Japan’s FM, CB chief vow to use all tools to fight virus fallout

BOJ can keep yields low even if govt sells more bonds: Kuroda

TOKYO: Japanese Finance Minister Taro Aso and Bank of Japan Governor Haruhiko Kuroda pledged on Friday to deploy all necessary fiscal and monetary policy tools to combat the widening economic fallout from the coronavirus pandemic. After a rare bilateral meeting, the two issued a joint statement committing to do “whatever it takes” to facilitate corporate financing and stabilize markets as part of efforts to cushion the blow from the health crisis.

Japan economy in extremely severe state

“Japan’s economy is in an extremely severe state and we need to pull out of this situation as soon as we can,” Aso told reporters after the meeting.

“By meeting like this, we wanted to convey to the world that Japan’s government and the central bank are working as one to combat the pandemic,” he said.

The bilateral meeting came hours after an emergency BOJ rate review at which the central bank decided to create a new loan scheme to channel more funds to small businesses hit by the coronavirus.

The pair’s first such meeting in nearly four years underscores the concern Tokyo has over the growing risk that without firmer policy steps, the pandemic could lead to a spike in bankruptcies and job losses that may leave a lasting scar on a fragile economy.

Japan slipped into recession for the first time since 2015 in the first quarter of the year, putting the economy on track for its deepest slump in the postwar period as the health crisis shuts down businesses and consumer spending. Aso and Kuroda frequently interact in parliament, on government panels and at international meetings. But it is their first official one-on-one meeting since 2016, when Britain’s surprise vote to exit the European Union jolted markets.

TOKYO: Japanese Finance Minister Taro Aso (left) meets with Bank of Japan Governor Haruhiko Kuroda in Tokyo on Friday. – AFP

Central banks around the world have slashed interest rates and pumped out huge amounts of money to finance massive spending packages to cushion the blow from the pandemic. The BOJ expanded its stimulus in March and April, ramping up risky asset purchases and pledging to buy as many government bonds as needed to cap long-term borrowing costs at zero.

For its part, the government is set to unveil next week a fresh batch of spending measures to combat the virus fallout, on top of the record $1.1 trillion stimulus package it announced in April.

In a joint news conference with Aso, Kuroda said the BOJ’s yield curve control (YCC) is designed in a way to ensure that long-term borrowing costs do not rise too much even if the government ramps up spending via additional debt issuance.

“Our policy framework can keep long-term interest rates from rising even if the government increases bond issuance. It helps enhance the mutual effects of fiscal and monetary policies,” he said.

Under YCC, the BOJ pledges to buy as much bonds as needed to keep 10-year government bond yields around 0 percent. It also guides short-term interest rates at -0.1 percent.

While the government has lifted the state of emergency put in place in most prefectures that led to infection numbers stabilizing, some regions including the Tokyo metropolitan area still have restrictions in place. Those measures are due to be reviewed next week. – Reuters

Special Report

A golden year for Kuwait?

