No cheer as China yuan hits 4-1/2-year low

LONDON: World stocks were on the brink of a two-month low on Friday, as beaten-down oil prices, a slide in China's yuan to 4-1/2 year lows and turbulence in emerging markets created a somber mood. Renewed volatility in oil markets and worries about China, the world's biggest commodities consumer, have pressured many markets ahead of a widely anticipated interest rate hike by the US Federal Reserve next week.

The MSCI world equity index, which tracks shares in 45 countries, fell for a fifth straight day as emerging markets tumbled again and European shares hit a two-month low. US stock futures pointed to losses on Wall Street. The euro was a touch firmer against the dollar after pulling back from a rise above $1.10 earlier this week.

But the most striking currency moves came from emerging markets. South African's rand hit a new record low following this week's dismissal of the finance minister and Russia's rouble slumped 2 percent on weak oil prices, holding lower after the country's central bank left rates steady.

"Emerging markets are looking shaky - there are a whole number of things going on and number one is weakness in oil prices which is clearly hurting commodity exporters' currencies," said Investec chief economist Philip Shaw. "Everyone is also looking toward the Fed next week and there's a tug of war between an aversion to higher interest rates in the US and getting closure," he said.

US retail sales, inflation and consumer sentiment data due between 1330 GMT and 1500 GMT could cement expectations that the Fed is gearing up to hike rates for the first time in a decade at its Dec. 15-16 meeting. Fed fund futures place an 85 percent chance of the Fed raising rates next week.

YUAN GOING DOWN

China's yuan fell to 4-1/2 year low at 6.4564 per dollar and posted its longest weekly losing streak in a decade, raising questions about how far Beijing intends to let the currency depreciate.

China's economic growth is within a reasonable range but the economy still faces challenges, Premier Li Keqiang said on Friday. European shares fell 1.5 percent, declining for a fourth straight session, while MSCI's broadest index of Asia-Pacific shares outside Japan hit a two-month low and posted a weekly loss of just over 3 percent. Emerging market stocks were down for an eighth day running and on course for their worst week since September, while Chinese shares closed lower ahead of a spate of economic data scheduled to be released today. "We are in risk-off mode," said Piotr Matys, emerging market currency strategist at Rabobank in London. — Reuters

PARIS: A worker staples boxes at the fruits and vegetables pavilion of the Rungis international food market in Rungis, a southern suburb of Paris yesterday. — AFP

UK growth could suffer due to EU vote: IMF

Household debt, house prices among vulnerabilities

LONDON: Uncertainty about the outcome of Britain's referendum on leaving the European Union could hurt its economy, the International Monetary Fund said yesterday, though it also praised the way the country has bounced back from the global financial crisis.

In a contrast to tension in recent years between Fund staff and finance minister George Osborne over his austerity push, IMF chief Christine Lagarde was effusive as she stood alongside him at the launch of an IMF report on Britain's economy. "We are saluting a very strong performance by the UK economy which is due clearly to the commitments to consistent policies which have managed to restore confidence in the British economy," she told reporters.

Osborne said the praise from the IMF would help his plan to turn Britain's still large budget deficit into a surplus by 2020, something many economists say is not necessary.

"This is the strongest IMF assessment of the British economy in the five years that I have been in this job," he said.

Britain grew faster than any other rich nation last year and is close to the top of the pack again in 2015, helping Osborne and Prime Minister David Cameron lead their Conservatives to a decisive election win in May. But Cameron's promise to hold a referendum on membership of the EU has raised questions about Britain's relationship with its main trading and investment partners in Europe. It could also lead to the break-up of the United Kingdom if Scotland then pushes to leave the UK in order to stay in the EU.

The IMF listed the EU vote among the vulnerabilities for Britain which also included a "strikingly large" current account deficit and high levels of household debt and house prices which could be a problem when interest rates finally start to rise.

EUROPE UNCERTAINTIES

Lagarde said it was unclear what relationship Britain would have with Europe if it were outside the EU. The Fund will assess the issue in its 2016 report on Britain, which is due next May.

"How quickly will there be trade agreements? How promptly will the partners want to reestablish or reset the framework within which its financial and trade relationships are put in place?" she said in response to questions from reporters.

"We will spend a lot of our collective brain power so that for the next Article IV (report) we can have a solid assessment. Because by then we will know better what the alternatives are in that new framework, if there was such a thing," she said. Lagarde, a former French finance minister, said she personally hoped Britain would stay in the EU but stressed she was not speaking for the Fund.

Opinion polls show Britons fairly evenly divided on whether to remain in the 28-member bloc.

The IMF report, while backing Osborne's plans to run a budget surplus by 2019/20, urged him to give the economy more help if growth slows.

The Fund also raised the possibility that Osborne's plan to make deep spending cuts might prove unachievable and he should consider raising taxes if so. The Fund predicted steady growth would continue over the next few years and that inflation should gradually return to the Bank of England's 2 percent target. —Reuters

Third Avenue junk fund blowup exposes risks of unsellable assets

BOSTON: The blow-up of Third Avenue Management's junk bond fund this week, the biggest mutual fund failure since the financial crisis, show the dangers of loading up on risky assets that are hard to trade even in good times. At least one-fifth of Third Avenue's Focused Credit Fund , with less than $1 billion under management, was composed of illiquid assets, meaning they trade so infrequently that they don't have a market price, according to a Reuters analysis. That's one of the highest percentages of exposure in the junk bond sector.

Meanwhile, some of the most popular US junk bond funds also have made large bets on assets considered the hardest to trade and value in the industry, and their portfolios may not reflect the full extent of the current downturn in the junk bond market, said junk-bond analyst Marty Fridson, chief investment officer of Lehmann Livian Fridson Advisors LLC.

"Precisely because these (assets) are hard to price, they won't necessarily show the full extent of the market decline," Fridson said. "That can make a fund with lots of illiquid security look better than a fund with big, liquid names where the price declines are very transparent."

AllianceBernstein's AB High Income Fund has the biggest holdings on a percentage basis this year among the largest junk bond funds. At the end of July, the fund reported $1.08 billion in illiquid assets, or 15 percent of the securities in a $7.3 billion portfolio, according to a Reuters analysis of the 10 largest US junk bond funds. The Third Avenue fund isn't in the top ten.

AllianceBernstein did not respond to questions seeking comment. With the $236 billion junk bond mutual fund sector on course for its worst performance in seven years due to a rout in commodity prices and expectations of higher interest rates, some big junk bond funds already are scaling back exposure to their riskiest assets.

The $17 billion American Funds High-Income Trust Fund , which this year realized nearly $200 million in losses on its most illiquid assets, told Reuters it plans to reduce its current exposure of 1.6 percent of securities that are hard to price and trade.

An American Funds spokesperson said the positions are carefully researched. High yield, also known as junk, debt issuance has skyrocketed from $147 billion in 2009 to more than $300 billion in each of the last three years. Record-low interest rates have encouraged investors to take on more risk, including the debt of less creditworthy issuers, to get a higher return.

Tom Lapointe, portfolio manager of the Third Avenue fund, said in an October 2014 interview with Reuters that "any company with a pulse has been able to refinance." In addition to AllianceBernstein and American Funds, other investment funds such as BlackRock Inc and Waddell & Reed Financial Inc have junk bond funds - staple holdings for pension funds, retirement plans and mom-and-pop investors - that hold the largest amount of assets that are so illiquid and so hard to price that their valuations are sometimes pegged to assumptions made by the investment managers themselves, their fund disclosures show. — Reuters