a particular objection to putting up more funding for Iraq, which has already received billions of dollars in military, economic and humanitarian aid from Washington since the U.S.-led invasion that toppled Saddam Hussein in 2003.

Many members of Congress are frustrated with Iraq's government. They worry that the United States has sent far too much money to Baghdad, with too few results, due to corruption and incompetence.

Many also view the Iraqi government as being too close to Iran, and are angry with its Shi'ite leaders for alienating minority Sunni Muslims.

The Iraq loan guarantee could still be included in spending legislation that must pass in order to keep the government open past Dec. 9, when the temporary spending bill expires.

Salih told Reuters on Thursday that Iraq was likely to delay the bond issuance until at least early 2017, in part because of the lack of a US guarantee.

Baghdad's latest budget proposal for 2017 forecasts expenditures of 90.224 trillion Iraqi dinars (\$77.6 billion) with a shortfall of around 12 trillion dinars. — Reuters



**QINGDAO:** Chinese workers load modular equipment at an offshore oil engineering platform in Qingdao, east China's Shandong province yesterday. Manufacturing activity in China continued its rebound in September on improving production and demand, government data showed yesterday — a positive sign for the world's second-largest economy. — AFP

## CHINA FACTORY ACTIVITY EXPANDS AGAIN IN SEPT

**BEIJING:** Activity in China's manufacturing sector expanded again in September, an official survey showed yesterday, which may indicate that recent positive momentum can be sustained.

The official Purchasing Managers' Index (PMI) stood at 50.4 in September, identical with the previous month's level. A reading above 50.0 shows growth on a monthly basis.

September's 50.4 reading matched the prediction of a Reuters poll. After a significant pickup in March, China's official PMI slipped, falling below 50 in July before showing expansion in August.

In an encouraging sign, new export orders increased in September, rising to 50.1 from the previous month's 49.7. In September, output edged up to 52.8 from 52.6 in August, but the index for total new orders slipped to 50.9 from 51.3. A sub-index for smaller firms fell, while performance at larger companies improved, a sign that the government's dependence on big state firms for growth this year has not changed. Economists say the pattern over the past few months suggested sustained economic growth, but a growing dependence on government spending and an overheated property market may pose increased risks later this year with

debt levels continuing to rise.

Industrial profits rose at the fastest pace in three years in August, with rising sales and higher prices stimulated by a construction boom and heated property market.

### STILL STRUGGLING

But profits remained uneven, as traditional heavy industries with excess capacity such as steel still struggled for growth. Sectors like hi-tech, auto manufacturing and shipbuilding showed strong expansion, the survey showed.

Jobs were again lost, though at a slower pace, with the employment sub-index rising to 48.6, compared to 48.4 in August. Job losses could be rising as the government has pledged broad capacity cuts across a range of industries.

Industrial overcapacity remains one of the main drags on economic growth. Beijing has pledged to quicken the pace of its industrial capacity cuts, particularly in steel, after falling behind earlier in the year.

China's state planner rejected a request in September by the nation's steel makers for coal mines to ramp up coking coal output to help ease supply tightness that has triggered a frenzied price rally.

China's slowing economy and problems with industrial overcapacity have also reduced investment opportunities, a view reinforced by Fan Gang, a member of China's central bank monetary committee. Private investment grew just 2.1 percent in the first eight months of the year, remaining at record lows.

A similar official survey showed activity in China's services sector expanded at a slightly faster pace, with the official reading at 53.7 in September from 53.5 in August.

A measure of the construction industry rose as the government has gone on an infrastructure spending spree. The services employment sub-index rose in September, but still indicated services companies were cutting staff.

Beijing has been counting on a strong services sector to pick up the slack as it tries to shift the economy away from a dependence on heavy industry and manufacturing exports. A private business showed on Friday that factory activity expanded in September but the improvement was marginal and manufacturers continued to shed jobs.

The Caixin/Markit Manufacturing Purchasing Managers' index for September rose to 50.1 from a no-change level of 50.0 in August. — Reuters

## TEXAS BUSINESSMAN WYLY STRIKES \$198M DEAL WITH SEC

**NEW YORK:** Texas businessman Sam Wyly has agreed to pay \$198.1 million to resolve claims by US securities regulators that he engaged in a long-running securities fraud to hide trades in companies he controlled using offshore trusts, according to a court filing.