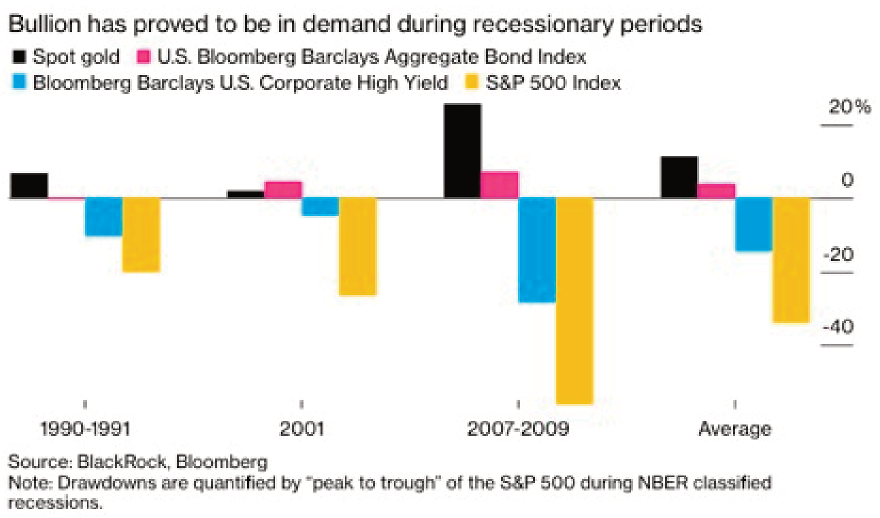
By Giles Coghlan

KUWAIT: Just under one-tenth (9.2 percent) of Kuwait’s foreign reserves ($40.6 billion) are in gold, and Kuwait’s gold reserves currently stand at around 79 tons. This should prove to be good financial support for the nation as market conditions appear almost perfect for a strong rise in gold prices over the next 12 months. This article explores the historical increases we witnessed in gold’s prices and why current market conditions are advantageous for expectations of a further increase in gold’s price.

What was behind gold’s two biggest rallies of the last 50 years?

Looking at the chart below we can see two major bull runs experienced by gold in the last 50 years. The first big gold rally came when Governments gave up control of gold prices and relaxed private ownership rules around 1970.

The second major bull rally was between 2003 and 2011 when the annual demand for gold increased from 2600 tons to 4700+ tons. Gold prices were helped by coordinated interest rate cuts from central banks around the world. Investors seeking alpha were once again drawn to the safe-haven status of gold. In fact, we are seeing a very similar response by central banks to the COVID-19 crisis to the one we saw during the Global Financial Crisis of 2008/09, namely the coordinated cutting of interest rates around the world. Some central banks even have negative interest rates now including the European Central Bank, the Swiss National Bank and the Bank of Japan.



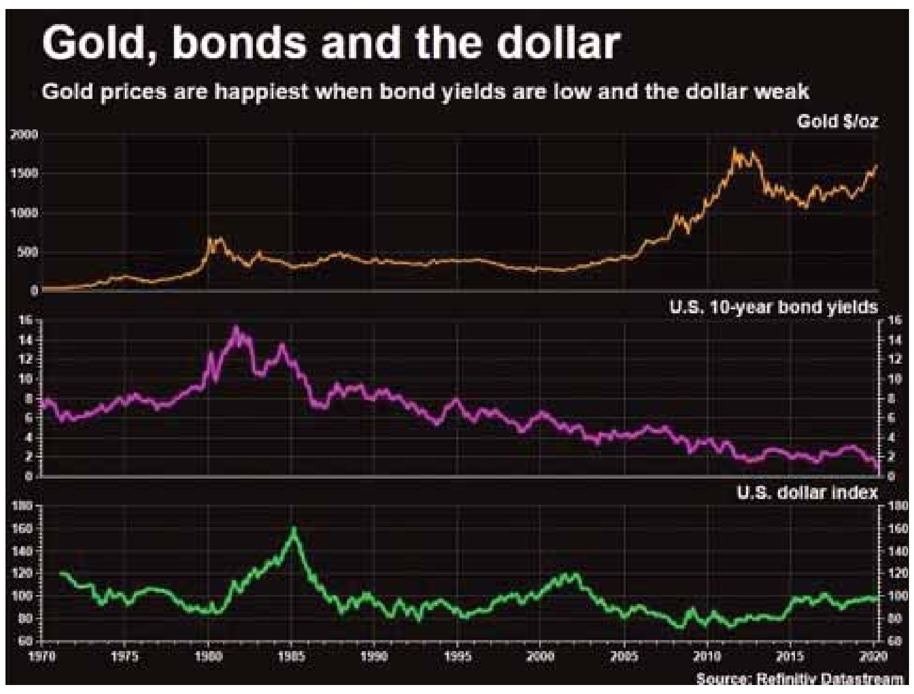
Recession

Countries across the world are entering recessions brought about by a slowdown in growth due to COVID-19. In recessions, gold tends to shine very brightly; during each of the three most-recent major recessions in 1990-91, 2001, and 2007-2009, gold increased in value. Gold is historically good to hedge into recessions and many investors are already adding to their gold holdings.

