China warns against 'irrational' overseas acquisitions

SHANGHAI: China has urged domestic companies to avoid "irrational" overseas investments following a record-setting buying spree that has worried authorities about capital outflows and rash spending. The rebuke carried by the Xinhua news agency did not single out particular firms but highlighted areas such as sports, hotels and entertainment where there have been major deals involving Chinese groups.

"We advise such companies to make cautious decisions," according to a joint statement issued by the Ministry of Commerce and other agencies and published late Tuesday. "Regulatory departments are also closely watching the irrational tendency in overseas investment in fields including real estate, hotels, cinemas, entertainment, and sports clubs." The wave of overseas investment this year has complicated efforts by Beijing to stem capital outflows, which are putting downward pressure on the yuan.

Chinese mergers and acquisitions abroad in the first eight months of the year reached $61.7 billion, surpassing those for all of 2015, official data showed recently. Among the more high-profile deals are Wanda Group's purchase of Hollywood studio Legendary for $3.5 billion, as well as London-based Odeon & UCI cinema group in a deal worth around $1.2 billion. The Chinese property-to-entertainment conglomerate also paid more than one billion euros for Swiss-based Infront Sports & Media. Appliance giant Midea took over leading German robotics firm Kuka for $5 billion, and insurer-turned-hotelier Anbang paid $6.5 billion for 16 luxury properties from hedge fund Blackstone.

BEIJING: A woman uses her mobile phone outside a hotel in Beijing yesterday. — AFP

Chinese companies have increasingly gone abroad for investment opportunities as domestic growth slows and the government has encouraged firms to seek technology, resources and market access overseas.

"One of the reasons regulators are doing this is because the yuan (currency) has been under depreciation pressure and it is hard to control capital outflows," said Li Jiachao, marketing director for mergers and acquisitions advisory firm DealGlobe. China's foreign exchange reserves plunged by $69 billion in November to $3.05 trillion, its fifth straight monthly contraction and the largest month-on-month decline since January. — AFP

News in brief

Iran to sign oil and gas deals with Total, Shell

TEHRAN: Iran was set to sign preliminary agreements with Total and Shell yesterday to develop major oil and gas fields as it seeks to boost its output, an oil official said. The deals include a $10-12 billion expansion of the South Azadegan oil field and another project at the Yadavaran oil field, both in southwestern Iran, as well as an offshore gas field near Kish Island in the Gulf. The official, speaking on condition of anonymity, did not specify how the projects would be divided between France's Total and Anglo-Dutch giant Shell. The agreements are only preliminary and must be finalized in the coming months, the official said. The decision to award major energy projects to foreign firms caused some controversy when the tenders were first announced in October. A senior commander in the paramilitary Revolutionary Guards, which has extensive economic interests in the energy sector, said it was a "disgrace" for Iranian firms to be subordinated to foreigners in the proposed contracts. But the oil ministry says foreign capital and know-how are vital to expanding the country's energy sector.

Credit Suisse steps up its cost cutting drive

ZURICH: Credit Suisse, Switzerland's second-biggest bank, said yesterday it was stepping up its cost cutting drive as market turbulence would crimp the performance of its wealth management units. The bank said it now aims to make 4.2 billion Swiss francs (3.8 billion euros, $4.2 billion) in savings by the end of 2018, up from its previous target of 3.8 billion. It said it aims to reduce operational costs to 17 billion Swiss francs by 2018, instead of 18 billion. Credit Suisse has been undergoing a massive cost-cutting program since Tidjane Thiam, a former insurer, took the helm in October last year. It shook up its structure, pivoting away from risky investment banking towards wealth management. But the bank lowered the earnings target for its wealth management unit, saying "we have seen major changes in the market environment and political outlook, which have negatively impacted the market-dependent portion of our targets." It now expects the international wealth management unit to earn 1.8 billion Swiss francs in 2018, down from its earlier target of 2.1 billion, due to lower commissions on asset management.

UK industrial output unexpectedly drops

LONDON: Britain's industrial production has taken an unexpected tumble, hurt by a sharp slide in oil and gas extraction, official data showed yesterday. Output sank 1.3 percent in October compared with activity in September, the Office for National Statistics (ONS) revealed in a statement. That confounded market expectations for a slight gain. Over 12 months, it was down by 1.1 percent. Production was hurt by the shutdown of the Buzzard North Sea oil field-one of Britain's biggest-which was closed for maintenance, the ONS noted. Manufacturing output, which excludes mining and quarrying, electricity, gas and water supply, slid 0.9 percent in October from the previous month, dented by falling pharmaceuticals production. The ONS added that it decreased by 0.4 percent year-on-year. "October saw a sharp fall in UK oil output, largely down to the total shutdown of the major Buzzard oil field," said ONS senior statistician Katie Davies. "Small falls in output across a range of sectors also contributed to a drop in overall manufacturing."

