Dollar takes a dive, euro catapulted higher as US-China talks start

Turkey assets under pressure after Syria incursion

LONDON: A dive in the dollar catapulted the euro higher and flattened stocks yesterday as the first US-China trade talks since July and a report accusing the European Central Bank chief Mario Draghi of going rogue jostled for attention. Markets were bombarded from all sides: denials and counter-denials on the state of US-China trade talks and the Brexit countdown, a Turkish military push into Syria and a blizzard of weak data stretching from Japan to France.

Asia had managed a broadly positive finish but Europe's main bourses and Wall Street futures were left dithering as the more serious action took place in the currency markets. The euro shot above $1.10 versus the dollar as the greenback turned weaker across the board - partly due to market chatter about a currency pact with China to stop devaluation - but there was plenty else too.

The Financial Times reported that the ECB had restarted its bond-buying program last month despite objections from its own officials, a further sign of how the move has reopened divisions within the institution. ECB meeting minutes then showed similar. "The view on the currency story could be swinging here," said Saxo Bank's head of European currency strategy, John Hardy, "And the market is sensing that euro-dollar is the pressure point."

Perhaps the main mover overnight though was a rally in China's offshore yuan, which strengthened to its best levels in more than two weeks after a Bloomberg report said US and Chinese officials were reviving a currency pact first mooted earlier this year that stops further tariff hikes in return for commitments to hold the yuan stable. As well as the ECB resistance to Draghi's moves, that could also have a read-across for the euro, Saxo's Hardy said, with the United States expected to lay out sanctions next week in retaliation for Europe's past aid for planemaker Airbus. US President Donald Trump has repeatedly flagged how the euro has been weakened by extreme measures such as negative interest rates, so he may effectively issue a "cease and desist" along with the sanctions, Hardy said. There also was the Brexit tangle. UK Prime Minister Boris Johnson was meeting his Irish counterpart in a last-ditch attempt to revive a British proposal for a deal that the EU said falls far short of what is needed.

"Big picture - the more severe that Brexit is, in the short term, it's likely to lead to a lower value of the pound, a higher level of inflation and slower growth in the economy," Bank of England chief Mark Carney told reporters.

Dire trade situation

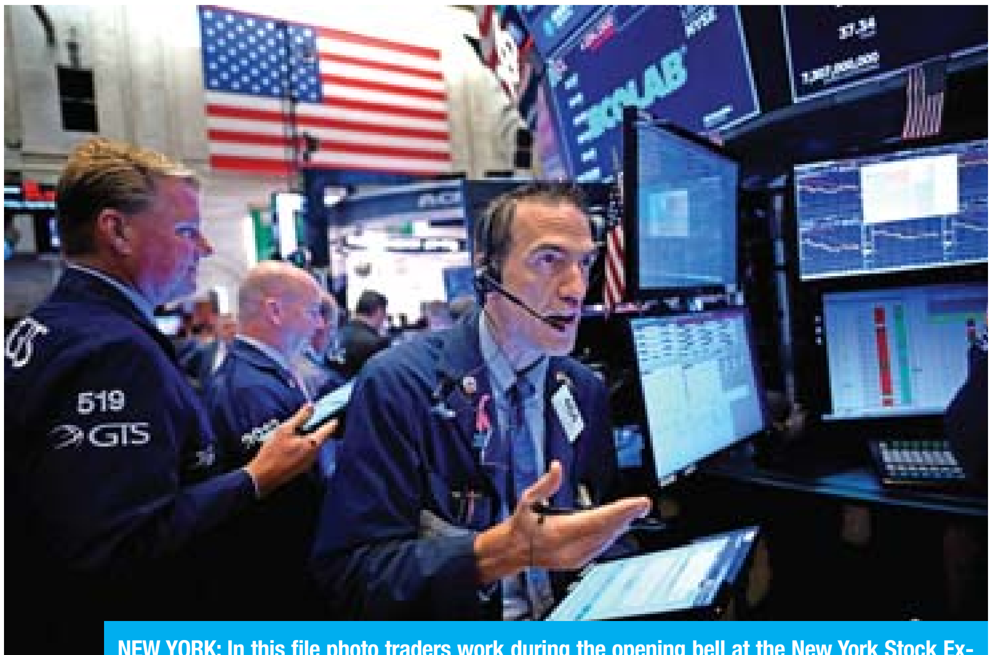
S&P 500 mini futures traded down 0.2 percent, though losses had been trimmed by a New York Times report that Washington would soon issue licenses allowing some US firms to supply non-sensitive goods to China's Huawei Technologies. MSCI's broadest index of Asia-Pacific shares outside Japan had closed 0.1 percent higher while Japan's Nikkei rose 0.45 percent. Shanghai shares also rose 0.8 percent.

