Trade angst, growth scares haunt global stocks, Wall St falls sharply

US tariffs on EU goods hit already weak sentiment

LONDON: World stocks hovered near four-week lows yesterday and yields on major benchmark bonds slipped after Washington moved to impose new tariffs on European goods, fuelling fears about global growth and dousing risk appetite. US stocks fell sharply yesterday after data showed business activity slowed in September to its lowest level in three years, the latest economic indicator to point to a sharp downturn in the United States.

At 10:02 am ET, the Dow Jones Industrial Average was down 232.00 points, or 0.89 percent, at 25,846.62, the S&P 500 was down 21.15 points, or 0.73 percent, at 2,866.46. The Nasdaq Composite was down 62.66 points, or 0.80 percent, at 7,722.59.

Moments before the data, the Dow Jones Industrial Average was down 17.16 points, or 0.07 percent, at 26,061.46, the S&P 500 was up 2.79 points, or 0.10 percent, at 2,890.40. The Nasdaq Composite was up 6.57 points, or 0.08 percent, at 7,791.82.

MSCI's index of world stocks slipped 0.2 percent. The eurozone benchmark index eked out small gains after suffering their worst day since the early August selloff on Wednesday, when the US got the go-ahead to impose tariffs on $7.5 billion of European goods.

Washington will enact 10 percent tariffs on Airbus planes and 25 percent duties on French wine, Scotch and Irish whiskies and cheese from across the continent as punishment for illegal EU subsidies to Airbus. But a reduction in the initial list propped up some sectors. Food and beverage stocks and industrial goods enjoyed healthy gains. France's CAC index rose 0.3 percent. German markets-a weather vane for exports-were closed for a national holiday.

Meanwhile, fresh data showed UK services activity unexpectedly contracted, suggesting country was flirting with recession. The FTSE 100, already in the grip of Brexit uncertainties, extend losses to 0.8 percent.

The latest US-European trade tensions added to fears over the standoff between Washington and Beijing, which has cast a shadow over global growth prospects. Earlier in the week, disappointing data on US manufacturing and the jobs market suggested the trade war with China had damaged the world's largest economy.

"The big question for a lot of folks is whether this is the third slowdown since the financial crisis or are we now heading for a global recession," said Anujeet Sareen, a fixed income portfolio manager and global macro strategist for Brandywine Global, adding his base case scenario was for a slowdown.

"The wild card in the pack is always Donald Trump and whatever he tweets next." Asian shares had racked up losses earlier in the day. Japan's Nikkei stock index closed down 2 percent, its biggest one-day decline since Aug. 26. US stock futures indicated a flat opening after shares fell the most in nearly six weeks on Wednesday. All three major New York share indexes lost more than 1.5 percent.

"Risk aversion is broadly on the rise and that has been triggered by the weakness in US manufacturing ISM data earlier this week," said Manuel Oliveri, an FX strategist at Credit Agricole in London. "The outperformance of the US economy compared to other major economies has held the dollar and other risky assets up but that has changed this week."

In currency markets, the dollar rebounded from against the Japanese yen to trade at 107.12 yen. It at $1.0955 per euro. The dollar index traded unchanged. Sterling was unfazed at $1.2306 despite a surprise contraction as investors waited for a European Union response to Britain's latest Brexit offer.

So far, the last-ditch Brexit proposal offered by Prime Minister Boris Johnson on Wednesday has received a cool reception. One senior EU official said it "can't fly" because it was an unworkable move backwards that left Britain and the EU far apart. Brent crude prices slipped 0.3 percent to $57.44 per barrel. Energy traders are worried about a slowing global economy, an over-supplied market and geopolitical friction in the Middle East. — Reuters

TOKYO: Pedestrians walk in front of an electric quotation board displaying the numbers on the Nikkei 225 index at the Tokyo Stock Exchange in Tokyo yesterday. — AFP

Mauritius launches first phase of light rail system

PORT LOUIS: Mauritius launched the first phase of a $525 million light rail system yesterday, hoping to cut traffic jams with the Indian Ocean island's biggest infrastructure project. Mauritius has long relied on tourism for public revenue and employment, but the authorities are trying to woo investors in other sectors including finance to diversify the economy and make it more resilient.

The railway's first stage of 13 km inaugurated by Prime Minister Pravind Kumar Jugnauth will connect Rose Hill, a town in the central part of the island, to the capital Port Louis. When completed, the 26 km (16-mile) route will connect Curepipe, a town in central Mauritius, to the capital Port Louis. It is expected to have 19 stations and four interchanges. "This is the biggest project ever undertaken in our country," Jugnauth said at the launch ceremony, which Indian Prime Minister Narendra Modi attended via video conference.

The network is being built by Indian firm Larsen and Toubro and funded by an Indian government grant of $275 million and a $250 million line of credit. Metro Express Ltd, the Mauritian firm supervising the construction of the line, says it expects it to be profitable by 2022. It is expected that the light rail system will be used by some 55,000 people daily when it is fully operational. — Reuters

Italy to unblock frozen funds, pushing up 2019 deficit

ROME: Italy has lifted a block on 2019 spending that was agreed by the previous government with the European Commission, in a surprise move that will result in a higher deficit this year but which means the budget gap will not widen in 2020. The cabinet will formally approve 1.5 billion euros ($1.64 billion) of spending for this year at a meeting, three government sources told Reuters this week. Most of it will be allocated to the economic ministry, but it is not known how it will be spent. The prime minister's office yesterday confirmed that unblocking the funds would be discussed at the meeting. The anti-establishment 5-Star Movement and the right-wing League agreed in July to freeze the money as part of a deal to convince Brussels to sign off on its 2019 budget and avoid disciplinary action.

Under that deal, Rome agreed to lower this year's deficit to 2.04 percent of gross domestic product, down from a previous target of 2.4 percent and down from a ratio of 2.2 percent in 2018. The new coalition of 5-Star and the center-left Democratic Party (PD) on Monday set a deficit target of 2.2 percent for next year, as expected, but many analysts were surprised when it also announced this year's goal was hiked to 2.2 percent from 2.04 percent. The move means Rome will definitely miss its deficit target agreed with the European Commission, but it also means the deficit will remain stable in 2020, rather than rise.

It remains to be seen how this will be viewed by the Commission, which has yet to sign off on Italy's budget plans. The new government is widely considered more pro-Europe than the previous one, contributing to improved relations with Brussels. A senior official who asked not to be named told Reuters the upward revision for this year was due to a slowdown in growth, lower than forecast revenues and unexpected problems in a plan to sell off public real estate.

Nevertheless, if the freeze on spending had been maintained, the deficit would have remained much closer to the target agreed with Brussels. Under the government's latest plans, the 2020 headline deficit will remain at 2.2 percent of GDP for a third consecutive year. The "structural" deficit, which is stripped of the effect of growth fluctuations and is the measure most closely watched by Brussels, will rise to 1.4 percent from 1.2 percent in 2019. Economy Minister Roberto Gualtieri told Reuters the increase in the 2019 deficit was justified because the structural deficit would still fall by 0.3 percent of GDP this year. Next year, however, it is targeted to rise by 0.1 points, in defiance of a commitment to Brussels in July that it should fall by 0.6 points. — Reuters