

## Business

THURSDAY, JULY 4, 2019

**12** UAE non-oil economic growth expected to hit 3.6% by 2021**13** Tesla deliveries surge as automakers report dip in 1H 2019 US sales**14** Nissan achieves an all-time high market share of 16.9% in Gulf

# IMF chief Lagarde to chart new ECB course

## First woman ECB chief's political background may raise questions

**FRANKFURT AM MAIN:** IMF chief Christine Lagarde may be the first woman to be nominated head of the European Central Bank, but her political background and lack of central bank experience raises important questions about the independence of monetary policy in today's highly uncertain times, analysts said.

A former corporate lawyer and French finance minister with a polished public image and confident command of English, the 63-year-old provides a sharp contrast to the long line-up of besuited male technocrats whom ECB watchers had all seen on the shortlist in recent months. Taking over the ECB a decade after the global financial crisis, the International Monetary Fund director is expected to push on with the easy money policies and ultra-low rates that outgoing ECB chief Mario Draghi employed to stimulate the economy.

While Lagarde has stopped short of issuing recommendations to central bankers from her Washington seat, she "has always been supportive of the ECB's unconventional policies," said Frederik Ducrozet, a strategist at Pictet Wealth Management. Since the financial crisis and subsequent sovereign debt battered the eurozone, the central bank has entered uncharted territory in its battle to coax inflation back towards its preferred goal of just below 2.0 percent.

Looking to boost the flow of credit through the economy to support activity and prices, it has set interest rates at historic lows and pumped 2.6 trillion euros (\$2.9 trillion) into the financial system via its "quantitative easing" (QE) bond-buying scheme between 2015 and 2018.

Looking ahead, the eurozone is still suffering sluggish growth and inflation, meaning "in the absence of improvement... additional stimulus will be required," Draghi said last month. That could mean Lagarde could quickly have to lower rates still further and relaunch QE purchases.

### Political crossfire

The ECB's massive interventions have not escaped controversy. In Germany, conservative politicians and economists accused the central bank of printing money to prop up shaky eurozone members.

"The key thing about the appointment of Christine

Lagarde... is that she is not Jens Weidmann," the Bundesbank (German central bank) governor who notoriously voted against QE, said Andrew Kenningham of Capital Economics. "Lagarde has consistently supported monetary policy loosening in general and QE in particular," he added.

Her political background raises questions as central bankers increasingly come under pressure from politicians. US President Donald Trump, for example, has not only put pressure on the head of the US Federal Reserve on interest rates, but last month accused Draghi of trying to manipulate the euro.

Michael Hewson, analyst at CMC Markets UK, called Lagarde "a controversial choice at a time when central bank independence is increasingly being questioned."

He noted that if her appointment is confirmed, there will be two ex-politicians at the top of the ECB—the vice president, Luis de Guindos, previously served as Spain's economy minister. This calls "into question the political impartiality of what is probably the most important position in Europe," Hewson said.

But Pictet's Ducrozet said that Lagarde "has frequently insisted on the importance of central bank independence".

### 'Brain drain'

Another question raised by the choice is the level of expertise needed to run a central bank. With the departure of former chief economist Peter Praet and Draghi, the ECB's six-strong executive board is losing two PhDs in the field this year. The change of the guard amounts to a "monetary policy brain drain", ING bank economist Carsten Brzeski said.

"Lagarde would probably be more of a moderator than an intellectual mastermind on monetary policy," he added—potentially amplifying the role of the 19 national central bank governors who sit on the ECB's governing council. Nevertheless, the president is backed up by a massive staff of experts and former Central Bank of Ireland head Philip Lane, who has stepped into Praet's shoes.

"A continuation of a pragmatic monetary policy stance,



**BARI:** In this file photo, Managing Director of the International Monetary Fund (IMF) Christine Lagarde (right) chats with the President of the European Central Bank (ECB) Mario Draghi before a family photo on the second day of a G7 summit of Finance Ministers in Bari. — AFP

as well as a confirmation of 'whatever-it-takes' looks likely," Brzeski predicted, in a reference to Draghi's infamous pledge to take possibly radical measures to save the euro.

Other analysts also pointed out that a non-economist is running the US Federal Reserve on the other side of the Atlantic. "(Jay) Powell is a lawyer as well, even if the difference is that he has been a Fed governor for a number of years," said Quincy Krosby, strategist at Prudential Financial. As for Lagarde, the important thing is "she has proven herself during a difficult time globally, a global downturn, a synchronized recovery and now a global slowdown," she added. — AFP

## Oil prices tumble even as producers extend supply cuts

**NEW YORK:** Oil prices fell sharply even as leading crude exporters extended a supply agreement, while global equities mostly nudged higher in the aftermath of the weekend's US-China trade detente.

Benchmark crude prices tumbled more than four percent following the latest agreement among oil producers, confirmed at meeting of the Organization of the Petroleum Exporting Countries in Vienna and supported by Russia and other exporters. Analysts still see the commodity as vulnerable to oversupply as the outlook for global growth weakens.

