Italy's Atlas fund struggles to stop sky falling on banks

MILAN: Italy has dubbed its new bank bailout fund Atlas, after the mythical Greek titan, because it is meant to hold up the sky above the nation's lenders. But some of the fund's own investors doubt that it can do the job.

The 5-6 billion euro ($5.7-6.8 billion) fund was hailed by the government as an industry-led response to concerns in Rome and other European capitals about the euro zone's fourth-biggest banking system. But it was only reluctantly accepted by some of the financial institutions that committed to it, according to seven sources, including four of the institutions that eventually agreed to put money in the fund.

Some bankers involved in the scheme voiced fears the fund would expose their own banks to the self-inflicted problems of a few lenders, the sources said. They also said that the fund may not be big enough to make a real dent in Italy's 360 billion euros in bad debts, a third of the euro zone's total, if it spends most of its money on helping recapitalize weaker banks, according to the sources. Italy's biggest retail bank, Intesa Sanpaolo, and another lender, Banco Popolare, spoke out against Atlas in tense, closed-door meetings leading up to the fund's announcement on Monday, according to two sources who were present.

Some bankers complained they were being asked to sign up to a multi-billion-euro fund without any documentation, the sources said. A person who played a key role in setting up the fund said some of the details were only fine-tuned at midday on Monday, so no paperwork was distributed at the final meeting with bankers in the evening. The plan's first formal draft circulated the following day. Unenthusiastic bankers only agreed to back it after government and central bank officials warned of a crisis of confidence in the sector unless big lenders signed up.

The person who had a key role in setting up the fund said they were told that if a single bank's effort to raise cash on the market failed, it would drag the whole industry down.

Intesa Sanpaolo and Banco Popolare declined to comment on the talks leading up to the fund's creation and on whether they had reservations about the scheme. A Bank of Italy spokeswoman said it supported the initiative by private financial institutions, which the central bank governor has described as a safety net to ensure choppy markets do not impede the necessary recapitalization of some lenders. — Reuters

Gold set for weekly drop on dollar, equities gains

LONDON: Gold edged up yesterday following three days of declines, but was heading for its first weekly drop in three as a stronger dollar and higher equities kept investor interest in check.

Bullion climbed to a three-week high on Tuesday, only to give up gains as world stocks rose to their highest levels since late December on Thursday, boosted by robust Chinese economic data and a surge in oil prices earlier this week. Spot gold was up 0.2 percent at $1,229.06 an ounce by 0941 GMT, following a drop of 1.3 percent in the previous session. It was heading for a 1 percent loss for the week.

Gold prices have steadied after posting their biggest quarterly rise in nearly 30 years in the three months to March, driven by a reining in of expectations that the US Federal Reserve will push ahead with several rate hikes this year. "We are seeing central banks having separation anxiety with their stimulus policies and so much stimulus tends to devalue currencies and that's the follow through from negative real rates," ETF Securities analyst Martin Arnold said.

"It is a cost for people to hold cash and fixed income and it devalue fiat currencies, so people are still turning to gold." Higher interest rates would lift the opportunity cost of holding non-yielding assets, while boosting the dollar.

Atlanta Federal Reserve Bank President Dennis Lockhart on Thursday said he no longer expects to advocate for a US interest rate hike in April, but added there is still time for two or three rate hikes this year. The Fed will raise interest rates twice this year, most likely in June, but the probability has faded on signs of a weak start to the year, inflation that is still tame and a brittle global backdrop, a Reuters poll showed.

Bullion-backed exchange-traded funds have seen outflows in recent days, weighing on gold prices. Assets in SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, fell to 806.82 tons on Thursday, the lowest in a month. Among other precious metals, silver was on track to post a 5 percent weekly gain, its biggest jump in six weeks. It was up 0.3 percent at $16.19 an ounce, after hitting its highest level since October earlier this week. — Reuters

BEIJING: Laborers work at a construction site in Beijing yesterday. China's economy grew 6.7 percent in the three months of 2016, its slowest quarterly expansion in seven years, the government said, but indicators for March improved. —AFP

China economy shows signs of debt-fueled recovery

Policymakers may be moving to old stimulus

BEIJING: China posted its slowest economic growth since 2009 but a surge of new debt appears to be fueling a recovery in factory activity, investment and household spending in the world's second largest economy. That's good news in the near-term, economists say, but many worry it marks a return to the old playbook used during the financial crisis, when Beijing hand-cranked its economy out of a slowdown through massive stimulus, rather than structural reform.

Official data yesterday showed China's gross domestic product grew at an annual rate of 6.7 percent in the first quarter of the year, easing slightly from 6.8 percent in the fourth quarter as expected. However, other indicators released showed new loans, retail sales, industrial output and fixed asset investment were all better than forecast. While analysts say the data is evidence of a bottoming out in the economy's slowdown, some warn that the first quarter of 2015 got off to a similarly glowing start before a stock market crash later that year.

"What this shows is a stabilization of the old economy," said Raymond Yeung of ANZ, pointing to recovery in industrial production and fixed asset investment.

"I would still be a bit cautious about headline growth... last year's 6.9 percent figure was underpinned by a massive contribution from financial services, and the strong loan and credit growth recently and the recent resumption of IPO activity suggests this could still be a big contribution."

The National Bureau of Statistics said in a press conference in Beijing on Friday that while main economic indicators showed positive changes, "downward pressure cannot be underestimated." It did not distribute quarterly GDP figures as it has in the past, saying it needed more time to calculate the figure. Global financial markets took the data in stride, but domestic stocks fell slightly, as analysts said the strong data implied the likelihood of a slower pace of monetary easing. The CSI300 index of the largest listed firms in Shanghai and Shenzhen closed 0.1 percent lower. Forex markets were largely flat with the offshore rate and the onshore rate trading around 6.5 per dollar.

RECOVERING DEMAND

Beijing hopes a recovery - even a credit-fueled one - can be sustained to avoid the need for more aggressive stimulus that could reinflate asset bubbles and make it more difficult to retrain Chinese firms to move up the value chain. Chinese banks extended 1.37 trillion yuan ($211.23 billion) in net new yuan loans in March, nearly double the previous month's lending of 726.6 billion yuan, suggesting renewed appetite for investment among wary Chinese corporates.

China's retail sales growth quickened to 10.5 percent in March from 10.2 percent, slightly above forecasts, while fixed-asset investment growth rose to 10.7 percent year-on-year in the first quarter from 10.2 percent, beating market expectations of 10.3 percent.

Industrial output growth leapt up to 6.8 percent from 5.4 percent, surprising analysts who expected a rise of 5.9 percent on an annual basis. The NBS also noted that official unemployment remained low in March, around 5.2 percent, despite moves to cut capacity in bloated industries like coal and steel. Critics, however, point out that many laid-off workers from old-economy sectors have been shifted into lower-paying government jobs, cleaning up offices - good for political stability but bad for wage growth and consumer spending.

At the same time official retail spending figures capture a lot of government purchases; elsewhere in the economy there are signs that ordinary consumption remains weak. March export figures released earlier this week also staged an unexpected recovery, although some economists caution that seasonal effects from last year's late Lunar New Year holiday could be a factor.

"Today's released data ought not to distract from the fact that the structural issues facing China's economy remain unresolved," wrote Economist Intelligence Unit economist Tom Rafferty in a research note. "It has taken considerable monetary and fiscal policy loosening to stabilize economic growth at this level and this effort has distracted from the reform agenda that is fundamental to long-term economic sustainability." — Reuters