Top US and Chinese negotiators were scheduled to meet in Washington on Thursday and Friday to try to end a bruising 15-month-old trade war. Without significant progress, Trump is set to raise the tariff rate on $250 billion worth of Chinese goods to 30 percent from 25 percent next Tuesday. "Barring any surprise today, it looks like their talks are breaking down. The tariff will be hiked. The situation looks dire," said Norihiro Fujito, chief investment strategist at Mitsubishi UFJ Morgan Stanley Securities.

China is unlikely to be willing to make an easy compromise with a US president who seems increasingly vulnerable to domestic political pressure as opposition Democrats seek to impeach him, analysts said. US Democratic presidential contender Joe Biden called for the impeachment of Trump for the first time in a deepening partisan fight over a congressional investigation of the Republican president. "Mr Trump's recent impeachment risk has turned the timetable against him," Chi Lo, senior economist at BNP Paribas Asset in Hong Kong, wrote in a report to clients.

US Treasuries yield went flat having risen to 1.594 percent on Wednesday, pressured partly by this week's heavy bond supply. The 10-year Treasuries yield had dipped to 1.577 percent overnight, but had shuffled back up to 1.590 ahead of US trading while all the ECB chatter also pushed euro zone yields slightly higher.

In commodities, oil prices also turned, with Brent bouncing between $52.82 and $58.23 a barrel and US (WTI) crude at $52.50 per barrel. Copper strained for its best day in a month as it rose 1.1 percent to $5,749 a ton. Among the heavyweight emerging markets, Turkey's lira and government bonds saw another day of falls as investors fretted about negative international reaction to Ankara's military operation in northeast Syria. Focus was also on the mood in Ecuador after another day of fierce protests against recent fuel price hikes had hammered its markets on Wednesday. — Reuters



NEW YORK: In this file photo traders work during the opening bell at the New York Stock Exchange (NYSE)at Wall Street in New York City. — AFP

Saudi Arabia says its oil output fell in Sept after attacks

LONDON: Saudi Arabia, the world's largest oil exporter, told OPEC that the kingdom's oil production in September fell by 660,000 barrels per day (bpd) compared with August to 9.13 million bpd in the wake of attacks on its energy installations. Secondary sources said Saudi Arabia's oil production was even lower, falling month-on-month in September by 1.28 million bpd to 8.56 million bpd, OPEC's monthly report showed.

The Sept. 14 attacks targeted two of state oil giant Saudi Aramco's plants, initially knocking out half of the kingdom's oil production - 5 percent of global output. The Organization of the Petroleum Exporting Countries said that in September the group's overall production was 1.32 million bpd lower month/month at 28.49 million bpd.

OPEC, in the report, lowered its forecast for non-OPEC supply growth in 2020 by 50,000 bpd to 2.2 million bpd, due to downward revisions for Kazakhstan and Russia. But the Vienna-based group left unchanged its 2020 forecast for global oil demand growth at 1.08 million bpd. OPEC trimmed its forecast for world economic growth in 2020 to 3% from 3.1 percent, saying "it seems increasingly likely that the slowing growth momentum in the U.S. will carry over to 2020". — Reuters

World Bank trims 2019-2021 growth outlook for Philippines

MANILA: The World Bank yesterday cut its forecasts for economic growth in the Philippines for 2019 and the next two years, citing external problems, including the US-China trade war, and a slowdown in public investments. The global lender projected the Philippine economy would grow 5.8 percent this year and 6.1 percent next year, slower than the forecasts of 6.4% and 6.5 percent announced in April, which were also a reduction. The bank also lowered its 2021 growth forecast to 6.2 percent from 6.5 percent previously.

"Given the global environment, resuming the fast pace of expansion in infrastructure and human capital spending will be key for the Philippines to regain higher growth momentum while continuing to lay the foundation for greater inclusion," said Mara Warwick, the World Bank country director for Brunei, Malaysia, Thailand and the Philippines. In April, the bank also cut its 2019 and 2020 GDP growth forecasts for the Philippines because of a delay in approval of this budget and a slowdown in global trade.

"Timely passage of the 2020 budget and decisive action on the country's tax-reform program will remove uncertainties and help the private sector make timely decisions, boosting job creation," Warwick said in a statement. Despite the projected slowdown, the World Bank expects the Philippines to continue making progress in reducing poverty.

"In the medium term, accelerating implementation of high-impact infrastructure projects and the recently approved critical reforms like the Ease of Doing Business Law and liberalization of the rice trade will help the country sustain inclusive growth that generates high-paying jobs and reduces poverty," said World Bank Senior Economist Rong Qian.

Last week, Philippine central bank Governor Benjamin Diokno said he remained confident 2019 growth would reach 6 percent, the lower end of its 6 percent to 7 percent forecast, but acknowledged it might just miss the mark. The Philippine government's proposed 2020 budget of 4.1 trillion pesos ($79.3 billion) is 12 percent higher than this year's spending plan, with the largest chunk, 24 percent, allotted for infrastructure development. — Reuters