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Business

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SCHOENAU, Germany: Farmers lead their cows down the Saletalm alpine pasture during the annual cattle drive from the pasture over lake Koenigssee to their wintering barns in Schoenau, southern Germany, yesterday. —AFP

German recession looms as factory orders fall

Manufacturers hurt by trade disputes, Brexit uncertainty

BERLIN: German industrial orders fell more than expected in August on weaker domestic demand, data showed yesterday, adding to signs that a manufacturing slump is pushing Europe's largest economy into recession. Contracts for 'Made in Germany' goods fell 0.6 percent from the previous month, with demand for capital goods down 1.6 percent, the Economy Ministry said. The overall fall compared with a Reuters consensus forecast for a drop of 0.3 percent.

"The German economy is in the midst of a recession. Today's data make that clear again," said Thomas Gitzel, economist at VP Bank Group. The economy shrank by 0.1 percent in the second quarter, and recent data have pointed to continued weakness in manufacturing in the third quarter. Most economists define a recession as two straight quarters of contraction.

"The German government will probably come under growing pressure to give up its strict budget policy," added Gitzel. The government has so far stuck to its balanced-budget policy, despite pressure from economists and other governments to spend more to boost flagging demand.

Finance Minister Olaf Scholz said last week that Germany would be able to cope with an economic crisis but added that he did not expect a downturn to be as bad as it was in 2008/2009.

"The weakness in demand in industry continues," the Economy Ministry said in a statement accompanying yesterday's data. "The industrial sector remains subdued for the time being."

Germany's export-reliant manufacturers are suffering from a slowing world economy and business uncertainty linked to a trade dispute between the United States and China as well as Britain's planned but delayed exit from the European Union. Yesterday's weaker-than-expected data added to the sense of gloom around the German manufacturing sector. A survey released last Tuesday showed the manufacturing recession deepened in September, with factories recording their weakest performance since the world financial crisis a decade ago.

Last Wednesday, leading economic institutes slashed their growth forecasts for the economy for this year and next, blaming weaker global demand for manufacturing goods and increased business uncertainty linked to trade disputes. The institutes also called on Chancellor Angela Merkel's coalition government to ditch its budget policy of incurring no new debt if the growth outlook deteriorates. It has so far refused to do so.

Merkel's government has managed to raise public spending without incurring new debt since 2014, thanks to an unusually long growth cycle, record-high employment, buoyant tax revenues and the European Central Bank's bond-buying plan. But with the economy slowing and tax revenues waning, the fiscal room to counter a recession is getting smaller. At the same time, Germany's borrowing costs have turned into premiums, which means investors are actually willing to pay the state a bonus for being able to lend it billions of euros.

Meanwhile, Europe's stock markets pushed higher yesterday as investors bet that gloomy German economic data would help persuade the European Central Bank to continue its "accommodative" monetary policy, dealers said. Frankfurt and Paris both added 0.2 percent in afternoon trading following news that German industrial orders fell in August.

New contracts were down 0.6 percent compared with July, federal statistics authority Destatis said, disappointing analysts' predictions for a 0.6-percent increase. London stocks rose 0.4 percent.

The bright performance at the start of the week followed strong gains in Wall Street action on Friday. "We are in a... scenario where bad news is good news," ThinkMarkets analyst Naeem Aslam told AFP.

"Any weakness in the economic numbers, which we experienced today, confirms that the European Central Bank is going to remain accommodative and this helps investors to favor riskier assets" such as stocks. Most markets also rose in Asia after a mixed US jobs report eased worries about a recession in the world's top economy — and maintained expectations the Federal Reserve will press on with interest rate cuts. However, there was some nervousness after reports said China had cut back on the number of areas it is willing to discuss at this week's top-level trade talks with the US, rekindling concerns about the chances of any agreement between the two. —AFP

Hedge funds sell more oil as economic outlook worsens

LONDON: Hedge funds sold petroleum futures and options for the second week running as the post-attack bounce in oil prices evaporated and attention shifted to the deteriorating condition of the global economy. Hedge funds and other money managers sold the equivalent of 96 million barrels in the six most important futures and options contracts linked to oil prices in the week to Oct. 1, the largest reduction in nearly four months.

Fund managers have sold a total of 111 million barrels in the two most recent weeks, reversing purchases of 144 million barrels in the two weeks before that, a period that included the attack on Saudi oil installations. If the attacks on oil processing facilities had a relatively modest and fleeting impact on oil prices and positions, it was entirely unwound in just a fortnight.