Gold, bond prices, and the US dollar

With many central banks moving down towards zero interest rates, and some central banks already having negative interest rates, investors are encouraged to move into gold. If the level of inflation is higher than a country’s interest rate, money in the bank loses value. Ouch! This makes gold an attractive option for investors who want to try and hedge some of the risk involved in staying in cash.

Furthermore, as bond yields fall and the risk of inflation increases, assets and currencies also start to devalue. With central banks asset-buying so heavily via large quantitative easing programs across the world this essentially ends up diluting the value of the currency. If you look back on the great financial crisis of 2008 you can see that gold bottomed when the Federal Reserve launched its quantitative easing programme. The rallies that ensued were historic, with gold nearly tripling and silver rallying nearly 500 percent during that period. Currencies are starting to devalue now and this increases the appeal of gold.



Gold sales down in China and India

One area of gold purchases that have fallen during the first few months of the year is jewelry demand. Unsurprisingly, the COVID-19 pandemic has heavily reduced jewelry demand for the 1st quarter as governments across the globe imposed lockdown measures. Demand for jewelry fell to its lowest on record. This has been led by a 65 percent decline in China, the largest jewelry consumer, and the first market to succumb to the outbreak. A key point to note is that once lockdowns are lifted we can expect to see jewelry demand rise again and, in conjunction with more ETF buying, should push gold demand much higher next quarter. Take a look at this chart below and look at the ETF and jewelry levels of demand in particular.

Exchange-traded fund holdings grow

Holdings of exchange-traded funds are now at record highs, supporting gold demand. According to the World Gold Council levels of ETF holdings are now at an all-time high of 3,355 tons. Assets under management also reached a new record high of $184bn as gold in US dollars (XAUUSD) moved higher by 5.8 percent. Furthermore, low-cost gold-backed ETFs in the US have seen positive flows for 22 of the past 23 months. They have increased their collective assets to 91t, which amounts to roughly the holdings of all Asian-based funds. So, although ETF holdings in gold are high this year they are still relatively low compared to total ETF holding levels which are over $6 trillion. So, there is plenty of room for further moves into ETF holdings. It is also interesting to note that in April, North American funds had large gold ETF inflows of 144t (US$7.8bn, 8.3 percent AUM) indicating that demand is picking up the pace.

The downside risk for gold

One area of concern for gold going forward is that investors sell gold as a last resort at times of intense fear. You may have noticed during the height of the COVID-19 crisis that when equity markets were being sold heavily gold was being sold at the same time. If markets see heightened levels of fear and volatility again we will expect to see gold being sold temporally. However, even if that happens on a second COVID-19 wave, the long-term picture for gold remains bullish which will support Kuwait’s economy via its gold holdings. This really does look like gold’s time to shine. Note: Giles Coghlan is chief currency analyst at HYCM

US shale bust slams rural economies

DEWITT COUNTY, Texas: Royalties from oil pumped on Paul Ruckman’s land allowed the South Texas retiree to build a six-bedroom, seven-bathroom vacation home. He had plenty left over, and donated some of it to Helena, Texas, an 1800s ghost town that draws hundreds to historic buildings and gunfight re-enactments.

The worst oil bust in decades has slashed the bounty that flowed to millions of rural Americans like Ruckman, who said his royalty checks have plummeted 70 percent since January. “I imagine they’re going to be dropping quite a bit more,” said Ruckman, who owns the land with his brothers.

The bust has erased tens of thousands of jobs in the drilling and service sectors, dried up local tax revenues and charitable largess that flowed along with crude oil to Texas, North Dakota and Oklahoma.

Thanks to modern drilling technology, shale has turned the United States into the world’s No. 1 energy producer, pumping as much as 13 million barrels per day (bpd) before prices crashed. It added about a percentage point to US GDP between 2010 and 2015. Shale-related jobs lifted the employment rate in Texas and North Dakota to a multiple of the national average.

In DeWitt County, Texas, 80 miles (129 km) southeast of San Antonio, incomes shot up to sixth highest among the state’s 254 counties at the peak of the shale boom in 2014 from 116th a decade ago, based on US tax data.