The structural outlook for oil remains "soft," said a note from Morgan Stanley, a position echoed by other experts. "While the production cut news from OPEC offered decent support yesterday, it wasn't enough to dampen the major concerns regarding demand globally," said a note from BMO Capital Markets.

"There are legitimate market concerns that if demand is truly an issue going forward, then what can OPEC do beyond further cuts." Meanwhile, equity markets were generally benign as investors continued to express relief that the United States and China had agreed at the G20 to hold off on additional tariffs.

In Europe, the French blue-chip CAC 40 index and Frankfurt's DAX 30 were slightly higher at the close, as London's FTSE index outperformed the pack thanks to a weaker pound boosting exporters. US stocks also finished modestly higher, with the S&P 500 winning its second straight record.

But trade concerns lingered, limiting gains, especially after Washington proposed tariffs on \$4 billion in European imports on items such as cheese and whiskey over European subsidies for commercial aircraft. "Sentiment appears a bit cautious following the release of disappointing global data and after the US threatened new tariffs on the EU," said Forex.com analyst Fawad Razaqada.

"But with G20 and OPEC meetings behind us, the focus is turning back to economic data for market participants."

### More central bank easing?

Observers said weak data could put further pressure on central banks to provide support to economies with fresh stimulus. Australia's central bank on Tuesday lowered the cost of borrowing for the second-straight month, bringing interest rates to a new historic low.

In the United States, the Federal Reserve is widely tipped to cut interest rates at its next policy meeting this month but economists say markets may be overconfident of this. A key datapoint will be Friday's US employment report for June. The European Central Bank too has expressed openness to additional measures to spur growth. On Tuesday, European leaders nominated International Monetary Fund Managing Director Christine Lagarde to be the next head of the ECB. —AFP

## US-China trade talks 'back on track': White House advisor

**WASHINGTON:** US-China trade negotiations are now headed in a positive direction following this weekend's meeting between President Donald Trump and his Chinese counterpart Xi Jinping, a top White House aide said Tuesday. But trade advisor Peter Navarro said Chinese telecoms giant Huawei remains blocked from participating in the development of 5G wireless networks in the United States even though Washington has softened its stance toward the company.

"We're reengaged. We're talking on the phone already. There will probably be visits. It's all good," Navarro told CNBC. "From an investor's point of view, here is all you have to know: Talks are back on track with the work that has been done to date."

The US trade delegation has been led by Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin. After talks nearly collapsed in May, Trump and Xi on Saturday agreed at a meeting in Japan to resume negotiations toward ending their year-long trade war.

Trump accused the Chinese side of reneging on commitments made during the talks and jacked up duty rates on a \$200 billion tranche of Chinese imports.

Markets were encouraged by Saturday's developments, which averted further deterioration in a trade conflict already weighing on the global economy. Stocks were struggling on Tuesday, in part because Washington threatened heavier tariffs on European goods in a dispute over subsidies to aircraft maker Airbus. And the tariffs put in place since last year by both Washington and Beijing—which currently cover more than \$360 billion in two-way trade—remain in place.

Navarro said a 150-page document developed during the US-China trade talks since December remained the basis of discussion. He also said all that was at issue in Saturday's agreement on Huawei was "a small amount of chips" with negligible implications for spy craft.

"President Xi requested some relief on Huawei," he said. "Here is the important thing: US policy on Huawei with respect to 5G in this country has not changed."

"All we've done, basically, is to allow the sale of chips to Huawei. These are lower tech items which do not impact national security whatsoever," he added.

Trump triggered a backlash on Capitol Hill over the weekend by agreeing to soften some US export restrictions on crucial components to Huawei. US officials say Beijing exploits Huawei for espionage. However Trump stipulated that officials would take care to avoid creating new risks to national security. — AFP



**LONDON:** Vodafone UK's Chief Technology Officer (CTO), Scott Petty speaks during the launch of Vodafone UK's 5G mobile data network in London yesterday. — AFP

## Vodafone joins EE in offering 5G in Britain

**LONDON:** Vodafone yesterday launched its 5G service in the UK, but without smartphones from controversial Chinese technology giant Huawei. By sidelining Huawei phones, Vodafone has mirrored action by EE, the first UK provider to roll out the technology that offers almost instantaneous data transfer with its own launch at the end of May. "5G will transform the way we live and work," Vodafone UK Chief Executive Officer Nick Jeffery said yesterday.

"Our customers are streaming over 50 percent

more content today than they did last year, and with 5G the demand for data is only set to increase." Vodafone has launched in seven UK cities, including London and Birmingham, but will not be offering the service on the Huawei Mate 20 X 5G smartphone, as is the case with EE.

Huawei faces pushback in some Western markets over fears that Beijing could spy on communications and gain access to critical infrastructure if allowed to develop foreign 5G networks. The Chinese company flatly denies what it describes as "unsubstantiated claims" about being a security threat.

While Vodafone does not use Huawei in its core UK network, it does rely on a mixture of Ericsson and Huawei technology in its radio access network or masts. Vodafone has meanwhile stressed that there are "multiple" layers of security between the masts and the core network. — AFP