According to papers filed by the US Securities and Exchange Commission on Friday in Manhattan federal court, Wyly is also in talks to resolve tax claims by the Internal Revenue Service after he was ordered to pay \$1.11 billion.

The settlement is subject to approval by SEC commissioners and a federal bankruptcy judge in Dallas, where the once-reported billionaire filed for Chapter 11 in 2014 amid the SEC's pursuit for monetary sanctions.

Under the settlement agreement, Wyly, 81, and his family have agreed to take steps to have the offshore trusts at issue in the Isle of Man make payments to satisfy a judgment the SEC obtained in 2015.

The SEC will meanwhile cooperate with ensuring Wyly receives a credit against his federal income tax liabilities of nearly \$181 million.

Neither the SEC nor a spokesman for Wyly responded immediately to a

request for comment yesterday. The SEC sued Sam Wyly and his brother Charles Wyly in 2010, alleging they earned \$553 million in undisclosed profits by trading in four companies they controlled using trusts in the Isle of Man.

Both denied wrongdoing. Charles Wyly died in 2011, and his estate was substituted as a defendant. After a jury in May 2014 found them liable for securities fraud, a federal judge ordered Sam Wyly to pay \$198.1 million and Charles Wyly's estate to pay \$101.2 million.

Sam Wyly, who last appeared on Forbes magazine's list of the 400 richest Americans in 2010 with a net worth of \$1 billion, and Caroline "Dee" Wyly, Charles Wyly's widow, subsequently filed for bankruptcy.

The IRS in bankruptcy court took both to trial, alleging Sam and Charles Wyly committed tax fraud by shielding much of their wealth in offshore trusts.

US Bankruptcy Judge Barbara Houser in Dallas earlier this year found Sam Wyly liable and ordered him to pay \$1.11 billion in back taxes, interest and penalties.

The case is US Securities and Exchange Commission v. Wyly et al, US District Court, Southern District of New York, No. 10-5760. — Reuters



**MANILA:** In this Sept. 29, 2016 photo, a man changes his US dollar bills to Philippine peso beside a sign showing the exchange rates at a money changer in Manila, Philippines. Analysts and businessmen point to uncertainties about Philippine President Rodrigo Duterte's policies and flip-flopping pronouncements as largely to blame for foreign selling in the stock market and the peso's plunge to a seven-year low, reversing initial optimism after June 30 inauguration. — AP

## INDIANS DISCLOSE \$10BN IN TAX EVASION AMNESTY

**NEW DELHI:** A government amnesty targeting tax evasion in India has prompted tens of thousands of suspected tax dodgers to disclose nearly \$10 billion in undeclared income, the finance minister said yesterday.

The government of Prime Minister Narendra Modi sent out about 700,000 notices earlier this year to suspected evaders to coax them to declare hidden income and assets, known as "black money" in India, promising they would not be pursued by authorities if they came clean and paid a penalty. Finance Minister Arun Jaitley told reporters the four-month scheme that closed on Friday had led to 64,275 declarations, resulting in a provisional 652.5 billion rupees (\$9.8 billion) in undisclosed wealth.

Jaitley added the final figure would likely be higher. Factoring in taxes owed and penalties of 45 percent, the government could raise more than 293.6 billion rupees (\$4.4 billion) from the declared income, according to Reuters calculations.

There was no public target for the initiative, but government officials had an internal goal to raise about \$7.5 billion in back taxes.

During the 2014 elections, Modi pledged to bring back billions of dollars in "black money" if elected. Modi, in a tweet, called the outcome of the scheme "successful" and said it was "a great contribution towards transparency and growth of the economy."

In a country of 1.3 billion, fewer than 18,000 people declared annual income of 10 million rupees or more in 2012/13, the latest figures show. — Reuters



**NEW DELHI:** File photo, India's Finance Minister Arun Jaitley addresses a press conference in New Delhi, India. Tens of thousands of Indians have declared a total of \$9.5 billion in black money as part of a one-time opportunity to come clean under a government scheme, Jaitley said yesterday. — AP