BMW to compensate its Australian clients

SYDNEY: German car giant BMW has agreed to pay Aus$77 million (US$57 million) to compensate thousands of Australians who were misled into taking loans they could not afford in the country's largest consumer payback scheme. The Australian Securities and Investments Commission said at least 15,000 customers may have "suffered hardship as a result of BMW Finance's compliance failure". ASIC deputy chairman Peter Kell highlighted BMW's "sales-driven culture that failed to comply with the requirements of the credit laws and resulted in poor outcomes for many consumers. "We are encouraged that BMW Finance has recognized these shortcomings and agreed to a remediation program that will see thousands of consumers compensated," Kell said in a statement released Tuesday. "This is an example of the staggering cost of poor business practices." BMW said yesterday it was actively working with Australian authorities to meet its regulatory commitments.

Australia economy in a rare contraction; spending falls

Economy shrinks 0.5% in Q3

SYDNEY: Australia's economy contracted for just the fourth quarter in 25 years, official data showed yesterday, slowing the annual growth rate to 1.8 percent amid weaker government and consumer spending on top of softer trade figures. The Australian Bureau of Statistics reported a 0.5 percent contraction for the September quarter. It was the weakest figure in eight years-despite the recent upswing in commodity prices-and underlined the challenges facing a country in transition from a mining investment boom.

"The contraction in real GDP (gross domestic product) recorded in the September quarter is not just a reminder, not just a wake-up call or a warning about being complacent when it comes to economic growth," Treasurer Scott Morrison told reporters in Canberra. "It is a demand to support economic policies that drive the investment needed... to survive in a tough and competitive environment." The latest figures-at the lower end of forecasts-came after a stellar second-quarter report that saw the economy expand by a revised 0.6 percent for 3.1 percent year-on-year, to mark a quarter of a century that Australia has avoided recession.

The Australian dollar fell about half a US cent to 74.25 cents. "It was even weaker-than-expected, and consumer (spending) was a big disappointment," JP Morgan economist Ben Jarman said. "We are of the view that the RBA (Reserve Bank of Australia) is going to have to ease to keep growth at a satisfactory level." Government investment fell by 0.2 percent for July-September, while household spending grew by a slow 0.4 percent. Net exports detracted 0.2 percentage points from growth. The central bank on Tuesday held interest rates at a record-low 1.50 percent, with governor Philip Lowe noting "some slowing in the year-ended growth rate is likely, before it picks up again".

SYDNEY: Construction personnel work on a building site in central Sydney yesterday. Australia's economy contracted for just the fourth quarter in 25 years, official data showed, slowing the annual growth rate to 1.8 percent amid weaker government and consumer spending on top of softer trade figures. — AFP

Sustained weakness?

The Australian economy has charted a bumpy path since the end of the mining investment boom, with the data showing that resources spending was continuing to fall while business investment was weak. The RBA has eased rates by 300 basis points since November 2011 - including two cuts this year-to support growth in non-resources industries. The focus now shifts to the October-December figures. Two consecutive quarters of negative growth would meet the technical parameters for a recession, but analysts say the latest disappointing data is more likely to be a one-off than a sign of sustained weakness. Construction and government spending look set to improve for the next quarter, while rebounding commodity prices should feed through to better export numbers, Westpac senior currency strategist Sean Callow said. Australians' willingness to spend has been dampened by slow wage growth while the third-quarter period also coincided with the fiercely fought federal election and a protracted vote count that may have left consumers unwillingly to loosen the purse strings, he added. "Almost everything that could have gone wrong has gone wrong in the same quarter, which at least raises the hope that there's a sharp rebound in Q4," Callow said. AMP Capital chief economist Shane Oliver expected Australia to avoid a recession, although growth was "still likely to be fragile and constrained". Inflation also remains well off the RBA's target range of 2.0-3.0 percent, giving the central bank scope to ease further. Despite the negative quarter, Australia's economy was still powering forward in comparison to developed world peers, Morrison said. "Our annual real growth is still higher than six out of the world's G7 economies, second only to the United Kingdom. Higher than the US, Canada, Japan, Germany, and higher than the OECD average," he said. — AFP

Egypt sees '3-year strategy' to revive its struggling economy

CAIRO: Egypt has an ambitious three-year reform plan that, with foreign help, can revive its struggling economy, the minister of international cooperation said. In an interview, Sahar Nasr said the "three-year strategy" will lead to a return of investments, boost industrial production and create jobs. It comes as Egypt faces not only falling growth and a currency crisis following years of political turmoil, but also increasing public discontent over rising prices.