In the most recent week, portfolio managers sold NYMEX and ICE WTI (-64 million barrels), Brent (-17 million), US gasoline (-6 million), US heating oil (-5 million) and European gasoil (-4 million).

Fund selling in NYMEX and ICE WTI was the highest in any one-week for more than two years, as managers abandoned expectations of a sustained post-attack spike in prices. After the sales, funds held a net long position across all six contracts amounting to 532 million barrels, essentially back to their position at the end of August and the start of September.

If relatively passive structural long positions in crude are stripped out, the fund community's dynamic net long position was just 41 million barrels, not much different from 8 million at the beginning of September. Concerns about the prospects for oil consumption are dominating the market rather than fears about output disruptions.

Traders are becoming more pessimistic about the prospects for an early truce in the trade conflict between China and the United States - with mounting fears continued skirmishing will push both economies into recession. Political tensions look set to remain high throughout the remainder of 2019 and 2020 as the United States enters a bitter impeachment investigation and then a presidential election campaign. At the same time, global motor manufacturers are reporting weakening production and sales, depressing both global economic growth and oil consumption. —Reuters

Saudi stocks join MSCI Emerging Market Index

LONDON: Saudi Arabia's inclusion in the MSCI developing-economies equity benchmark has failed to pull in active emerging-market funds because of high valuations and reputation risks, an analysis by Copley Fund Research showed. The Saudi Stock Exchange (Tadawul) - the region's largest - completed the second and final phase of joining the MSCI Emerging Markets Index, with its weighting set at 2.8 percent, at the end of August. Stocks listed in the kingdom will also be included in other indexes, and the Tadawul says it has attracted billions of dollar in recent months.

However, the stocks have found little love from active global emerging markets funds, 85 percent of which have yet to invest any money at all, Steven Holden at Copley found, analyzing monthly filings from 193 such funds with a total of around $350 billion in assets under management.

"High valuations, a relatively small investment universe and reputation risk are of foremost concern for investors," Holden said. Global emerging funds remain starkly underweight in Saudi assets, with an average holding of just 14 basis points, the biggest underweight among developing countries after China and Hong Kong, Holden said.

MSCI upgraded Saudi Arabia from "standalone" to "emerging" market in June 2018 and concluded the process at the end of August. More than $1.8 trillion of assets were benchmarked against MSCI's emerging market indexes by June 2018, the index provider said. This would include passive as well as active investments.

The Saudi benchmark enjoyed a stellar start to the year, climbing more than 20 percent in the first four months of 2019. However, escalating trade tensions, unsteady oil prices and rising geopolitical risks have weighed heavily on the market since then. The index is now up just 1.4 percent since the start of the year. MSCI's Saudi domestic index has risen 1.9 percent over the same period. MSCI's wider emerging benchmark added just over 3 percent.

An attack on key Saudi oil facilities mid-September, sharply highlighting the kingdom's economic vulnerabilities, roiled Saudi markets. "There are certain geopolitical risks in Saudi Arabia and we see that with the attack on the oil installation," said Marshall Stocker, a portfolio manager at US-based investment management firm Eaton Vance. The jury was still out on what effect the kingdom's reform plans would have, he added.

Index provider FTSE Russell is also adding Saudi to its emerging and global equity indexes in a year-long, five-step process set to conclude in March. Its weighting will be 2.86 percent in the emerging and 0.31 percent in the global benchmark. Index inclusion and foreign investor cash will also be key to Riyadh's plans to sell about 5 percent of its oil giant Aramco in an IPO and re-invest the proceeds in new industries.

RIYADH: The Saudi benchmark enjoyed a stellar start to the year, climbing more than 20 percent in the first four months of 2019. Shares surged at the close yesterday as MSCI was set to begin including some of the kingdom's shares into its main emerging-market index.

In a filing at the end of August, Tadawul said foreign investors had accounted for a fifth of trading activity in the first seven months of the year. In September, foreigners bought a net 5.69 billion Riyals ($1.52 billion) of stocks, Tadawul added. Looking at the individual stocks listed, Holden found that Al-Rajhi Banking & Investment Corporation has emerged as the least unpopular. US financial institutions TIAA CREF and USAA and asset manager Robeco all bought into the stock over the past six months. —Reuters