Shale oil fed a global glut. OPEC and allied producers supported prices by cutting output, but this year Saudi Arabia and Russia briefly pumped more. Then fuel demand collapsed during the COVID-19 pandemic. Oil prices are about half January’s level, and many shale producers have shut wells. US output could fall about 2 million bpd this year and next, Bank of America has estimated.

Mailbox money

Ruckman is among 12 million US mineral owners who collect “mailbox money,” or payments for oil and gas extracted from their land. He declined to say how much his property drew, but residents in the heart of Texas’ Eagle Ford shale got bigger royalties than many, able to negotiate richer leases because the region came later to the boom.

Royalties, which can range from 12.5 percent to 25 percent of the value of oil and gas pumped, helped revitalize DeWitt and other communities in oil patches across the United States.

John Baen, a Texas college professor who owns mineral rights in South Texas, collected as much as $100,000 a month in recent years. The payments have dwindled to $6,000 and by August, he said, “I’ll be lucky to get anything.” The average oil-land owner collects about $500 a month, according to the National Association of Royalty Owners, but that will not last. April’s price crash was so sharp, falling at one point into negative territory, that minerals holder Jubilee Royalty Holdings received a $1 check that month from Exxon Mobil.

The shale boom paid off debt from restoring DeWitt’s pink granite and sandstone courthouse and expanding the jail. Oil helped finance the area’s Boys and Girls Club, which provides activities for area children. It brought jobs that cut DeWitt’s unemployment rate to 2.6 percent in February from 8 percent a decade earlier. During that time, oil and gas jobs here roughly doubled, according to the Texas Independent Producers & Royalty Owners Association.—Reuters

Virus-hit Hertz goes bust in US and Canada

WASHINGTON: Global car rental company Hertz became the latest economic casualty of the coronavirus pandemic Friday, filing for bankruptcy in the US and Canada after more than a century in business.

“The impact of COVID-19 on travel demand was sudden and dramatic, causing an abrupt decline in the Company’s revenue and future bookings,” Hertz said in a press release.

Hertz said it took “immediate action” to prioritize the health and safety of employees and customers and eliminate “all non-essential spending”. “However, uncertainty remains as to when revenue will return and when the used-car market will fully reopen for sales, which necessitated today’s action,” it said.

Its main international operating regions, including Europe, Australia and New Zealand, were not included in the US Chapter 11 filing. Hertz had already cut 10,000 jobs in North America, or 26.3 percent of its global workforce, to save money after the coronavirus shutdowns paralyzed travel and crippled the economy.

Chapter 11 is a mechanism that allows a company that is no longer able to repay its debt to restructure itself without creditors. The Wall Street Journal reported Friday that Hertz held debts of roughly $19 billion, in addition to nearly 700,000 vehicles sitting idle because of the coronavirus.

“The financial reorganization will provide Hertz a path toward a more robust financial structure that best positions the Company for the future as it navigates what could be a prolonged travel and overall global economic recovery,” the Hertz statement said.

SAN FRANCISCO: A sign is posted in front of a Hertz car sales and rental office in South San Francisco, California. The car rental company Hertz, hard hit by the global coronavirus pandemic, has filed for bankruptcy in the United States and Canada, the company announced Friday. – AFP

Hertz’ franchise sites, which are not owned by the company, are also not included in the Chapter 11 proceeding. Established in 1918 with only a dozen cars, the global car rental giant had survived the Great Depression and numerous American recessions.

But in recent years the company has struggled with competition—including Avis Budget and carpooling services such as Uber. Hertz suffered a fourth consecutive annual net loss in 2019. But 2020 had started well with an increase in turnover of six percent in January and eight percent in February compared to the same months of last year.

The chapter 11 filing follows that of another well-known American business, retailer J Crew, and illustrates the extent of the damage to the economy from the deadly disease. More than 38 million people have applied for US unemployment benefits since the shutdown began in March.

Federal Reserve chief Jerome Powell recently spoke of a likely 20 to 25 percent unemployment spike, after climbing to 14.7 percent in April. More than 1.6 million people have been infected with the coronavirus in the US and the pandemic has killed over 96,000 people, according to