"Once these reforms are all in place, there will be a positive impact on the economy, and on the social front," Nasr said. "Especially in the medium and long term." The economy of Egypt, the most populous Arab country, has faced major challenges since the 2011 ouster of longtime ruler Hosni Mubarak. President Abdel Fattah El-Sisi, who took power after the 2013 overthrow of his Islamist predecessor Mohamed Morsi, has vowed to get the economy back on track.

His government has sought help abroad and on November 11 the International Monetary Fund approved a $12 billion loan to Egypt over the next three years. The country will also benefit from the release of the first tranche of a $1 billion World Bank loan and the deposit by the African Development Bank of the first tranche of a $1.5 billion loan. Cairo is also finalizing an $800 million loan with the European Union. Nasr said the aid programs are helpful but will provide only temporary support. Donors are "helping Egypt to stand on solid ground, helping Egypt not to rely on foreign aid, and not to rely on any borrowing from international financial institutions" in the long run, she said.

'Three pillars' of reform

The international aid is "to improve Egyptians' living standards", she said, in a country where 27.8 percent live below the poverty line and public debt is nearing 100 percent of Gross Domestic Product. The goal is a return to sustainable economic growth of six percent by 2018, compared with 3.5 percent in the first half of this year. The government's reform plan is based on "three pillars", Nasr said.

The first is to boost private sector investment. "The key of the reform program is improving the business environment, encouraging industrialization, and also promoting exports," she said.

The second is restructuring the budget, including by cutting subsidies, which represent 7.9 percent of government spending. "On social housing, subsidies were initially going to the developers and we moved from this supply side to the demand side, so that subsidies would be effectively targeted to the low-income or middle-income households in a very transparent and effective manner," Nasr said. The third pillar is monetary reform, she said, describing it as "a major step in terms of economic stability". Egypt floated its currency on November 3, which was followed by a devaluation from the fixed rate of 8.8 pounds per dollar to a traded rate of 18 pounds per dollar last week. — AFP

CAIRO: Egyptian Minister of International Cooperation Sahar Nasr works at her office in Cairo. — AFP

NEW DELHI: Indian laborers walk past an elephant and others working in a field on a cold foggy morning in New Delhi yesterday. — AFP

India holds interest rates steady despite cash chaos

NEW DELHI: India's central bank left interest rates unchanged at 6.25 percent yesterday, defying expectations of a cut following the government's shock move to withdraw high-denomination banknotes from circulation. The Reserve Bank of India (RBI) said the benchmark repo rate-the level at which it lends to commercial banks-would stay steady after it was cut to 6.25 percent in October.

Lower interest rates boost consumer spending, which is likely to see a sharp downturn in the wake of the government's so called demonetization scheme but it can also cause an uptick in inflation. "The MPC (monetary policy committee) was of the view that given the reduction of policy rate of 25 basis points in October... a further reduction in the policy rate is not warranted at this juncture," RBI governor Urjt Patel told reporters.

The central bank also lowered its outlook for gross value added growth from 7.6 percent to 7.1 percent. GVA is different from gross domestic product, the measure typically used to show a country's economic growth. However, it is indicative of how the GDP could move, although not by the same amount. Pressure to cut rates mounted last week, with analysts expecting a 25 basis points cut after India reported a lower-than-expected 7.3 percent growth of GDP in the three months to the end of September. While that is better than most major economies, it is still lower than earlier predictions.

Analysts expect a further dip in those numbers driven by a spending slowdown after most of India's currency was withdrawn from circulation last month by the government in an effort to bring back billions in so-called 'black', or undeclared, money into the formal system. The move unleashed chaos and a spending crunch across sectors. Ratings agency Fitch has already lowered its India growth forecast for the current fiscal year from 7.4 percent to 6.9 percent, saying the cash crunch will bring "temporary disruptions" to economic activity. Ashutosh Datar, an economist at IIFL Institutional Equities, said he was surprised the RBI had not taken action to boost consumer spending.

"This is a negative surprise for sure. I was expecting a 50 basis points rate cut and they've done nothing," he said. "Since the impact of the demonetization is unclear, I expected them to be proactive and do a rate cut. They're done the exact opposite by deciding to wait and watch." However Sunil Sinha, principal economist at rating agency India Ratings & Research, said that the decision to keep rates unchanged was logical. "RBI had already accounted for inflation in the last monetary policy and a further rate cut was not warranted," said Sinha.

Speaking alongside Patel, the RBI's deputy governor Rama Subramaniam Gandhi insisted there was no reason for consumers to panic despite the lack of cash and said machines were working flat out to print more notes. — AFP